



SOMERSET COUNTY COUNCIL  
PENSION FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
2012/13



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## **Chairman's report**

This annual report sets out the activities of the pension fund for the year ending 31 March 2013. It is produced to provide information for the following four groups.

- **Those responsible for managing the fund (our elected members).**
- **Those currently receiving benefits from the fund (the pensioners).**
- **Those who will receive benefits from the fund in the future (the deferred pensioners).**
- **Those who contribute to the fund (the active scheme members and employers).**

We have had another very full year in terms of changes both in terms of the Local Government Pension Fund structures and working towards changes in the Somerset fund.

A year ago we had reached the point where we knew roughly what the new benefits package for members after April 2014 would look like, the process of converting that outline into detailed regulations continues and the timetable through to next April remains very tight. Part of the driver of the timetable is to allow the new benefits package to be reflected in the 2013 actuarial valuation process that will set employer contributions for the three years from April 2014 through to April 2017. Work on the valuation is well underway and we look forward to getting preliminary results from our Actuary in the autumn.

As if dealing with the new scheme wasn't enough the Government is pushing on with consultation on other aspects of running the LGPS, specifically around new governance structures and a call for evidence on the structure of funds within the LGPS, and the Pensions Committee is considering these and how to respond.

We have been working with our colleagues at Devon County Council to explore a shared service for the benefits administration teams of the two councils. Both councils are committed to the shared service and we believe it will deliver a better service to employers and members and better value for money for both funds. We hope to form the new shared service this autumn.

Investment returns for the year, at 14.6%, were strongly positive and roughly double the level we need to maintain the overall funding position. We achieved positive returns on all asset classes with very strong returns from equities through to only marginally positive for property.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was 0.8% above the benchmark return of 13.8%. While we measure ourselves against our own benchmark, we are also aware of how other local-authority funds perform. A typical local-authority pension fund's return for the 2012-13 year was 13.8%.

During the year, contributions paid into the scheme were greater than the pensions paid out. We made this extra money available to investment managers. The end result can be seen in the fund account, where an extra £1.5 million is shown at the end of the financial year.

I would like to thank my fellow committee members for their commitment and support over the last year and the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees. This is my first and last report as Chairman of the pensions committee as other commitments I now have within Somerset County Council mean I am standing down as chairman, although I will remain on the pensions committee. I have enjoyed my year as Chairman and look forward to providing support to my successor as Chair, Councillor Graham Noel. I would like to thank William Wallace, John Wilkins and Anthony Trollope-Bellew, for their commitment and support as each has stepped down from the committee. I would also like to welcome Graham Noel, James Hunt and Mark Simmonds to the committee as we look to navigate these ever changing times.

