

Pensions Committee

Friday 10 March 2023

10.00 am Luttrell Room - County Hall,
Taunton



To: The Members of the Pensions Committee

Cllr S Coles (Chair), Cllr H Farbahi, Cllr J Cook-Woodman, Cllr P Seib, Sarah Payne, Paul Butler, Cllr Ross Henley and Sarah Williams

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk and Monitoring Officer -
2 March 2023

For further information about the meeting, please contact Neil Milne on 01823 357628 or neil.milne@somerset.gov.uk or Sarah Wright on 01823 357628 or sarah.wright@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

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



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AGENDA

Item Pensions Committee - 10.00 am Friday 10 March 2023

*** 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 Minutes from the previous meeting on 16 December 2022 (Pages 7 - 14)

- The Committee is asked to confirm the minutes are accurate.

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 Somerset Unitary

- To receive a verbal update on implications of the Unitary process on the pension fund from the Funds & Investments Manager.

6 Independent Investment Adviser's Report

To receive a verbal update on developments in financial markets.

7 Review of Investment Performance (Pages 15 - 42)

To consider this report from the Funds & Investments Manager.

8 Review of Administration Performance (Pages 43 - 52)

- To consider this report from the Head of Peninsula Pensions.

Item Pensions Committee - 10.00 am Friday 10 March 2023

9 **Business Plan Update** (Pages 53 - 60)

- To consider this report from the Funds & Investments Manager.

10 **Finance and Membership Statistics Update** (Pages 61 - 64)

- To consider this report from the Funds & Investments Manager.

11 **Review of Pension Fund Risk Register** (Pages 65 - 70)

- To consider this report from the Funds & Investments Manager.

12 **Resources Review, Financial Forecast Setting and Committee Objective Setting** (Pages 71 - 74)

- Report to follow.

13 **Cash Management Strategy** (Pages 75 - 84)

- To consider this report from the Funds & Investments Manager.

14 **Knowledge and Skills**

To receive a verbal update on plans for undertaking an assessment of the Committee and Board's knowledge and skills.

15 **Any other urgent items of business**

The Chair may raise any items of urgent business.

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Guidance notes for the Pension Committee meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Peter Stiles on Tel (01823) 357628; Fax (01823) 355529 or Email: pstiles@somerset.gov.uk or Michael Bryant on 01283 359048 or mbryant@somerset.gov.uk

They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:

<http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

3. Minutes of the Meeting

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

4. Public Question Time

If you wish to speak, please tell Peter Stiles, the Committee's Administrator, by 5.00pm three clear working days before the meeting.

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

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

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

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

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

5. Exclusion of Press & Public

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

6. Recording of meetings

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

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

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

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

Pensions Committee

Minutes of the Pensions Committee meeting held on Friday 16 December 2022 at 10.00am in County Hall, Taunton.

Committee Members Present: Cllr S Coles (Chair), Cllr J Cook-Woodman, Cllr P Seib, Cllr Farbahi, Mr P Butler, Ms S Payne.

Absent: Cllr R Henley.

Others in Attendance: Mr N Behan, Mr R Bryant, Ms C Burton, Ms S Cuthbert, Ms M Durrant, Ms R Ellins, Mr A Sweet.

Apologies for Absence

Apologies were received from Ms S Williams

1 **Declarations of Interest -**

Cllr Coles and Cllr Farbahi declared that they are members of the Shadow Taunton Town Council.

2 **Minutes of the Previous Meeting -**

The Committee agreed and the Chair signed the minutes of the meeting held on 16 September 2022 as an accurate record.

3 **Public Question Time**

The Committee Manager read a question that was received in advance of the meeting from Mr Sigurd Reimers who was not present at the meeting:

“Cornwall County Pension Fund has, with the help of Brunel Pension Partnership, recently launched a local impact portfolio to channel investment into local infrastructure, such as affordable private rental housing and renewables in the county.

I know that this Committee takes its fiduciary duties seriously, and it would not want to pursue an investment policy that was not financially secure. Indeed, David Vickers, Chief Investment Officer at Brunel Pension Partnership, recently said he did not take well to Government attempts to steer Brunel in the direction of specific types of investments, such as infrastructure. On the other hand, Laura Chappell, Chief Executive Officer at Brunel, said: “It is a proud moment for Brunel to design and launch the first multi-asset local impact fund across LGPS pools”.

*My question: **Is the Pensions Committee discussing any similar infrastructure proposals amongst itself, given the possible benefits of such an investment stream to County and Planet?”***

Cllr P Seib entered the meeting. 10.05am

A response will be sent to Mr Reimers to state that the Committee has not had any conversations regarding anything similar to Cornwall's approach and that through Brunel's standard UK Property Offering, Somerset County Council already invest in an Affordable Housing Fund and a Social and Environmental Impact Fund.

5 **Somerset Unitary**

The Funds and Investments Manager reported that the Terms of Reference of the Pensions Committee had been recently approved for recommendation to Full Council by the Constitution and Governance Committee. Following discussion with the Monitoring Officer and benchmarking against similar unitary authorities, the Committee will comprise seven Councillors, an increase from the current five Councillors (four from SCC and one from the district councils). This proposal will be considered by Full Council and then return to this Committee for adoption later in 2023.

There were no questions.

6 **Independent Investment Advisor's Report**

The Independent Investment Advisor – Caroline Burton, referred to information recently circulated regarding interest rates and invited questions.

- A member asked that in the light of the divergence of interest rates and inflation, whether the previous link between these has been broken and if so, what affect this would have on markets in the future. The Officer stated that there is a move towards a return to the usual relationship although this could take two or so years to revert.
- A member asked about the inflationary fiscal stimulus alongside workforce shortages in service industries and the affect this may have on investment performance. The Officer stated that labour shortages are a global issue post-covid with large numbers of workers in their 50s and 60s leaving or changing employment goals, as well as changes in work patterns from some younger employee. However early research from the UK and US show some of these early retirees are returning to the workforce. The affect on investments may be that bonds are considered more attractive in investment terms.

The Committee noted the verbal update.

7 **Review of Investment Performance**

The Funds and Investment Manager – Anton Sweet presented the fund results highlighting the following:

- Small quarterly loss following losses in July and slight recovery in August/September.
- Significant affect of US dollar.
- Divested from Aberdeen Standard UK Fund from early December 2022.

Questions were invited:

- A member praised the report and asked for future clarification of benchmarks and why each was selected. The Officer explained that 3-5 year progress would be benchmarked closely against target for passive funds. The benchmarking process within the Brunel Group was outlined and that these alter in a very small and nuanced way with minimal impact. Additional benchmarking information will be made in future reports.
- A member asked the time period of investments which show poor performance. The Officer explained that with the exception of private equity, there are no investment ties and that funds could be withdrawn from Brunel at any time with the agreement of the Committee which would take approximately a calendar quarter to enact, however this should only be done as part of a longer-term discussion about strategic asset allocation. Fund manager performance is monitored. Bond funds are generally expected to be less volatile than equity fund returns. The Committee discussed strategic asset allocation throughout 2021 and set a revised allocation at the beginning of 2022, that will be revisited within 3 years. It was stated that new fund managers would typically be given 2 -3 years to establish a track record and it would be unusual to remove them within this period. The Independent Investment Adviser was in agreement.
- There was discussion about turnover of investment managers.

The Committee noted the report.

8 **Review of Administration Performance**

The Head of Peninsula Pensions - Rachel Lamb presented the report and highlighted the following:

- Performance is measured against statutory requirements.
- 86% achieved within target and 93% against disclosure regulations where areas are prioritised, for example retirement or death of a policy holder.
- Compliments are also recorded as well as complaints. Requests outstanding, including those awaiting additional information, were outlined.
- 31 August deadline of issuing annual benefits statements to contributing members and those with deferred benefits, was met.
- One new primary school has been admitted.

Questions were invited.

- A member asked if the move away from paper copies would be enforced considering the older age demographic of those currently claiming their pension. The Officer stated that those who have already opted out of electronic copies are still able to receive paper copies but going forward, under legislation all copies will be received electronically for efficiency savings and data security reasons however requests can be made by those who have difficulties accessing information electronically.
- A member asked for clarification of the change from reporting against internal targets to statutory requirements and settlement targets. The Officer stated that the internal target of 10-days was unrealistic and equally the statutory target of two months is unworkable for policy holders requiring information for settlement or voluntary redundancy for example, hence prioritization of these requests over a transfer of funds request. The internal target of 10 days will remain for all cases, particularly priority cases where this is realistic. The Officer stated that there is variance in some information due to the impact of staffing absence, recruitment and retention difficulties in the wider industry which are being addressed through a new recruitment strategy to make the industry more attractive.
- A member asked what measures are being taken to investigate hardship for the 7% of policy holders who do not receive their pension within the two-month limit. The Officer confirmed that this figure includes all requests and within all requests received, retirees and widows pensions are prioritised, and these groups would not therefore feature in the 7%.
- A member asked if the upward monthly trajectory mirror the trend in previous years of 2020 and 2021. The Officer stated that peaks do occur, particularly from March to August annually which ties in with school holidays, but that requests were lower around Covid and have been rising steadily since that date.

The Committee noted the report.

9 **Business Plan Update**

The Investment and Funds Manager presented the report and highlighted the following:

- Administration Strategy will be presented at a future meeting for formal approval.
- Still awaiting information from government not helped by change of ministers and secretaries.
- Valuation process largely complete.
- Accounts and Financial Statement have been considered by the Audit Committee. External audit findings are awaited from Grant Thornton.

