

## **Annual Report and Investment Performance**

*Lead Officer:* Sheila Collins: Interim Director of Finance  
*Author:* Anton Sweet: Funds and Investments Manager  
*Contact Details:* (01823) 359584  
[asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)  
*Executive Portfolio Holder:* Not applicable  
*Division and Local Member:* Not applicable

### **1. Summary**

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

### **2. Issues for consideration**

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

### 3. Copy of fund account

| 2017/2018                                    |  | 2018/2019       |                |       |
|--|--|-----------------|----------------|-------|
| £ millions                                   | £ millions   | £ millions      | £ millions     | Notes |
| Restated                                     |  |                 |                |       |
| <b>Contributions and other income</b>        |  |                 |                |       |
| 20.720                                       |  | 20.909          |                | 4     |
| 78.667                                       |  | 85.071          |                | 4     |
| 2.713  |  | 2.699           |                | 4     |
| 5.312  |  | 5.672           |                | 5     |
| <b>107.412</b>                               |  | <b>114.351</b>  |                |       |
| <b>Less benefits and other payments</b>      |  |                 |                |       |
| -71.213                                      |  | -76.008         |                | 4     |
| -16.535                                      |  | -17.761         |                | 4     |
| -2.646                                       |  | -2.088          |                | 4     |
| -4.205                                       |  | -5.951          |                | 5     |
| -0.288                                       |  | -0.383          |                | 6     |
| <b>-94.887</b>                               |  | <b>-102.191</b> |                |       |
| <b>12.525</b>                                | <b>Net additions from dealings with members</b>                              |                 | <b>12.160</b>  |       |
| <b>Management Expenses</b>                   |  |                 |                |       |
| -1.113                                       |  | -1.170          |                | 7     |
| -5.706                                       |  | -6.178          |                | 8     |
| -0.800                                       |  | -0.608          |                | 9     |
| <b>-7.619</b>                                |  | <b>-7.956</b>   |                |       |
| <b>4.906</b>                                 | <b>Net additions including management expenses</b>                           |                 | <b>4.204</b>   |       |
| <b>Investment income</b>                     |  |                 |                |       |
| 50.757                                       |  | 42.212          |                | 10    |
| 8.975  |  | 4.714           |                | 10    |
| -1.217                                       |  | -1.214          |                |       |
| <b>58.515</b>                                |  | <b>45.712</b>   |                |       |
| <b>Change in market value of investments</b> |  |                 |                |       |
| 48.913                                       |  | 286.389         |                | 13    |
| -23.594                                      |  | -215.868        |                | 13    |
| <b>25.319</b>                                |  | <b>70.521</b>   |                |       |
| <b>83.834</b>                                | <b>Net return on investments</b>   |                 | <b>116.233</b> |       |
| <b>88.740</b>                                | <b>Net increase in the net assets available for benefits during the year</b> |                 | <b>120.437</b> |       |

## 4. Accounts analysis

### 4.1 Contributions

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

### 4.2 Recurring Pensions

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

### 4.3 Net Additions from dealings with members

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

### 4.4 Administrative expenses

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

### 4.5 Investment Expenses

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

#### 4.6 Oversight and governance expenses

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

#### 4.7 Total Expenses

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

#### 4.8 Investment Income

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

#### 4.9 Actuarial present value of promised retirement benefits

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

#### 4.10 Membership statistics

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

## **5. Investment Performance**

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

## **6. Consultations undertaken**

None

## **7. Financial Implications**

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

## **8. Background Papers**

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