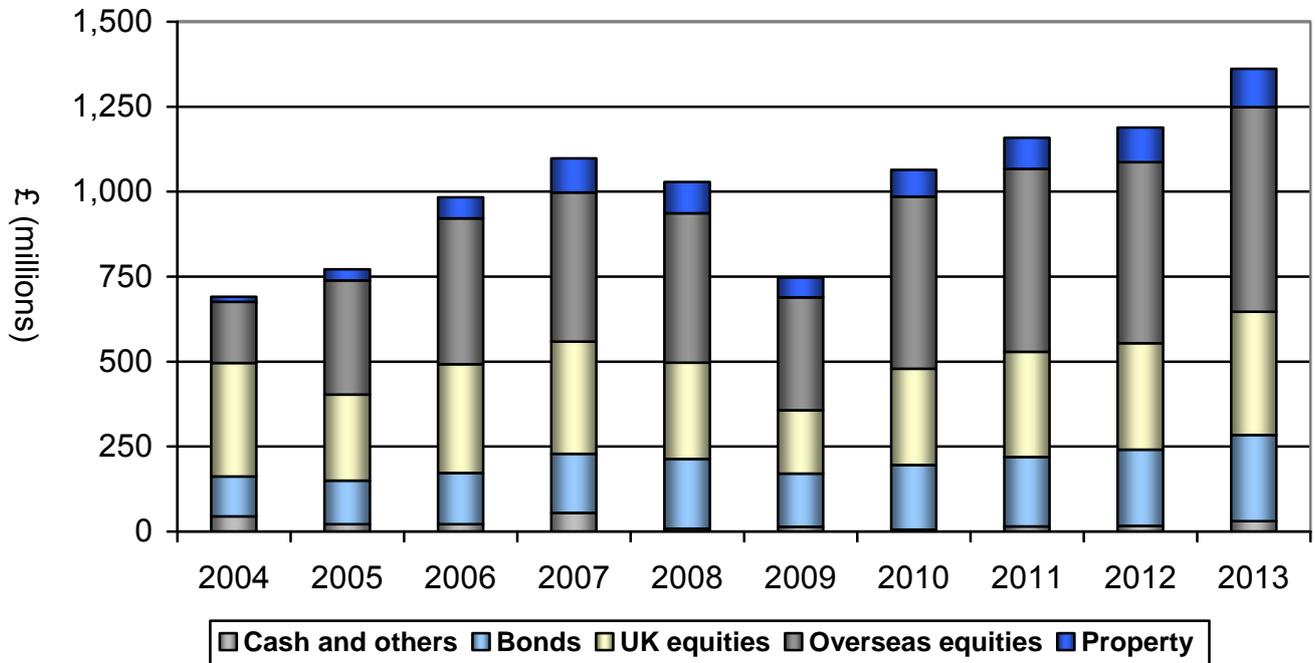
**Dawn Hill**

Chairman of the pensions committee

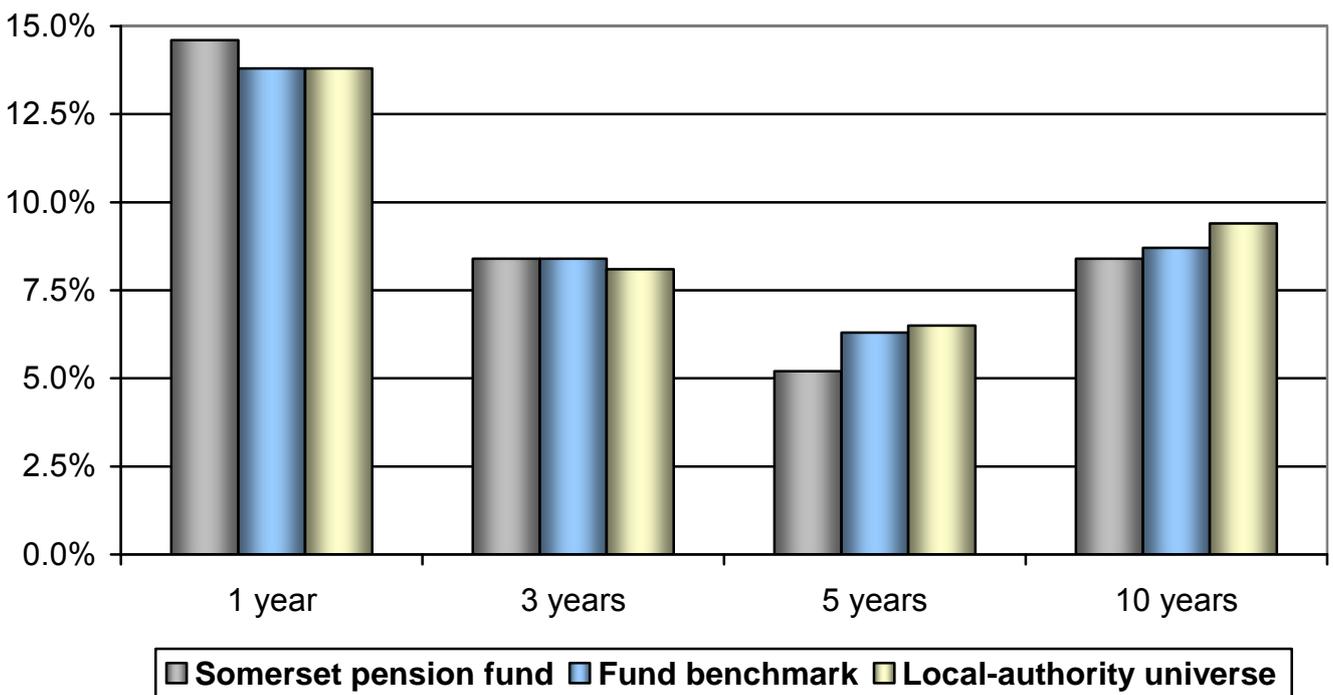
# Summary of the scheme

## Statistics

### Fund investment assets

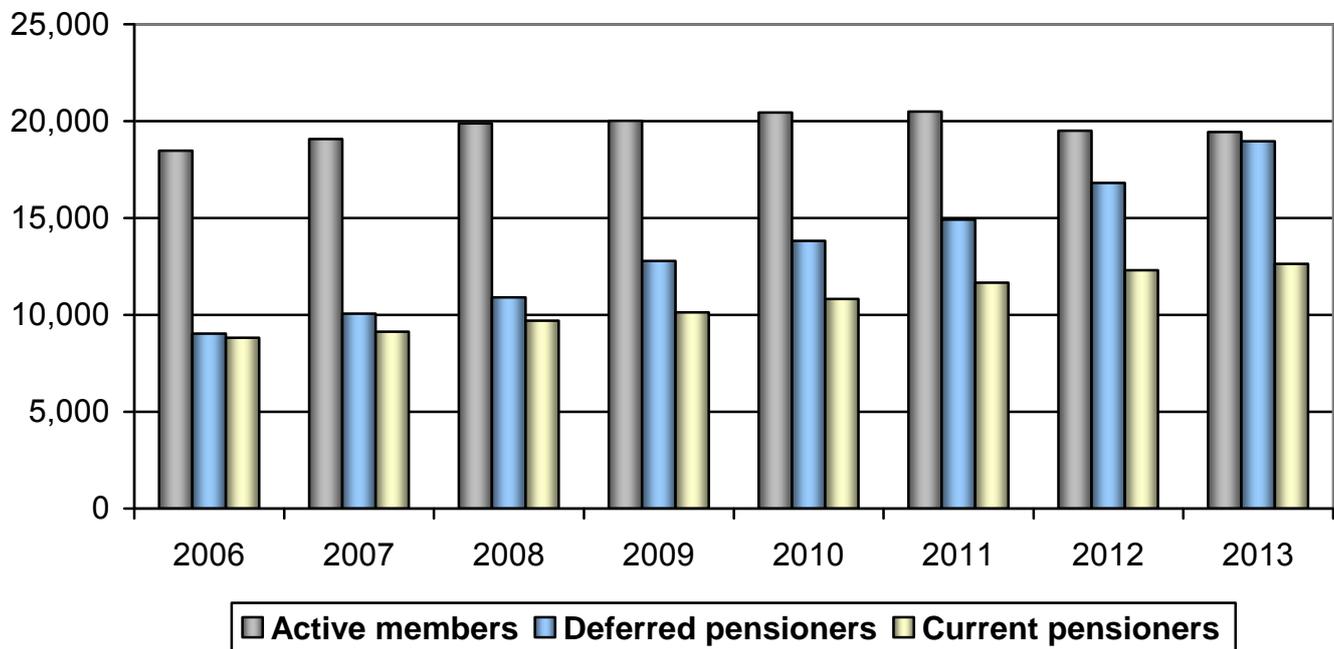


### Annualised fund investment performance



Source: WM Company

## Fund membership statistics



## Financial Statistics – five-year trends

	2008/2009 £ millions	2009/2010 £ millions	2010/2011 £ millions	2011/2012 £ millions	2012/2013 £ millions
Income from contributions	80.682	89.100	90.801	82.370	79.234
Spending on benefits	-60.251	-68.524	-78.102	-74.912	-77.719
<b>Contributions less benefits</b>	<b>20.431</b>	<b>20.576</b>	<b>12.699</b>	<b>7.458</b>	<b>1.515</b>
Investment income	34.230	30.308	28.686	34.888	35.076
Change in value of investments	-327.662	262.391	52.568	-12.774	132.945
<b>Net return on investments</b>	<b>-293.432</b>	<b>292.699</b>	<b>81.254</b>	<b>22.114</b>	<b>168.021</b>
<b>Change in net assets</b>	<b>-273.001</b>	<b>313.275</b>	<b>93.953</b>	<b>29.572</b>	<b>169.536</b>

## **Pensions committee**

Somerset County Council, the administering authority for the pension fund, has delegated its responsibility to manage the fund to the pensions committee under the county council's constitution.

The pensions committee meets regularly to consider all aspects of the administration of the fund. In line with legal regulations, they get advice from professional advisors, the fund's managers and officers, as necessary. The pensions committee makes decisions about the fund's overall policy and investment strategy, taking account of the professional advice it has received.

All members sat on the committee for the full year covered by this report.

### **Dawn Hill (Chairman)**

Dawn is one of the four county council representatives on the committee and is the councillor for Cheddar. Dawn joined the committee in May 2009.

### **Sam Crabb**

Sam is one of the four county council representatives on the committee and is the councillor for Ilchester. Sam has been a member of the pensions committee since May 2008.

### **Anthony Trollope-Bellew**

Anthony is one of the four county council representatives on the committee and is the councillor for Watchet & Quantocks. Anthony has been a member of the pensions committee since May 2012.

### **John Wilkins**

John is one of the four county council representatives on the committee and is the councillor for Lydeard. John joined the committee in May 2009.

### **Tim Carroll (district councils' representative)**

Tim represents the five district councils that are members of the fund. Tim is the deputy leader of South Somerset District Council. Tim re-joined the committee in October 2011 having previously represented the district councils on the committee between 1998 and May 2010.