- Annual report will be published when pending audit findings are published which means regulatory deadline of 1 December set by government has again been missed.
- March meeting will consider objective setting and a Communications Policy. June meeting should consider the review of draft administration strategy and review of the funding strategy statement. Additional items for consideration were welcomed.
 - The Chair stated that they had attended a recent Brunel stakeholders meeting and highlighted that Brunel have written to Michael Gove in relating to the new regulations.
 - A member expressed that there is a huge amount of frustration nationally regarding the audit situation as this is delaying a significant number of public sector accounts and that this may take a considerable time to be resolved, to the detriment of local authorities.

The Committee noted the report.

10 **Finance and Membership Statistics Update**

The Fund and Investment Manager presented the report and highlighted the following:

- This quarter marks a milestone of 20,000 plus pensioners and 70,000 members.
- We are likely to end up above the £122m of projected contributions due to the recently received pay award, but not by as much as the current data suggests.
- Employer exit credits are now included to reflect change in government regulations.
- Investment income will be lower than predicted.

Questions and comments were invited.

- A member stated that sizeable transfers out are inevitable with staff changes due to LGR which could take two to three years to feed through into the reported figures.

The Committee accepted the report.

11 **Review of Pension Fund Risk Register**

The Fund and Investment Manager presented the report to monitor risks contained on the risk register and approve any amendments. The following points were highlighted:

- Informal briefing session on risk for members to follow in 2023.

- Following the request for information at last meeting on civil contingencies, a change has been made to the covid risk. Questions were invited.
- A member asked if the environmental, social and governance (ESG) risks was just related to performance or volatility. The Officer stated he is not aware of any research indicating that ESG focused investment is inherently more volatile. The point with ESG risks is that if they are well managed this should improve investment returns in the long term.

The Committee noted the report.

12 **Preliminary Results of the 2022 Actuarial Valuation**

The Chair welcomed Melanie Durrant from Barnett Waddingham to present the report. The following points were highlighted:

- Key outcomes is future payout which is unknown and contribution rates which are known.
- Prudence allowance covers for some additional risk in assumptions used.
- Employers pay a primary rate/future service contribution dependent on number and age of active members which varies between employers. Some employers will pay a secondary rate if the fund is in deficit when reviewed on a three-yearly basis. These figures feed into a formal valuation report to be signed off by March. Some employer contribution rates, academies for example, are pooled.
- Funding Strategy Statement to be reviewed annually by employer.
- Three basic assumptions: financial assumptions of investment returns and inflation as main drivers; demographic assumptions; and pension increase assumption linked to inflation and salary increases.
- Expectations of future life expectancy have changed since last valuation in 2019. The average male retiring at 65 has a life expectancy in retirement decreasing from 23.5 years in 2019 to 23.1 years in 2022.
- Whole fund valuation in 2019 was 86% i.e. 14% underfunded or £0.36m. This has improved to 95%.
- Performance has risen since 2019 which is in part offset by rising inflation.
- Average cost of employer primary rate has increased approximately 2% from 17.8% in 2019 to match shortfall.
- Cost of living effects not fully fed into current figures which will show in future figures along with impact workforce changes post-covid.
- Possibility of employer forum in 2023. Questions were invited.

- A member praised the clarity of the presentation to explain a complicated issue and welcomed the circulation of the information presented.

The Committee accepted the report.

Cllr Cook-Woodman left the meeting.

13 **Knowledge and Skills**

The Fund and Investment Manager gave a verbal update on plans for undertaking an assessment of the Committee and Board's knowledge and skills.

- As reported at the previous meeting, a knowledge and skills questionnaire has now been completed in conjunction with Barnett Waddingham, external consultant which will be issued in due course.
- Collective, not individual, assessments will be shared.

There were no questions.

The Committee noted the update.

14 **Any Other Business of Urgency**

The Committee agreed to pass a resolution having been duly proposed and seconded under Schedule 12A of the Local Government Act, 1972 that the press and public be excluded during the remainder of the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure to them of exempt information of the following description:

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The Committee received an overview from the Fund and Investment Manager about a Brunel investment opportunity in relation to solar assets. There was a discussion and further information was requested and the proposal would be considered again.

The meeting ended at 1.20pm.

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Review of Investment Performance

Lead Officer: Jason Vaughan: Executive Director - Resources & Corporate Services

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
anton.sweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Not applicable

Member:

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 2022 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 2022

1. Brunel - LGIM (Passive Global Equity)

1.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

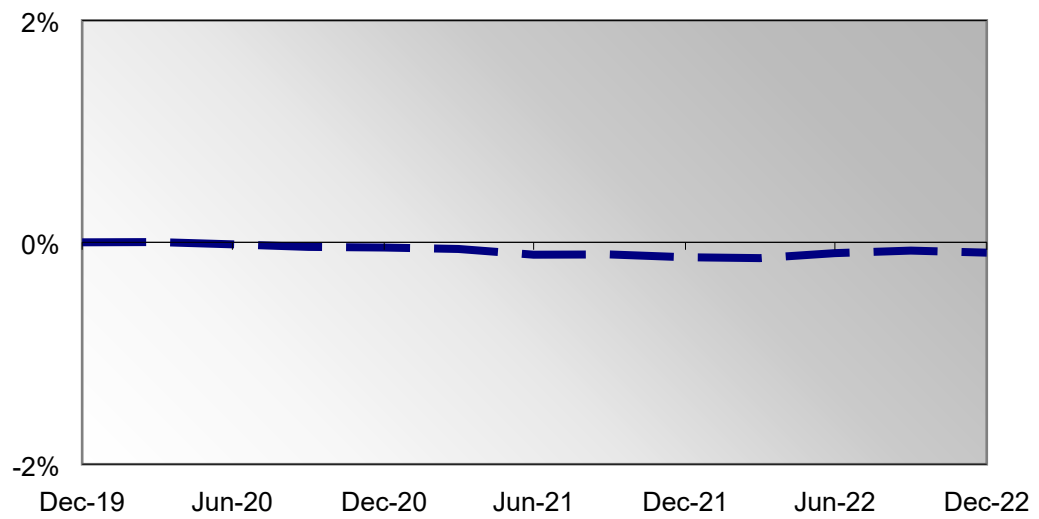
Quarter to 31 December 2022				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
550.5	Global equities	1.8	1.8	+0.0

1.2 During the quarter to 30th June 2022 passive equity was switched from the standard FTSE Developed Equity benchmark to the Paris aligned FTSE Carbon Transition Benchmark (CTB) in accordance with the new Investment Strategy Statement approved by the Committee at its March 2022 meeting.

1.3 The portfolio matched the performance of the benchmark during 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	-8.1	-8.3	+0.2
3 year	8.3	8.3	+0.0
5 years	Initial investment in July 2018		

2. Brunel - (Global High Alpha Equity)

2.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

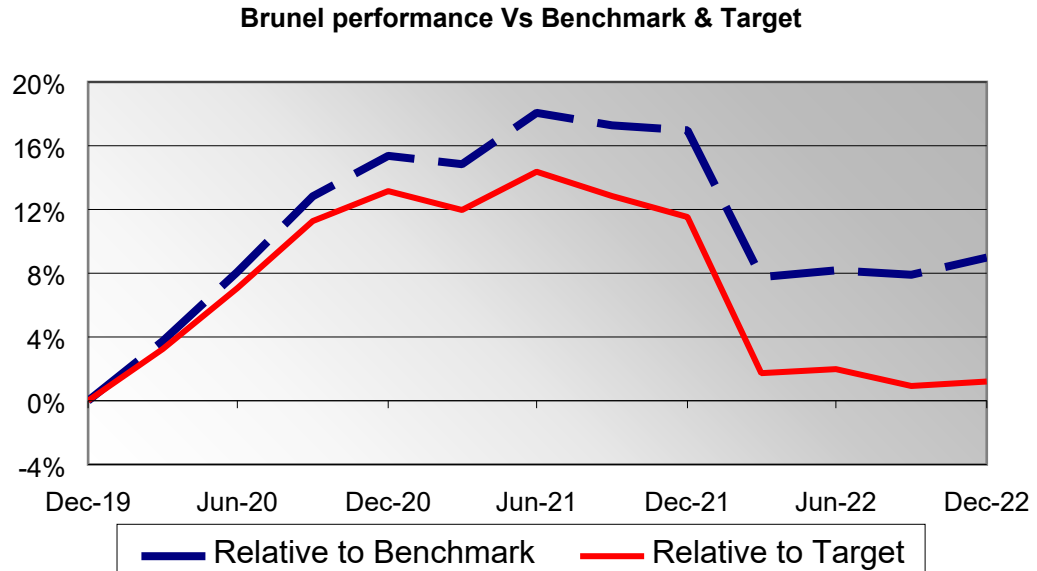
Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
743.6 Global equities	2.7	2.0	+0.7

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. The benchmark for the portfolio is the MSCI World Index.

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

2.4

The Brunel GHA portfolio'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	-11.8	-7.4	-4.4
3 years	11.3	8.9	+2.4
5 years	Initial investment in November 2019		

3. Aberdeen Standard Investments (UK Equities)

3.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
0.0 UK	13.0	8.9	+4.1

3.2 The transfer of the majority of this mandate to the equivalent Brunel offering took place in November 2018. The residual holding was a smaller companies fund, this was liquidated to cash in December making this the last report on this holding.