### **William Wallace (police authority representative)**

William represents the Avon and Somerset Police Authority, where staff who are not eligible for the police officers' pension scheme are entitled to join the fund. William is a member of the police authority as a representative of Somerset County Council. William joined the committee in October 2011.

### **Caroline Moore (represents other employers)**

Caroline represents all of the employers except those specifically covered by another committee member. Caroline is Executive Director (Finance, Development and Corporate Services) for Yarlington Housing Group (YHG). She also acts as Company Secretary for YHG and its subsidiaries, and is a member of the National Housing Federation's Finance Policy Committee.

Caroline joined YHG in 2002, having previously spent eight years as Senior Manager (Public Services) at PricewaterhouseCoopers (PWC), where she was a national manager responsible for all services to housing clients. She spent the last three years at PWC advising on housing transfers (both on the council and housing association sides).

Caroline is an ACA-qualified accountant and has a degree in Business and Organisational Studies. Caroline has been a member of the pensions committee since 2005.

### **Sarah Payne (employees' and members' representative)**

Sarah is the employees' and members' representative on the pensions committee. Until 2010 she was employed by the county council as their Extended Schools Services Manager within the Children and Young Person's Directorate and during her career she worked in a variety of roles and directorates, giving her a wide range of experience of local-government services. She is now self employed and a deferred member of the fund. Sarah still retains contact with the trade union UNISON who support her position as employees' and members' representative on the committee. Sarah joined the pensions committee as the members' representative in 2004.

As well as the committee members, an independent advisor and officers attend all committee meetings.

### **Independent advisor – Caroline Burton**

After graduating from Oxford University, Caroline joined Guardian Royal Exchange plc in 1973 as a trainee investment analyst. She moved from analysis to portfolio management and became manager of international investments in 1978. In 1987 she became Managing Director of the newly-incorporated Guardian Asset Management. She joined the board of Guardian Royal Exchange plc as the Executive Director for Investment in 1990, a post she held until the company was taken over by AXA in 1999.

Caroline currently advises a number of pension schemes. She is a member of the board of TR Property Investment Trust plc, a director of Blackrock Smaller Companies Investment Trust, a member of the management committee of Hermes Property Unit Trust and a non-executive director of LV= Insurance.

Caroline has been the independent advisor to the pensions committee since 2002.

### **Officer – Kevin Nacey (Director of Finance and Performance)**

Kevin has been the lead officer for the pension fund since January 2011.

## **The work the committee has done this year**

During the financial year 2012/2013, the committee formally met five times. At four of these meetings (quarterly) the committee received a report on the investment performance of the fund for the previous quarter and any related information, an update on the committee business plan and workplan, an update on the fund's risk register and an update on the budget and membership statistics of the fund. They also receive an update on the status of all outstanding matters relating to the employer bodies within the fund. At two meetings every year the committee receive a report covering the voting activity at company meetings for the previous six months. Every September, the committee receive the report from the external auditor and the auditor's opinion on the accounts of the fund, a report on the investment returns for the previous financial year and an update on the funding position from the fund's actuary.

The committee also carried out a number of one-off reviews during the year. The committee reviewed some elements on the policy for socially responsible investment. During the year, as part of an ongoing programme, the committee formally reviewed a number of the external fund managers, and decided to continue with those managers for the time being with the exception of UBS's mandate to run developed Far East ex-Japan equity which was terminated with effect from 1<sup>st</sup> April 2013. For the remaining managers committee agreed to review the managers again in the future. The asset allocation of the investments was reviewed and it has been agreed that this should be an annual item.

The committee has discussed at a number of their meetings the proposals for, and implications of, the shared benefits administration service with Devon County Council.

As well as the formal meetings the committee have, they also meet with external fund managers. The committee also attend the annual meeting for employers every September, where they are available to answer any questions.

## Committee training

As part of the fund's training policy, the committee members are committed to developing their skills and knowledge in relation to the pension fund. We have encouraged our members to attend appropriate outside training events and conferences.

The table below shows how many formal meetings, informal meetings and training events committee members attended this year.

	Committee meetings	Annual meeting	Internal training days	External training days	Conference days
Number of meetings	5	1	0		
<b>Committee members</b>					
Dawn Hill (Chairman)	5	1			
Sam Crabb	5	1			2
Anthony Trollope-Bellew	4		0.5		
John Wilkins	5	1			
Tim Carroll	2				
William Wallace	1 of 2	1			
Caroline Moore	3	1			1
Sarah Payne	5	1			3
<b>Independent advisor</b>					
Caroline Burton	4	1			

## Risk management

The committee takes the management of risks within the fund seriously. To this end the fund has developed a risk register which is considered and updated as necessary at each of the quarterly pensions committee meetings. A copy of the current risk register can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

In addition to the risk register, how the fund manages and aims to mitigate the funding risk and investment risk are dealt with in more detail in the Funding Strategy Statement and the Statement of Investment Principles respectively. Copies of each of these statements can be found later in this annual report.

## **Financial management**

The pensions committee undertakes management of the financial affairs of the fund through a number of regular items at pensions committee meetings.

To manage the investments committee receive a specific paper on the returns achieved by each fund manager quarterly and the return of the fund as a whole along with relevant benchmark information. Annually the committee receive more detailed reports on the performance of the whole fund including peer group data.

To manage the other financial aspects of the fund the committee set a budget for the forthcoming financial year and then receive quarterly outturn reports and updated projections for the full year.

Copies of the most recent investment returns and budget information can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

# Fund managers

Under the regulations, we must consider:

- **the need to invest in a wide range of investment areas;**
- **the suitability of investments; and**
- **getting proper advice.**

The fund is divided into 12 sub-funds for investment-management purposes.

## **In-house**

### Background

Three sub-funds are managed under the direct control of the Director of Finance and Performance. The management is done in-house as it has proved over many years to be a cost-efficient way to invest.

### Global Equity Portfolio

#### Aim

To track the benchmark.

#### Benchmark

FTSE All-World Developed Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'.

#### Type of investments

Equities. A percentage of these investments are overseas.

#### Method

Since this fund has a passive investment style, a quantitative analysis system is used to identify suitable equity stocks and how much of each stock to hold.

#### Allocation of the fund

The target allocation is 23% of the whole fund.

#### Appointed

The pension fund has been running an in-house tracking fund since February 1991.

## US Equity Portfolio

**Aim**  
To track the benchmark.

**Benchmark**  
S&P 500 index

**Type of investments**  
USA equities

**Method**  
Since this fund has a passive investment style, a quantitative analysis system is used to identify suitable equity stocks and how much of each stock to hold.

**Allocation of the fund**  
The target allocation is 5% of the whole fund.

**Appointed**  
The in-house team took over the running of the US equity fund on 1<sup>st</sup> January 2012

## Cash Portfolio

**Aim**  
To outperform Sterling deposit rates

**Benchmark**  
7 day LIBID (London Interbank Bid rate)

**Type of Investments**  
Cash deposits and Money Market Funds

**Allocation of the fund**  
The target allocation is 1% of the whole fund.

**Appointed**  
The in-house team have been running the Sterling cash fund since at least 1990

## Standard Life Investments

### Background

Standard Life Investments manage two sub-funds. Standard Life Investments is a leading asset management company, with £171.9 billion of assets under management (as at 31 March 2013) invested across a wide range of mandates, asset classes and geographies. Employing over 1,000 individuals, Standard Life Investments is based in Edinburgh, with regional offices in Ireland, France, Hong Kong, Australia, Canada and the USA, and has representative offices in Germany, China and Korea.