4. Brunel (UK Equities)

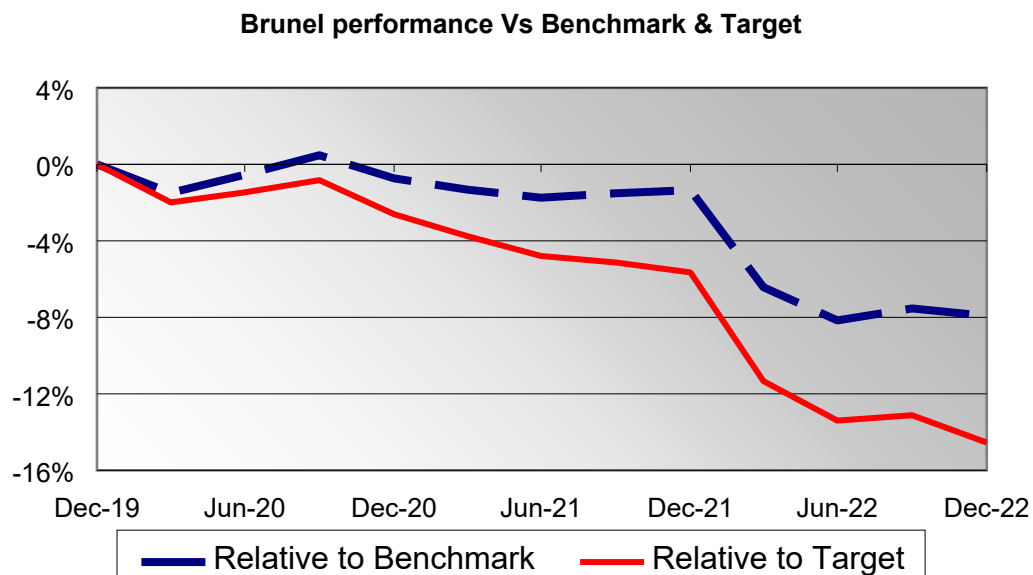
4.1 The performance for the quarter to 30th September 2022 is summarised in the following table:

Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
310.2 UK	9.6	9.2	+0.4

4.2 The Brunel UK portfolio is managed by a combination of Invesco and Baillie Gifford. The benchmark for the portfolio is the FTSE All-Share excluding Investment Companies Index.

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

4.4 The Brunel UK portfolio'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	-4.6	1.6	-6.2
3 years	0.2	2.7	-2.5
5 years	Initial investment in November 2018		

5. Brunel (Global Smaller Companies Equity)

5.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

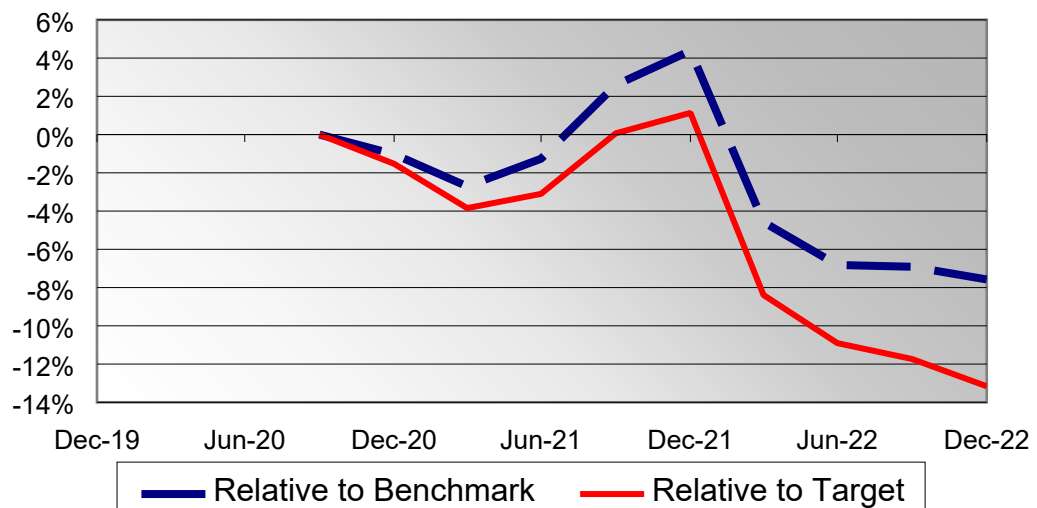
Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
175.0 Smaller Companies	2.4	2.8	-0.4

5.2 The Brunel Smaller Companies Market portfolio is managed by a combination of Montanaro Asset Management, American Century and Kempen Capital Management. The benchmark is the MSCI World Small Cap Index

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

5.4 The Brunel Smaller Companies portfolio’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	-16.7	-8.5	-8.2
3 years	Initial investment in September 2020		

6. Brunel (Emerging Market Equity)

6.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

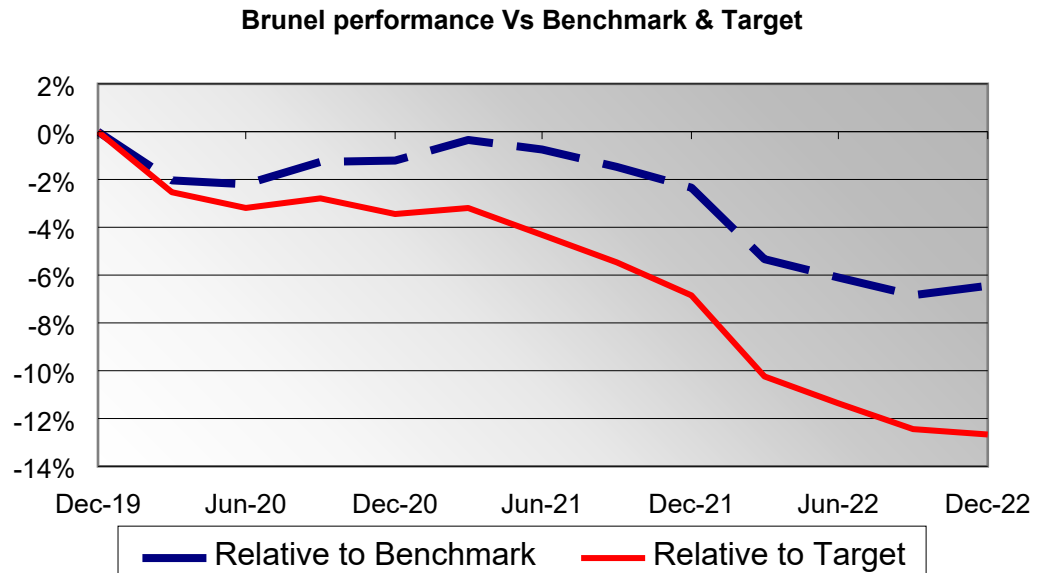
Quarter to 31 December 2022				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
100.1	Emerging Market	2.4	1.8	+0.6

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

6.3 The Brunel portfolio outperformed during the quarter. Absolute performance was positive.

6.4

The Brunel Emerging Market portfolio'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	-14.0	-10.0	-4.0
3 years	-1.7	0.5	-2.2
5 years	Initial investment in October 2019		

7. Brunel (Passive Gilts)

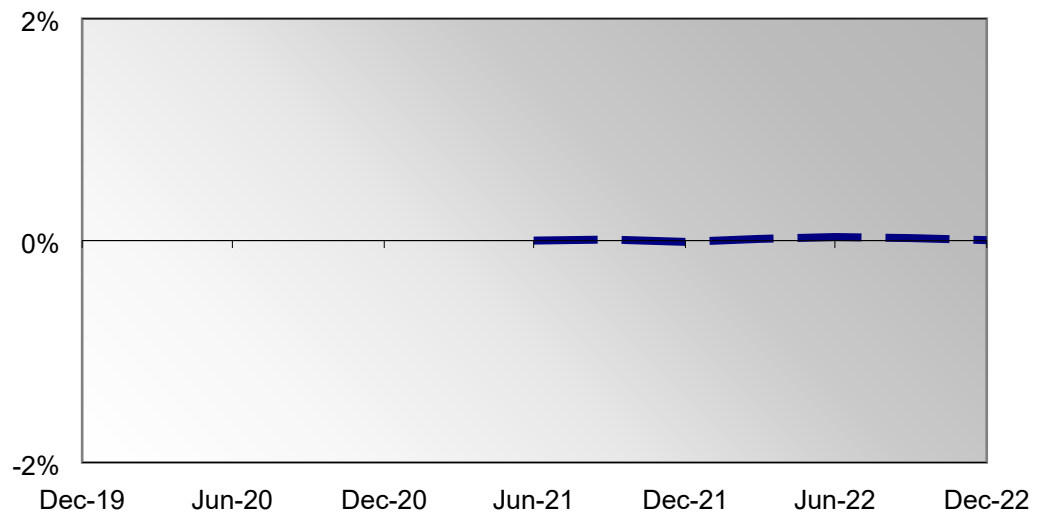
7.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
42.6 UK Gilts	-1.9	-1.9	+0.0

7.2 The Blackrock managed passive UK Gilts Fund matched the performance of the benchmark for the quarter. The benchmark is FTSE Actuaries UK Gilts over 15 years index. Absolute performance was negative.