Standard Life Investments is owned entirely by Standard Life plc, which is listed on the London Stock Exchange.

### UK equity portfolio

#### Aim

To outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after Standard Life's fees have been deducted.

#### Benchmark

FTSE All-Share index.

#### Type of investments

UK equities

#### Allocation of the fund

The target allocation is 23% of the whole fund.

#### Appointed

July 2004

### Fixed-income portfolio

#### Aim

To outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after Standard Life's fees have been deducted.

#### Benchmark

22% FTSE Actuaries UK government all-stock gilt total return index

21% FTSE Actuaries UK government index-linked all-stocks total return index

43% iBoxx Sterling non-gilt over 10-year total return index

15% Merrill Lynch European Currency High Yield Index

#### Type of investments

Bonds

#### Allocation of the fund

The target allocation is 19% of the whole fund.

#### Appointed

February 2008

## **Jupiter Asset Management**

### **Background**

Jupiter was founded in 1985 and has grown to become one of the most respected fund management groups in the UK, managing £29.0 billion (as at 30 June 2013) across equity and other asset classes. In 2007, Jupiter became majority owned by its employees. In June 2010, Jupiter's holding company, Jupiter Fund Management plc, was listed on the London Stock Exchange.

Jupiter acts on behalf of clients ranging from pension funds and larger charities to asset managers, government organisations, businesses, local authorities, and private individuals. Jupiter manages assets across a wide range of international and UK-based mutual funds, multi-manager products and hedge funds. These assets include portfolios that focus on specific markets such as the UK, Europe, Asia and emerging markets in Europe, as well as specialist asset classes such as socially responsible investments (SRI), financials and global equities.

### **Aim**

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Jupiter's fees have been deducted.

### **Benchmark**

FTSE World Europe ex-UK Index.

### **Type of investments**

European equities, not including UK equities

### **Allocation of the fund**

The target allocation is 5% of the whole fund.

### **Appointed**

April 1989 (revised mandate from July 2004).

## **UBS Global Asset Management**

### **Background**

UBS Global Asset Management offers investment capabilities and styles across all major traditional and alternative asset classes throughout the world. They are a leading fund manager in Europe, the largest mutual fund manager in Switzerland and one of the largest fund of hedge funds and real estate investment managers in the world.

UBS Global Asset Management (UK) Ltd is a subsidiary of the Swiss listed company UBS AG.

### **Aim**

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after UBS's fees have been deducted.

### **Benchmark**

FTSE All-World Developed Asia Pacific ex-Japan Index

### **Type of investments**

Far East equities. This will mainly be equities listed in South Korea, Hong Kong, Singapore, Australia and New Zealand, but other Asian countries are allowed.

### **Allocation of the fund**

The target allocation is 3% of the whole fund.

### **Appointed**

July 2004, UBS ceased to manage this portfolio on 1<sup>st</sup> April 2013.

## Nomura Asset Management

### Background

Owned entirely by the Nomura Group and founded in 1873, Nomura Asset Management is one of the largest investment managers in the world. They have total group assets under management of over US\$287 billion, including US\$73 billion (£47 billion) in Japanese equities, as at 30 June 2013.

Nomura's specialist investment approach relies on being based in Asia and having local investment managers and research analysts. The company has their headquarters in Tokyo, but also have offices in the large financial centres around the world, including London, New York, Frankfurt, Hong Kong and Singapore. They also have offices in Seoul, Shanghai and Kuala Lumpur.

Nomura Holdings Inc is listed on the Tokyo Stock Exchange.

### Aim

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Nomura's fees have been deducted.

### Benchmark

TOPIX Index

### Type of investments

Japanese equities

### Allocation of the fund

The target allocation is 3% of the whole fund.

### Appointed

March 2010

## **Pioneer Investments**

### **Background**

Pioneer Investments, founded in 1928, is a global investment manager dedicated to growing and preserving client assets. Clients include institutions, corporations, intermediaries and private investors around the world. Pioneer Investments offers a diverse range of investment solutions across both traditional and non-traditional asset classes through both pooled and segregated mandates. Assets under management total £140 billion, managed from global investment centres in Boston, Dublin and London; supported by a network of local investments centres across the world. Today, Pioneer Investments has a presence in 27 countries worldwide and an experienced team of over 2,000 employees globally; of which more than 330 are investment professionals.

Pioneer Investments is a subsidiary of the Italian listed, UniCredit Group.

### **Aim**

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Pioneer's fees have been deducted.

### **Benchmark**

MSCI Emerging Markets Index

### **Type of investments**

Equities from emerging markets around the world

### **Allocation of the fund**

The target allocation is 5% of the whole fund.

### **Appointed**

March 2009

## Aviva Investors

### Background

Aviva Investors is the asset management business of Aviva plc, the UK's largest insurer and one of the leading providers of life and pensions products in Continental Europe. With assets under management of £245 billion (as at 30 June 2013) they provide asset management services to institutional investors and operate around the world, employing more than 1,064 employees including 396 investment professionals in 15 countries. Aviva Investor's clients include pension funds, sovereign wealth funds, insurance companies, national and local government bodies, wealth managers, charities and companies.