7.3

Brunel (Blackrock) performance Vs Benchmark



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-40.0	-40.1	+0.1
3 years	Initial investment in June 2021		

8. Brunel (Passive (index-Linked Gilts)

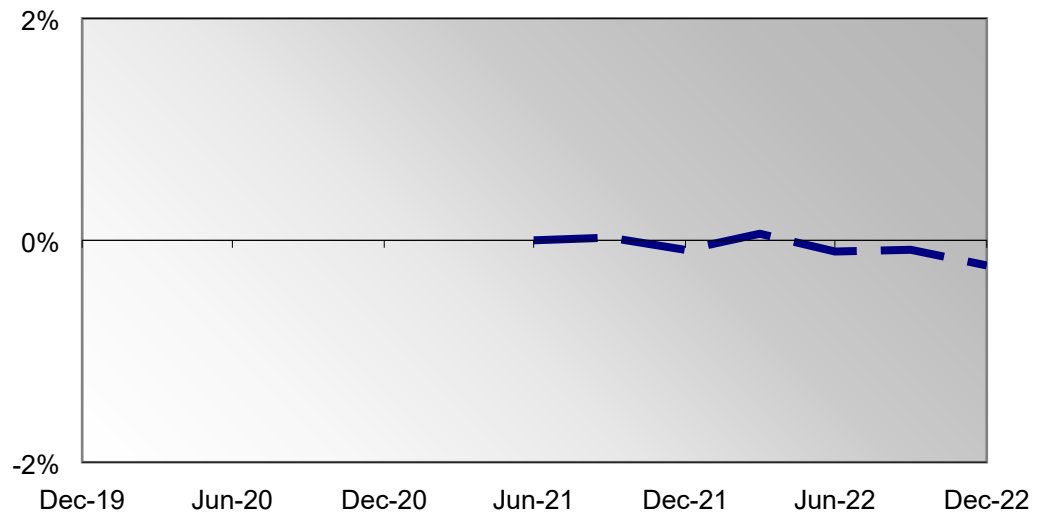
8.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

Quarter to 31 December 2022				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
53.4	UK Index-Linked Gilts	-7.7	-7.5	-0.2

8.2 The Blackrock managed passive UK Index-Linked Gilts Fund slightly underperformed the benchmark for the quarter. The benchmark is FTSE Actuaries UK Index Linked Gilts over 5 years index. Absolute performance was strongly negative.

8.3

Brunel (Blackrock) performance Vs Benchmark



8.4

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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-38.1	-38.0	-0.1
3 years	Initial investment in June 2021		

9. Brunel (Sterling Corporate Bonds)

9.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

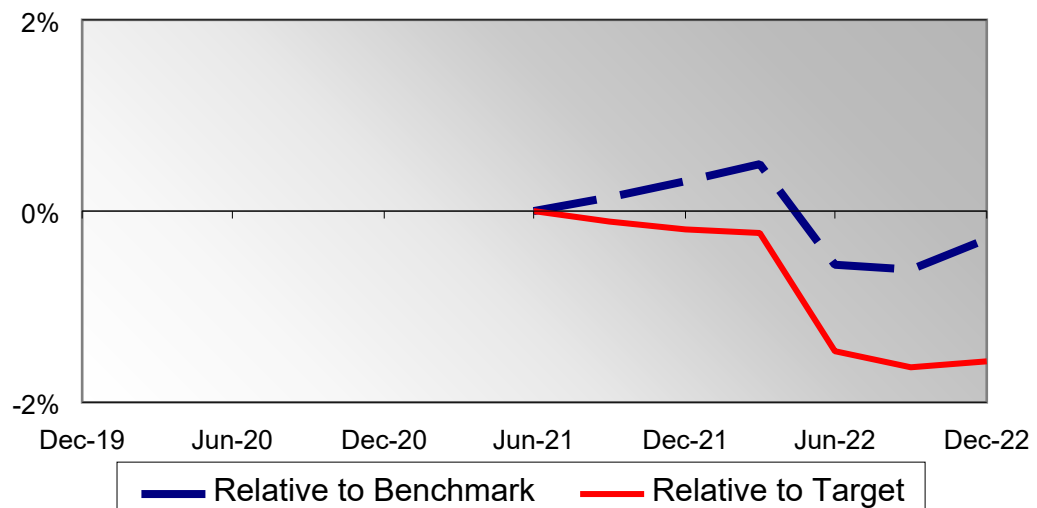
Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
171.3 £ Corporate Bonds	6.2	5.7	+0.5

9.2 The Brunel Sterling Corporate Bond portfolio is managed by Royal London Asset Management. The benchmark is iBoxx Sterling Non-Government bonds index.

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

9.4 The Brunel Sterling Corporate Bond portfolio's target is to outperform the benchmark by an annualised return of 1% over continuous three to five-year periods after fees have been deducted.

Brunel performance Vs Benchmark & Target



9.5 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	-18.2	-17.7	-0.5
3 years	Initial investment in July 2021		

10. Brunel (Multi Asset Credit)

10.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

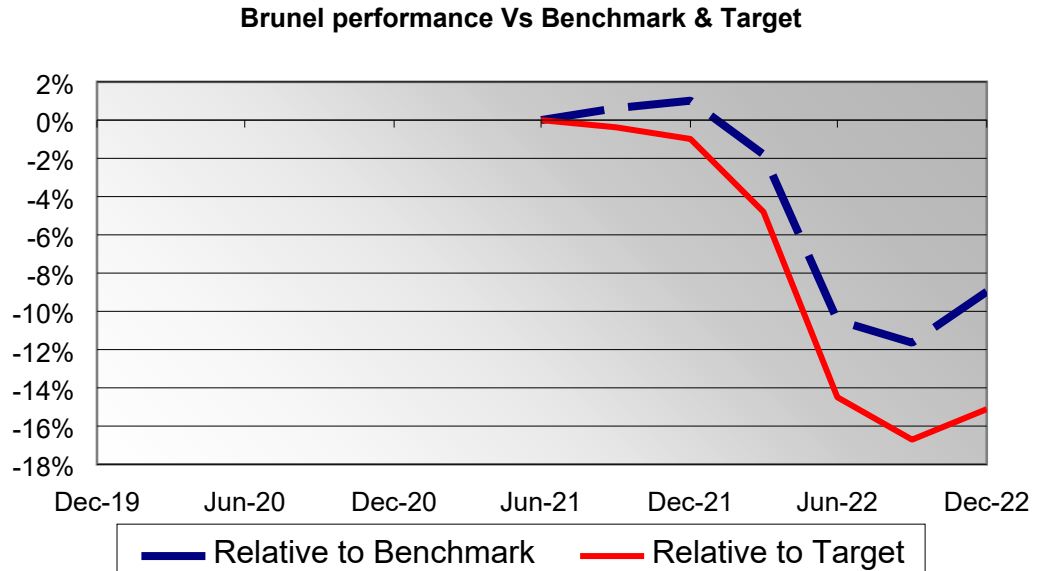
Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
73.1 Multi Asset Credit	3.7	0.6	+3.1

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

10.3 The portfolio underperformed the benchmark during the quarter. Absolute performance was negative.

10.4

The Brunel Multi Asset Credit portfolio's target is to outperform the benchmark by an annualised return of 4% to 5% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 4%.



10.5

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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-8.5	1.4	-9.9
3 years	Initial investment in June 2021		

11. LaSalle/Brunel (Property Fund of Funds)

11.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

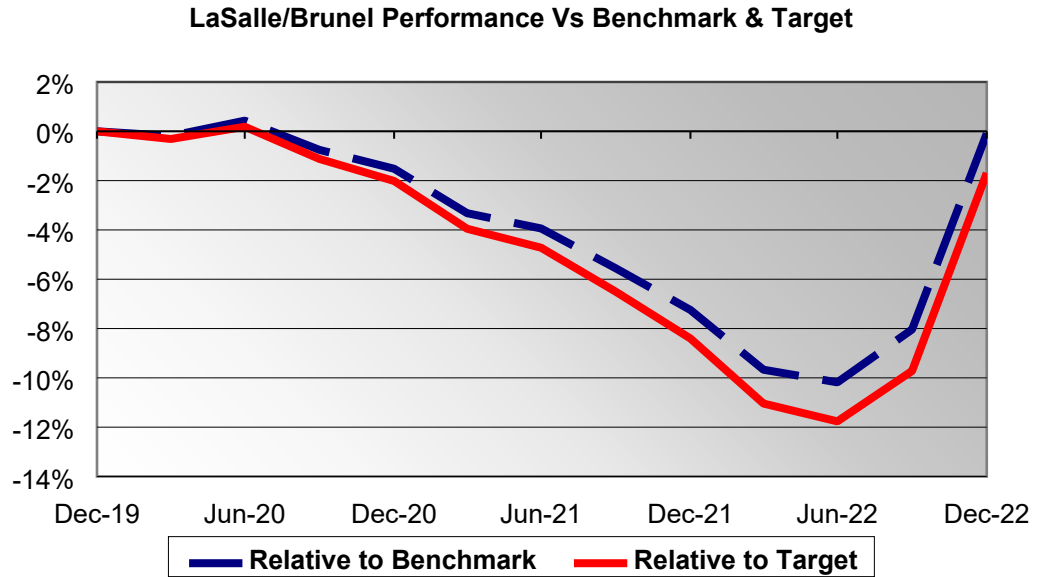
Quarter to 31 December 2022				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
218.8	UK Property	-8.7	-14.1	+5.4
11.0	Cash	0.6		
229.8	Total	-8.3	-14.1	+5.8

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. The benchmark is MSCI/AREF All balanced funds index.

11.3 The portfolio outperformed the benchmark for the quarter. Absolute performance was strongly negative.

11.4

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.



11.5

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	-3.6	-9.5	+5.9
3 years	2.2	2.2	+0.0
5 years	2.6	2.9	-0.3
10 years	5.5	6.5	-1.0

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
80.8 Private Equity	-9.0	0.7	-9.7

12.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP. The benchmark is Cash (Bank of England Base Rate)

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.

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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	25.3	-8.3	+33.6
3 years	24.9	8.3	+16.6
5 years	21.4	8.7	+12.7
10 years	18.7	12.5	+6.2

13. Brunel (Global private equity)

13.1 The performance for the quarter to 31st December 2022 is summarised in the following table:

Quarter to 31 December 2022			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
16.1 Private Equity	-6.6	0.7	-7.3

13.2 Brunel have invested in a number of private equity funds on the Fund's behalf and 27.9% of our cycle 2 commitment has been drawn. The portfolio is still very immature but appears to be making good progress at generating positive returns. The benchmark is Cash (Bank of England Base Rate).

13.3 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	12.8	-8.3	+21.1
3 years	Initial investment in December 2020		

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 2022 is summarised in the following table:

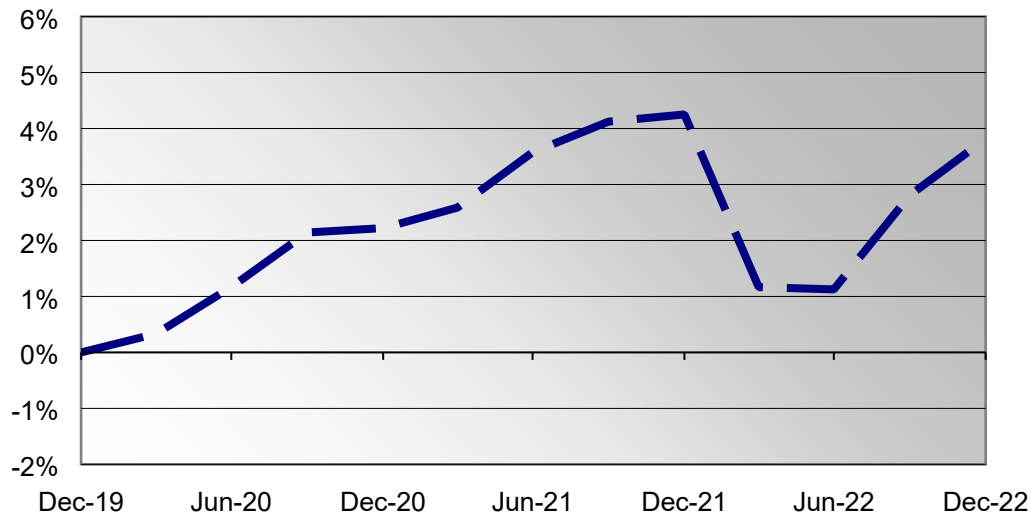
Quarter to 31 December 2022				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
550.5	Brunel (Passive GI Eq)	1.8	1.8	+0.0
743.6	Brunel (GHA Eq)	2.7	2.0	+0.7
0.0	ASI (UK Eq)			
310.2	Brunel (UK Eq)	9.6	9.2	+0.4
175.0	Brunel (Small Cap Eq)	2.4	2.8	-0.4
100.1	Brunel (EM Eq)	2.4	1.8	+0.6
42.6	Brunel (Passive Gilts)	-1.9	-1.9	+0.0
53.4	Brunel (Passive I-L)	-7.7	-7.5	-0.2
171.3	Brunel (£ Corporate)	6.2	5.7	+0.5
73.1	Brunel (MAC)	3.7	0.6	+3.1
229.8	Brunel (Property)	-8.3	-14.1	+5.8
1.6	SWRVF	0.0	0.7	-0.7
80.8	Neuberger Berman	-9.0	0.7	-9.7
16.1	Brunel (Private Eq)	-6.6	0.7	-7.3
0.8	Brunel (holding in Co)	0.0	0.0	+0.0
135.5	Cash	0.6	0.7	-0.1
2,684.4	Whole Fund	1.6	0.7	+0.9

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

15.3 Both asset allocation and fund manager performance was positive for the quarter.

15.4

Whole Fund Performance Vs Benchmark



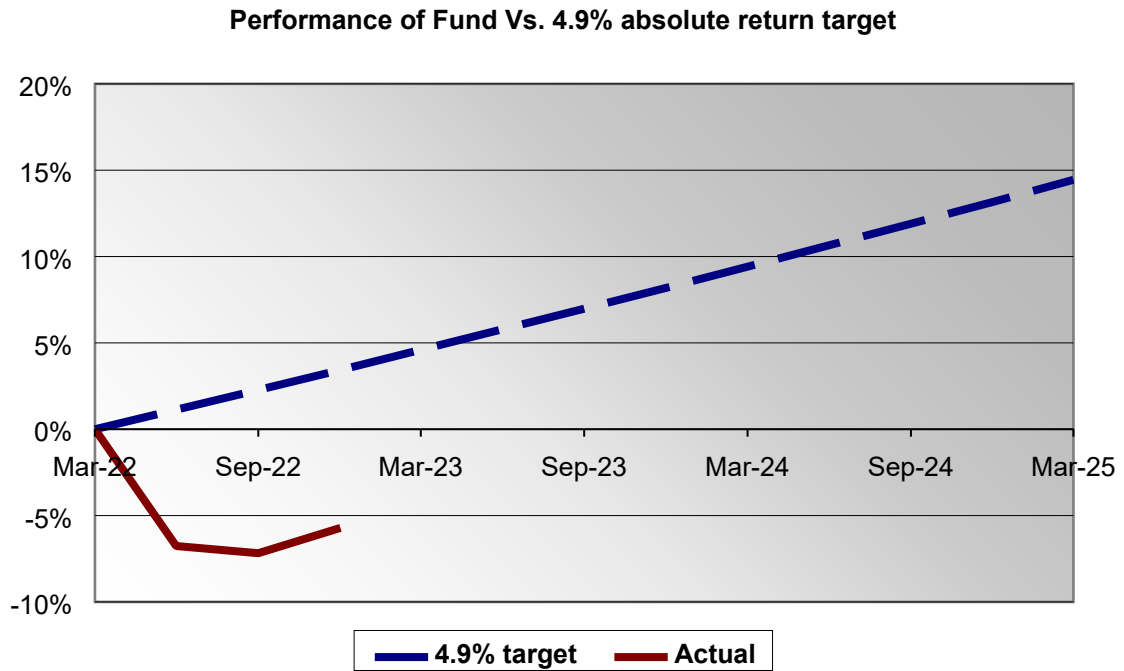
15.5

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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-9.6	-9.6	+0.0
3 years	4.0	2.8	+1.2
5 years	4.5	3.9	+0.6
10 years	8.1	7.6	+0.5

15.6

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 2022 to 2025 actuarial cycle is shown in the graph below.



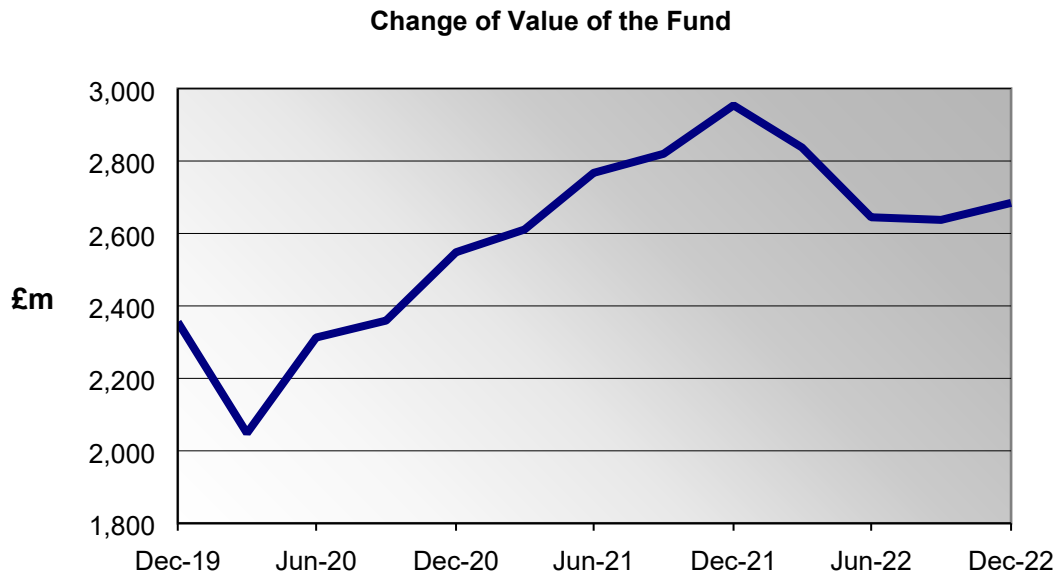
15.7 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 30 Sept		Value as at 31 Dec		Strategic
	£m	%	£m	%	Weighting
Brunel (Passive GI Eq)	541.0	21	550.5	20	20
Brunel (GHA Eq)	724.2	27	743.6	28	25
ASI (UK Eq)	9.1	0	0.0	0	0
Brunel (UK Eq)	283.1	11	310.2	11	10
Brunel (Small Cap Eq)	171.0	6	175.0	7	5
Brunel (EM Eq)	97.8	4	100.1	4	5
Brunel (Passive Gilts)	43.4	2	42.6	2	4
Brunel (Passive I-L)	57.9	2	53.4	2	4
Brunel (Corp bonds)	161.3	6	171.3	6	8
Brunel (MAC)	70.4	3	73.1	3	3
Brunel/LaSalle (Prop)	250.7	10	229.8	8	10
SWRVF	1.6	0	1.6	0	0
Neuberger Berman	92.3	3	80.8	3	0
Brunel (Private Eq)	15.4	1	16.1	1	5
Brunel (holding in Co)	0.8	0	0.8	0	0
Cash	117.5	4	135.5	5	1
Whole Fund	2,637.5	100	2,684.4	100	100

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

- £10.3m was withdrawn from the legacy ABRDN UK equity mandate.
- £3.4m was withdrawn from the Neuberger Berman's Private equity mandate as cash was returned to us by these funds.
- £1.8m was added to the Brunel private equity fund as the underlying investments continued to drawdown on commitments.