Aviva plc is listed on the London Stock Exchange.

### Aim

To outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after Aviva's fees have been deducted.

### Benchmark

IPD All Balanced Funds Index

### Type of investments

Property unit trusts

### Allocation of the fund

The target allocation is 10% of the whole fund.

### Appointed

February 2004

## Neuberger Berman

### Background

Founded in 1939, Neuberger Berman is an independent, employee-controlled global asset-management company serving the financial needs of institutional investors, consultants and individuals worldwide. The company provides a broad range of global investment solutions to investors through customised separately managed accounts and mutual funds.

Neuberger Berman manage traditional assets and alternative investments, including private equity and hedge funds. They also give portfolio advice. Managing over \$214 billion of assets, Neuberger Berman is one of the world's largest independently controlled asset managers. They have more than 1,800 employees worldwide (including over 400 investment professionals) in over 16 countries across the globe, as at 30 June 2013.

NB Alternatives, a specialist part of Neuberger Berman, is a significant investor in private equity, with over US\$19 billion of committed capital (capital that is promised but may not have been invested yet) across our private equity fund, secondary investments and direct co-investment areas.

### Aim

To outperform global equity stock markets over the life of each private equity fund.

### Benchmark

Cash returns. This is the normal benchmark for private equity investments.

### Type of investments

Companies that are not listed on stock exchanges

### Allocation of the fund

The target allocation is 3% of the whole fund.

### Appointed

March 2010

As well as the 11 funds mentioned previously the pension fund has a small interest in the South West Regional Venture Capital Fund, which is managed by Yorkshire Fund Managers Ltd. For a table showing the split of the assets by fund manager at the date of the net asset statement, see note 10 of the accounts on page 89.

## Other experts

We need to work with a number of experts to provide functions that are needed under various regulations.

### **Custodian** – JP Morgan

Custody services manage the records of the fund's cash and security investments and track and settle the investment transactions of the fund's appointed investment managers.

J.P. Morgan's Corporate & Investment Bank is a global leader across banking, markets and investor services. The world's largest corporations, governments and institutions entrust their business to J.P. Morgan in more than 100 countries. With \$18.2 trillion of assets under custody and \$393 billion in deposits, the breadth of their expertise allows them to meet the complex and diverse requirements of pension plans and their sponsors, helping them reduce both cost and risk. J.P. Morgan provide tailor-made solutions in custody and administration, investment management and asset-liability risk management.

J.P. Morgan Chase & Co. is listed on the New York Stock Exchange.

JP Morgan has been the fund's custodian since August 2012.

### **Auditors** – Grant Thornton

The role of the auditor is to test the accounts and confirm that they give a true and fair view of the fund's financial position.

Grant Thornton UK LLP is a leading financial and business adviser, operating out of 27 offices in the UK. The firm specialises in local government and the wider not for profit sector, including charity, education, social housing and central government. The Audit Commission appoints auditors to provide assurance and promote value for taxpayers' money across local government, health, police, fire and rescue and other local public services. The Commission also sets the standards it expects auditors to meet and is committed to ensuring that the quality of the audit work provided by its suppliers is of the highest standards. Following the outsourcing of the Audit Commission's in-house audit practice Grant Thornton is the largest external provider of audit services to local government.

Grant Thornton became the auditor of the Fund in 2012.

## **Actuary – Barnett Waddingham**

The role of the actuary is to give the fund information about the fund's liabilities and the best way to meet them. Every three years, the actuary carries out a formal valuation of the fund, which shows how the fund's liabilities relate to its assets and recommends suitable rates of employers' contributions to prevent any shortfall in future years.

Barnett Waddingham LLP is the UK's largest independent provider of actuarial, administration and consultancy services. Founded in 1989, it is a limited liability partnership owned entirely by its 60 partners, with over 550 employees, including 70 associates, in seven offices across the UK.

Although mainly providing actuarial advice to defined benefit pension funds, they also provide other services which include:

- scheme actuary and associated services to defined-benefit pension schemes;
- advice to defined-contribution pension schemes;
- accounting statistics for UK and international companies;
- advice on business transactions;
- independent advice to employers sponsoring pension arrangements;
- investment strategy reviews and advice on the funding strategy;
- communications programmes;
- administration and management services, including pensioner payroll, preparing annual accounts and secretarial services;
- managing closed schemes, wind-ups and reconstructions; and
- tax-efficient retirement planning for executives, directors and wealthy individuals.

Barnett Waddingham has been providing actuarial advice to local authorities about funds set up under the Local Government Pensions Scheme Regulations and their predecessors for over 10 years.

Barnett Waddingham has been the fund's actuary since April 2006.

## **Legal advisor – Osborne Clarke**

The role of the legal advisor is to provide independent advice on legal matters affecting the fund.

Osborne Clarke is an international business law firm with around 900 staff and partners working in offices in major financial and commercial centres in the UK and across Europe. The firm's main areas of expertise include corporate, finance and property transactions and the full range of business law services, including commercial contracts, employment, pensions and resolving disputes.

The lawyers in Osborne Clarke's pensions team have a wide range of experience in advising large occupational pension schemes, and provide a wide range of legal services. These include legal issues relating to how Local Government Pension Scheme (LGPS) regulations are interpreted and applied, drafting investment management and custody agreements, and advising on commercial contracts.

Osborne Clarke was appointed as legal advisor to the fund in October 2006 as part of a joint tender involving a number of other local-authority pension funds in the southwest of England.

## **Performance measurement – The WM Company**

The role of the performance measurer is to independently calculate the return on the assets managed by each of the investment managers. It will also compare these figures with the benchmark given to each manager and the overall fund against its own benchmark and other local authorities' funds.

WM Performance Services (WM) is part of State Street Investment Analytics (SSIA), the global performance division of State Street Bank & Trust Company. WM has more than 30 years' experience of providing performance evaluation for a wide range of asset owners and managers

SSIA provide performance and analytic services and employs more than 800 dedicated investment performance professionals across 18 offices worldwide. SSIA services over 1,400 clients, who own assets exceeding \$11.5 billion.

WM currently measures about 90% of UK local authority pensions funds, with a combined value of more than £165 billion as at 31 March 2013. As well as producing the Local Authority Universe and CIPFA Statistics, SSIA is also responsible for working out the returns for the annual Local Government Conference Awards.

WM has been providing the fund with performance measurement services since 1983.

## **Voting advice – Pensions Investment Research Consultants (PIRC)**

PIRC provides us with background information about proposed votes at company meetings, along with a recommendation on how to vote in line with best corporate-governance practice. The in-house managed funds use this information and PIRC's recommendations to help us decide how to vote.

PIRC was founded by local-authority funds in 1986 to provide high-quality research on the social responsibility that businesses have. It now provides voting and engagement services to around 60% of the local government pensions market and is now the largest proxy-voting adviser in Europe. PIRC also holds the UK's largest single shareholder to provide engagement services in its partnership agreement with the Local Authority Pension Fund Forum. In total, PIRC carries out research and gives advice on environmental, social and governance issues to investors with assets of over £1.5 trillion.

## **Shareholder engagement on socially responsible investment and corporate governance – The Local Authority Pension Fund Forum (LAPFF)**

Our fund is committed to working with companies to improve their awareness of environmental and social issues.

LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 56 local authority pension funds from across the country with combined assets of over £115 billion. It aims to bring about improvements in the way companies are run, such as improvements in corporate governance of the companies in which member funds invest. LAPFF is also concerned with promoting corporate social responsibility on environmental issues and issues relating to overseas employment standards. It does this by working with company boards to encourage them to improve standards.

## Contributions and benefits

The Local Government Pension Scheme (LGPS) has been approved under the Local Government Superannuation Act 1972 and has been updated by the Pension Scheme Regulations 1997. The 'new-look' LGPS was introduced in April 2008 as a result of further legislation.

As an administering authority, we must maintain a pension fund for all the County Council's relevant employees (other than teachers) and those of all local-government staff in our area.

The fund also includes civilian employees of the Avon and Somerset Police Authority and the employees of further-education colleges and academy schools. Employees of certain other organisations (town councils, for example) have a right to be included. We have agreed to admit a number of other organisations, including several housing associations.

The fund is financed by contributions from employees and employers, together with interest and other income earned from investing funds not needed to meet pension payments in the short term.

Employees' contributions are fixed by government regulation. Employers' contributions are assessed by the fund's actuary every three years, but are reviewed every year to take account of early retirements. If there are a lot of early retirements, the contribution rate is increased immediately.

### Contributions

Employees – Tiered contribution rates depending on annual salary, with seven contribution bands ranging from 5.5% to 7.5%.

Contribution rate	Salary range 2010-2011	Salary range 2011-2012	Salary range 2012-2013	Salary range 2013-2014
5.50%	£0 to £12,600	£0 - £12,900	£0 to £13,500	£0 to £13,700
5.80%	£12,601 to £14,700	£12,901 – £15,100	£13,501 to £15,800	£13,701 to £16,100
5.90%	£14,701 to £18,900	£15,101 - £19,400	£15,801 to £20,400	£16,101 to £20,800
6.50%	£18,901 to £31,500	£19,401 - £32,400	£20,401 to £34,000	£20,801 to £34,700
6.80%	£31,501 to £42,000	£32,401 - £43,300	£34,001 to £45,500	£34,701 to £46,500
7.20%	£42,001 to £78,700	£43,301 - £81,100	£45,501 to £85,300	£46,501 to £87,100
7.50%	More than £78,700	More than £81,100	More than £85,300	More than £87,100

Employers – Separate rates apply to the major employing authorities, to make sure the actuarial requirements are met and are expressed as a percentage of employees' pensionable pay.