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

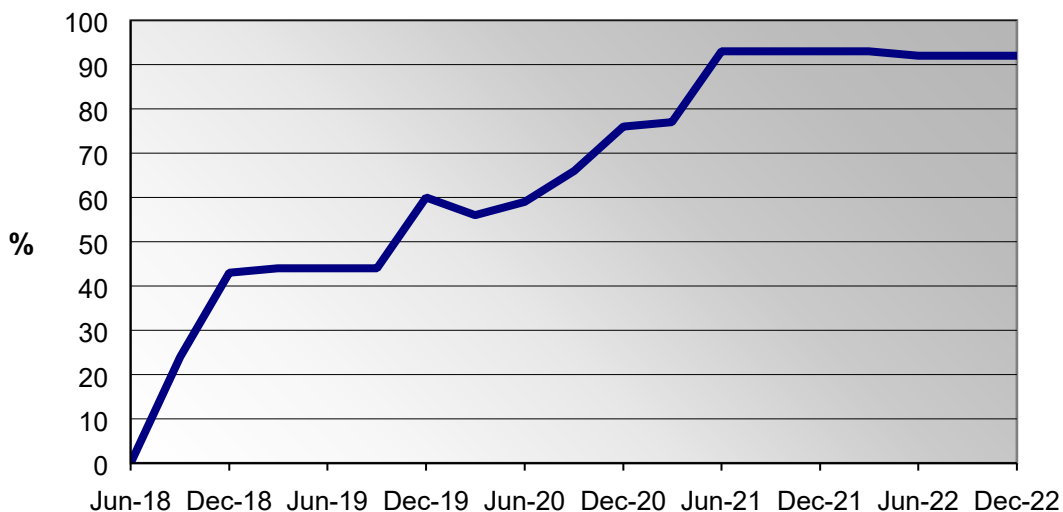


Pooling Update

- 16.1 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.
- 16.2 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).
- 16.3 Somerset largely completed its transition of assets to Brunel in summer 2021, with only some legacy private equity investments and cash not invested via the pool. 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	2,416.2	92	2,465.7	92
Retained assets	221.3	8	218.7	8
Whole Fund	2,637.5	100	2,684.4	100

% of Fund managed within Brunel Pool



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Somerset County Council
Pensions Committee

Review of Administration Performance

Lead Officer: Jason Vaughan: Director of Finance
Author: Rachel Lamb: Head of Peninsula Pensions
Contact Details: (01392) 383000
Rachel.lamb@devon.gov.uk
Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Background

- 1.1 Peninsula Pensions monitors performance against the [Occupational and Personal Pension Schemes \(Disclosure of Information\) Regulations 2013](#), which set out the statutory requirements regarding the disclosure of pension information.

Peninsula Pensions' will be reviewing the [Pension Administration Strategy](#) and targets included within it in the 2023 year, which includes the internal target for Peninsula Pensions and expected performance requirements from individual Fund employers. The information provided within this report is therefore based around the statutory targets as outlined above.

- 1.2 Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.
- 1.3 This report also encompasses an update on employer bodies covered by the Fund.

2. Issues for consideration

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

3. Administration team performance

- 3.1 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 31st December 2022 was 90% (92% for High Priority procedures).
- 3.2 During the quarter, the team received 22 compliments.
- 3.3 Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 31st December 2022 against the statutory Disclosure Regulations. It also includes a new graph which shows the monthly trend analysis on the percentage of high, medium, and low priority cases completed within timescales for the current financial year.
- 3.4 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st April 2022 to 31st December 2022. The bottom chart shows how many of the 'remaining' tasks outstanding to be actioned are awaiting information from another third party (member/employer) and therefore are on 'reply due'.
- 3.5 Appendix 3 of the report highlights the amount of work received over the previous 12 month rolling period, compared to the same period in the previous year. The chart currently is showing an increase in demand.

4. Employer updates

4.1 New Admitted Bodies:

- None

Academies:

- Horrington Primary School an existing academy joined The Partnership Trust from 1st Dec 2022

Cessations

- MD Building Services left the scheme on 30 November 2022

5. Background Papers / Other updates

5.1 The Pension Regulator annual returns completed November 2022.

2022 data quality score included:

Common data score: 95.5%

Scheme-specific data score: 96.6%

Pension Dashboard Paper – Appendix 4

Employer Performance Paper – Appendix 5

Administration Performance – 1st October 2022 – 31st December 2022

(Somerset Pension Fund)

Performance Summary

	Total Cases	Performance (Disc Regs)
High Priority Procedures	1491	92%
Medium Priority Procedures	2236	89%
Low Priority Procedures	909	89%
TOTAL	4636	90%

High Priority Cases

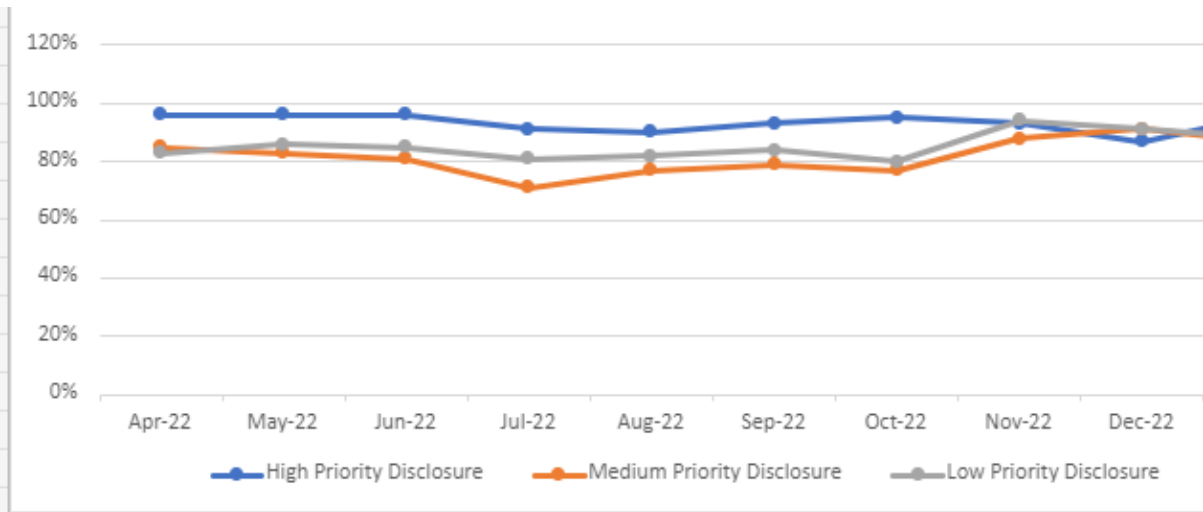
	Total Cases	Performance (Disc Regs)
Changes	186	95%
Complaints (Member)	20	100%
Complaints (Employer)	0	-
Deaths	161	70%
Deferred (over 55)	189	88%
Payroll	323	98%
Refunds	62	97%
Retirements (Active)	231	97%
Retirements (Deferred)	319	94%
TOTAL	1491	92%

Medium Priority Cases

	Total Cases	Performance (Disc Regs)
Amalgamation of Records	471	62%
Deferred Benefit Calculations	482	76%
Divorce Calculations	34	97%
Employer Queries	95	69%
Estimates (Bulk)	0	-
Estimates (Employer)	13	100%
Estimates (Member)	13	100%
General	477	99%
HMRC	32	100%
Member Self-Service	619	100%
TOTAL	2236	89%

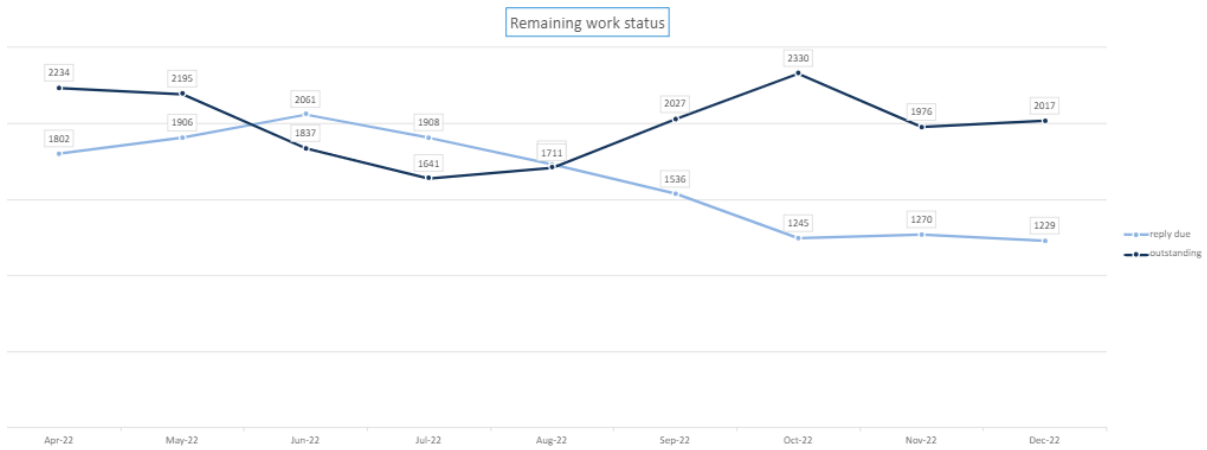
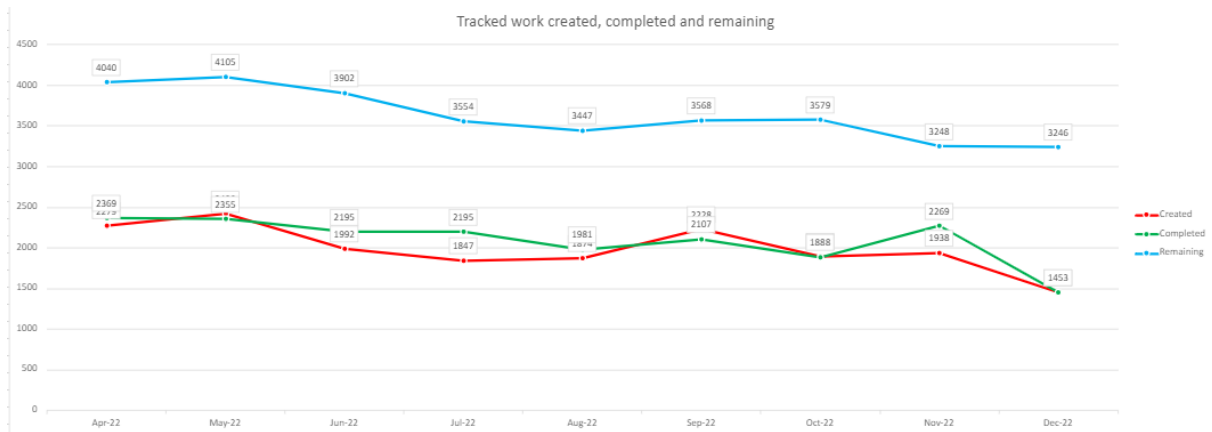
Low Priority Cases

	Total Cases	Performance (Disc Regs)
Estimates (Other)	24	96%
GMP Queries	2	100%
Interfund Transfers In	91	75%
Interfund Transfers Out	86	67%
Pension Top Ups	107	100%
Frozen Refunds	483	94%
New Starters	0	-
Pension Transfers In	47	94%
Pension Transfers Out	69	86%
TOTAL	909	89%



Administration Performance

1st April 2022 – 31st December 2022



**Work received 12 month rolling period 1st January 2022 – 31st December 2022
(against same period for previous financial year)**



PENSIONS DASHBOARD OVERVIEW PAPER

The Government committed to facilitating the pensions industry to develop the Pension Dashboard initiative and gave specific responsibilities to the [Money and Pension Service](#) which included:

- Bringing together a programme team to lead the implementation of pensions dashboards
- Appointing an industry steering group to set the strategic direction of the programme
- Beginning work to create and run a non-commercial pensions dashboard – the Money and Pension Service Dashboard.

What are Pensions Dashboards?

Pensions dashboards will enable individuals to access their pensions information online, securely, and all in one place, thereby supporting better planning for retirement and growing financial wellbeing. Dashboards will provide clear and simple information about an individual's multiple pension savings, including their State Pension. The Money and Pension Services' vision is for everyone to make the most of their money and pensions. Part of this is individuals knowing what pensions they have and how much is saved in them.

Connecting to Dashboards

There will be significant work involved in successfully connecting to pensions dashboards. Dashboards aim to help members plan for retirement by:

- finding their various pensions and reconnecting them with any lost pension pots
- understanding the value of their pensions in terms of an estimated retirement income

There will need to be a digital interface in place to connect a scheme to pensions dashboards.

They will function like a giant switchboard. No central database will hold personal information. The Money and Pension Services' will develop and host its own pensions dashboard on the MoneyHelper website. Other organisations will also be able to develop and host their own dashboards, subject to approval and regulation.

Role and legal duties

There will be the following requirements for Scheme Managers/Administrators:

- connect to dashboards by a specific deadline – the connection deadline for Public Sector Pension Schemes (including the Local government Pension Scheme) is **30th September 2024**
- securely receive personal information on members, and search and match members via identity checks to their pensions ('find requests')
- securely provide members with information about their pension through the dashboard of their choosing upon request ('view requests')
- co-operate with The Money and Pension Services' when preparing to connect, maintain records and report certain information to The Pension Regulator and The Money and Pension Services'

Actions prior to connection:

- 1) Choose a digital interface – this could be provided by:
 - using an interface built by your scheme's third-party administrator or software / IT supplier
 - building your own interface if the scheme is administered in-house
 - procure an interface provided by a third-party integrated service provider (ISP)
- 2) Start cleansing data and calculations in preparation for the provision of data on the dashboard (particularly relating to Deferred Benefit members)
- 3) Ensure adequate resources in place to support the dashboard connection

Peninsula Pensions have a team leading on this project and are in regular conversations with Heywood, the software suppliers, with regards to their module and experience being made available on both the 'data readiness' element of the project, and the key element, the provision of a secure interface, with them acting as the integrated service provider (ISP) between our pension administration database and the Pension Dashboards.

Useful links:

[UK Pensions Dashboards Programme | Homepage](#)

<https://youtu.be/o27-R-EkmR8>

[Pensions dashboards: initial guidance | The Pensions Regulator](#)

Employer Performance Reports update

Peninsula Pensions alongside the [Pension Administration Strategy](#) have produced reports to assess both performance of Employers and ourselves as Pension Administrators, around the provision of data and calculation of pension benefits relating to the Local Government Pension Scheme, initially relating to members that have ceased membership.

Across the Somerset Pension Fund, for the period January – December 2022, we have recorded a sample of 5440 members that have left the scheme, 93% of which provided the full required information from the individual Employers. With regards to timescales involved with this sample however, the majority of notifications were received either shortly after the date of leaving, or up to a month or more *after* the date of leaving, thus diminishing the statutory timescales which Peninsula Pensions must adhere to within the [Disclosure Regulations](#).

Peninsula Pensions wish to encourage employers to produce the information relating to members that have left the scheme, prior to the date they leave the scheme, in line with the [Pension Administration Strategy](#). This will enable us to calculate pension benefits and arrange payments due in a timelier manner to ease transition of members from employment to retirement without delay.

As mentioned in the Administration Performance Report, Peninsula Pensions will be reviewing the [Pension Administration Strategy](#) and targets included within it in the new 2023 year, which will include the internal targets for Peninsula Pensions and expected performance requirements from individual Fund employers following consultation. The progression of the Employer Performance Reports has therefore been temporarily delayed pending both the review of the Strategy; and also, in order for the impact of the new process following the decommission of our Employer Self Service portal from 1 March 2023 to take effect. A new internal solution has been produced to replace the Employer's portal and focus sessions held with employers as the development occurred.

Peninsula Pensions are working with Audit colleagues to strengthen the new process and provide assurance around both the quality and timeliness of data provision from individual employers. The aim will be to have a database in place which stores the data that Employers provide, highlighting performance within the prescribed parameters. When completed, the summary dashboard from the database, and reports relating to the new internal administration targets agreed, will form part of the report delivered to the Pension Board in future.

Business Plan 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 anton.sweet@somerset.gov.uk
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

1. Summary

- 1.1 To update the Committee with progress on and amendments to the Committee's business plan as agreed. 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, LGPS and levelling up and other matters. DLUHC did issue a consultation on Climate disclosure for the LGPS on 1st September. There has been no further formal updates from Government on any of these matters. DLUHC has released a consultation on changing the date of the annual pensions revaluation for technical reasons.
- 4.2 The valuation process is largely complete. The only remaining action is for Barnet Waddingham to issue the formal valuation document and for this to be distributed to employers.
- 4.3 Grant Thornton have now issued their formal opinions on the 2021-2022 financial statements of the accounts and the Annual Report has been published on the SCC website.
- 4.4 A review of the Communication Strategy was on the workplan for the March meeting. This has been moved back as Peninsula Pensions are reviewing their communication practices and we wish to capture and significant changes in any review of the Communication Strategy.
- 4.5 In consultation with Barnett Waddingham we are looking to refresh the Funding Strategy Statement, this is normal practice following the valuation. It is anticipated that a first draft will be available for review at the June Committee meeting. It will then go to consultation with the employers before coming back to Committee for formal adoption later in the year.

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 2023 - 2024

Key:

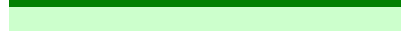
Change since last time



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 of ESG investment	High	Spring 2021		New ISS adopted at March 2022 Committee meeting
Fund Governance	Review of Committee and Board structures in advance of move to Unitary authority	Medium	Spring 2022		New Terms of reference to be adopted post vesting day
Fund Governance	Re-approve all Strategies and policies post election	Medium	Ongoing		Policies re-approved at July 2022 meeting
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	By end of 2022		Verbal update is part of meeting agenda
Fund Governance	Review Funding Strategy Statement	Medium	Summer 2023		
Fund Governance	Review Communication Strategy	Medium	Summer 2023		
Fund Governance	Review of risk register	Medium	Autumn 2023		
Fund Governance	Review Investment Strategy Statement	Medium	Summer 2024	Refreshed ISS due by March 2025	

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
April 2022 TBC	<p><u>ANNUAL EMPLOYERS MEETING</u></p> <p>Annual Employers' Meeting of the Pension Fund To include provision of 2022 valuation results from the actuary</p>	
June 2023 - TBC	<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. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2022.</p> <p>4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>6. 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>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Fund Policies To review and where necessary update the fund's policies and documents.</p>	<p>AS</p> <p>AS</p> <p>RL</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
Sept 2023 - TBC	<p data-bbox="229 371 459 405"><u>FORMAL MEETING</u></p> <p data-bbox="229 479 628 512">1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p data-bbox="229 584 691 618">2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2023.</p> <p data-bbox="229 689 735 723">3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p data-bbox="229 831 520 864">4. Business Plan Update To consider progress against the Committees approved business plan.</p> <p data-bbox="229 936 780 969">5. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2023.</p> <p data-bbox="229 1041 719 1075">6. 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="229 1146 967 1180">7. Annual Accounts and Investment Performance 2022/2023 To consider the accounts and investment performance for the year to 31 March 2023.</p>	<p data-bbox="1453 618 1485 651">AS</p> <p data-bbox="1453 723 1485 757">RL</p> <p data-bbox="1453 864 1485 898">AS</p> <p data-bbox="1453 969 1485 1003">AS</p> <p data-bbox="1453 1075 1485 1108">AS</p> <p data-bbox="1453 1180 1485 1214">AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
December 2023 - TBC	<p><u>FORMAL MEETING</u></p> <p>1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2023.</p> <p>3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>4. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>5. 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>6. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p>	<p></p> <p>AS</p> <p>RL</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
March 2024 - TBC	<p data-bbox="228 371 459 405"><u>FORMAL MEETING</u></p> <p data-bbox="228 479 472 512">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="228 618 628 651">2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p data-bbox="228 725 687 759">3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2023.</p> <p data-bbox="228 864 735 898">4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p data-bbox="228 1003 520 1037">5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p data-bbox="228 1111 780 1144">6. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2023.</p> <p data-bbox="228 1218 719 1252">7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p data-bbox="228 1326 1182 1359">8. 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 2024-2025 financial year and review the overall performance target for 2022 to 2025.</p> <p data-bbox="228 1500 788 1534">9. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.</p>	<p data-bbox="1449 512 1489 546">AS</p> <p data-bbox="1449 759 1489 792">AS</p> <p data-bbox="1449 898 1489 931">RL</p> <p data-bbox="1449 1037 1489 1070">AS</p> <p data-bbox="1449 1144 1489 1178">AS</p> <p data-bbox="1449 1252 1489 1285">AS</p> <p data-bbox="1425 1359 1513 1393">AS/SM</p> <p data-bbox="1449 1534 1489 1568">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 anton.sweet@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 provisional end of quarter 3 financial position at 31 December 2022 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

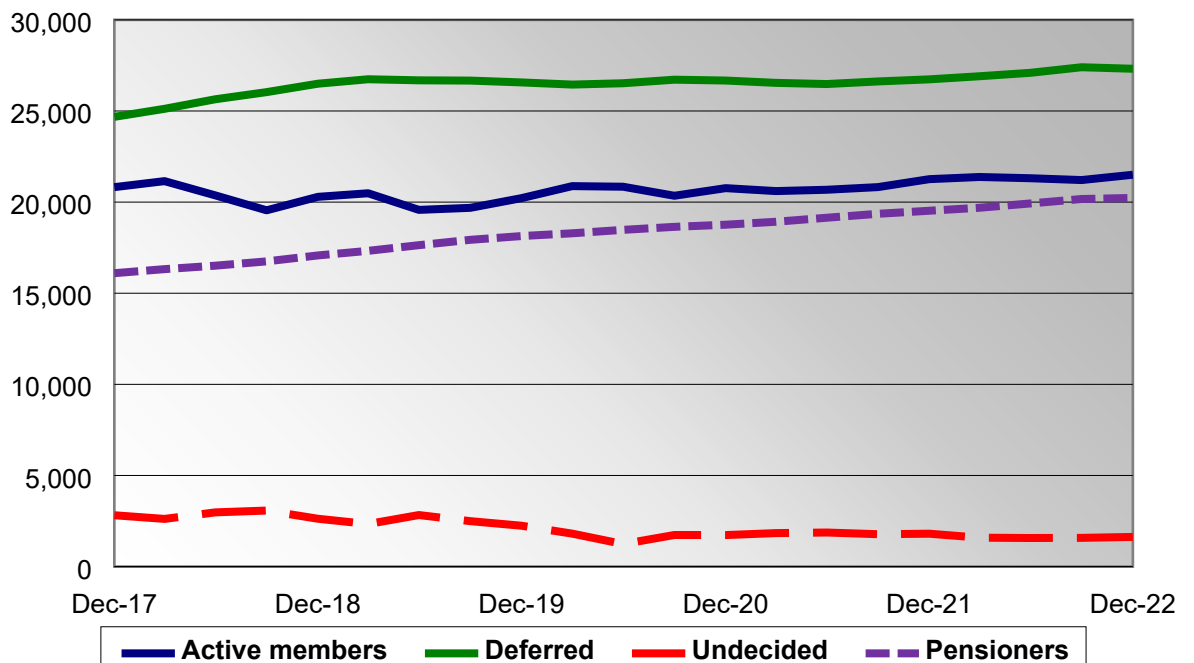
- 3.1 The outturn position for the three quarters of financial 2022-2023 year to 31st December 2022 against the original forecast is shown in appendix A.

4. Membership Statistics

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

	30 Sept	31 Dec	Change
Active members	21,210	21,501	+291
Deferred	27,400	27,317	-83
Undecided	1,577	1,628	+51
Pensioners	20,170	20,229	+59
Total	70,357	70,675	+318

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

2022 - 2023

	2021-2022 Full Year	2022-2023 March to December			2022-2023 Full Year		
	Actual (a) £m	Budget (b) £m	Actual (c) £m	Variance (d) £m	Original Projection (e) £m	Projected Outturn (f) £m	Variance (g) £m
Contributions and other income							
Contributions	117.959	76.800	78.491	1.691	122.000	122.000	0.000
Recoveries from employers	2.728	1.575	1.618	0.043	2.100	2.100	0.000
Transfer values received	11.494	6.750	5.749	-1.001	9.000	9.000	0.000
	132.181	85.125	85.858	0.733	133.100	133.100	0.000
Less benefits and other payments							
Recurring pensions	-87.162	-67.300	-68.047	-0.747	-90.000	-90.000	0.000
Lump sum on retirement	-13.189	-11.250	-10.274	0.976	-15.000	-15.000	0.000
Lump sum on death	-1.994	-1.800	-1.381	0.419	-2.500	-2.500	0.000
Transfer values paid	-9.115	-7.500	-7.222	0.278	-10.000	-10.000	0.000
Contribution refunds	-0.320	-0.500	-0.260	0.240	-0.600	-0.600	0.000
Employer exit credit	0.000	0.000	-0.354	-0.354	0.000	-0.400	-0.400
	-111.780	-88.350	-87.538	0.812	-118.100	-118.500	-0.400
Contributions after payments	20.401	-3.225	-1.680	1.545	15.000	14.600	-0.400
Management Expenses							
Administrative expenses	-1.363	-0.900	-0.634	0.266	-1.550	-1.550	0.000
Investment management expenses	-8.511	-1.600	-1.052	0.548	-8.000	-8.000	0.000
Oversight and governance expenses	-0.583	-0.250	-0.166	0.084	-0.675	-0.675	0.000
	-10.457	-2.750	-1.852	0.898	-10.225	-10.225	0.000
Investment Income							
Investment income	15.601	8.000	6.056	-1.944	9.750	7.000	-2.750
Net Increase / Decrease (-) in fund	25.545	2.025	2.524	0.499	14.525	11.375	-3.150

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Review of Pension Fund Risk Register

Lead Officer: Jason Vaughan: Director of Finance
Author: Anton Sweet: Funds and Investments Manager
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anton.sweet@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 to the risk register 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.

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 Amber	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 Green		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 Amber		4	3	12 Amber		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 Green		2	4	8 Green		on-going with quarterly review		
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	5	15 Red	The triennial valuation includes provision for restoring the fund to full funding over 19 years The current risk score partly reflects that the fund was 86% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10 Amber		Review again at next Valuation - 2022		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and

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 - 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 .
					Green				Green				
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		
					Green				Green				
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	8		on-going with quarterly review		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration. As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity
					Green				Green				
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	6		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.
					Green				Green				

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 - 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 Amber	Receipt of revised regulations in respect of the exit cap, McCloud and Goodwin	2	3	6 Green		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 Green		2	4	8 Green		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
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 Green		2	3	6 Green		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 Green		2	3	6 Green		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. 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 - 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		
					Green				Green				
1. PF - Admin7 2. SCC Section 151 Officer	Civil Contingency Event	SCC and Peninsula would follow their established business continuity plans	3	2	6		3	2	6		on-going with quarterly review		Amended from COVID risk December 2022 at Board's request.
					Green				Green				

Resources Review, Financial Projection Setting and Committee Objective Setting

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

1. Summary

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

2. Issues for consideration

- 2.1 Committee are required to set objectives for the 2023-24 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 2023-24 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 2023-24 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 2022 valuation results is 4.6% pa. The current adopted target is 4.9% agreed at the March 2022 meeting.
- 4.5 Officers recommend bringing the target in line with the discount rate within the 2022 valuation of 4.6%

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 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.

Investment of Pension Fund Cash

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<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 periodic sweep undertaken with the Fund's custodian to clear sterling balances back to the fund's bank account. The balances are mostly balances of the fund that are being received monthly from employers and paid out to pensioners and cash awaiting investment. 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 2022-23 (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 10th March 2023 (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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