	2010/2011		2011/2012		2012/2013		2013/2014	
	% of Payroll	% of Payroll	Cash payment £000	% of Payroll	Cash payment £000	% of Payroll	Cash payment £000	
Common fund rate	14.7%	17.9%	0	17.9%	0	17.9%	0	
Somerset County Council	15.1%	13.5%	3,770	13.5%	4,880	13.5%	5,830	
Mendip District Council	17.6%	13.0%	240	13.0%	280	13.0%	320	
Sedgemoor District Council	15.4%	12.9%	300	12.9%	410	12.9%	520	
South Somerset District Council	15.5%	16.5%	0	17.5%	0	18.4%	0	
Taunton Deane Borough Council	15.0%	16.1%	0	17.3%	0	18.4%	0	
West Somerset District Council	15.4%	13.2%	90	13.2%	120	13.2%	160	
Avon and Somerset Police	13.5%	13.7%	0	13.7%	0	13.7%	0	
Avon and Somerset Probation	13.5%	13.2%	100	13.2%	160	13.2%	220	
Further education colleges	14.1%	13.0%	Variable	13.0%	Variable	13.0%	Variable	
Academies		15.1%	0	15.1%	0	15.1%	0	
Town councils	17.7%	14.6%	Variable	14.6%	Variable	14.6%	Variable	
Admitted organisations	12.9% to 19.6%	10.7% to 18.0%	Variable	10.7% to 18.0%	Variable	10.7% to 18.0%	Variable	

A full actuarial valuation of the fund was carried out as at 31 March 2010 and this showed a funding level of 77%. This was lower than the level at the 2007 valuation, principally because investment returns had been disappointing through the credit crunch and ensuing recession. A fall in the funding level at the 2010 valuation inevitably saw increases in the contribution rates of most of the employers within the fund. In a departure from past practice most employers have chosen to make payments towards the funding deficit as prescribed cash amounts rather than as a percentage of payroll. This approach has been taken to ensure the deficit reduction plan is not affected by changes in the size of the employee base as local government undergoes a period of considerable change.

A further valuation of the fund is currently being carried out using data from 31 March 2013. This will set employers' contribution rates for the following three years and confirm the funding level.

The benefits structure of the fund is set by government legislation and the fund has no discretion over this.

### **Major benefits**

- A retirement pension at the rate of 1/60 of the final year's pensionable pay (or the highest three years' pay out of the last 10 years of employment) for each year the individual has been a member of the scheme.
- Up to 25% of the pension can be exchanged for a tax-free lump sum.
- Lump-sum death benefits of three times pay for death in service.
- Lump-sum cover for death after retirement of a guarantee of 10 times' annual pension.
- A revised ill-health retirement package with three levels of benefits depending on the seriousness of the individual's illness.
- A nominated partner's pension and dependent children's pensions.
- Pensions that are protected from inflation through the Pensions (Increase) Acts.

### **Other benefits**

- Scheme members can 'top up' their pension benefits by paying additional contributions. This facility has become more popular – both through the in-house scheme 'added benefits' facility and the in-house additional voluntary contributions (AVCs) plan. Prudential are now the fund's AVC provider, although a few members continue with their existing arrangements with Equitable Life.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. The increase applied from 8<sup>th</sup> April 2013 was 2.2%.

## Possible future changes to the contributions and benefits

Following the review of public sector pension provision undertaken by the Hutton commission during 2011 the Government, Unions and Employers within local government have made a joint statement in June 2012 regarding an agreed template for a revised LGPS.

Under the proposals the employee contributions will still be based on salary bands however the calculation on which band an employee falls in will be based on actual pay not full time equivalent pay for part time workers. The new bands that are proposed are as follows:

Contribution rate	Salary range
5.50%	£0 to £13,500
5.80%	£13,501 to £21,000
6.50%	£21,001 to £34,000
6.80%	£34,001 to £43,000
8.50%	£43,001 to £60,000
9.90%	£60,001 to £85,000
10.50%	£85,001 to £100,000
11.40%	£100,001 to £150,000
12.50%	More than £150,000

It is estimated that the average percentage contribution for the LGPS as a whole will be broadly unchanged at 6.5%.

The key elements of the proposed revised benefits package are as follows:

- Calculation of benefits will move to CARE (Career Average) salary basis rather than the existing final salary basis;
- The revaluation of earnings as part of the CARE calculation will be based on CPI;
- The accrual rate will move from a 60<sup>th</sup> to a 49<sup>th</sup> of salary for each year of service;
- Normal retirement age will be synchronised with state retirement age rather than the current age of 65.

It is proposed that all service earned by members of the LGPS prior to the introduction of the new scheme will be preserved under the existing benefits rules.

It is also proposed that there will be a so called 50/50 option where an employee can chose to pay half the contributions but will accrue half of the benefits.

The Government is still on track for the new benefits package come into force from 1<sup>st</sup> April 2014.

## **Principles and policies**

The statements, policies and principles listed below are those that were in place at 31<sup>st</sup> March 2013.

## **Funding strategy statement**

### **Overview**

This Statement has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations (the LGPS Regulations). The Statement describes Somerset County Council's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Somerset County Council Pension Fund (the Fund).

As required by Regulation 35(3a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

### **Consultation**

In accordance with Regulation 35(3b), all employers participating within the Somerset County Council Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Barnett Waddingham LLP, has also been consulted on the contents of this Statement.

### **Policy purpose**

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

## The aims of the fund

The aims of the Fund are:

- 1. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.**

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see 4 below)

Employers' contributions are set every three years following the triennial actuarial valuation. In the long term the key factor influencing levels of employer contributions will be the underlying investment strategy. Investment strategy will also have an impact on levels of employer contributions in the short term. However the funding model adopted to determine levels of employer contribution will also play an important part. The funding model adopted by the Somerset Fund seeks to produce stable levels of employer contributions using both implicit and explicit smoothing mechanisms.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms may be less appropriate.

- 2. To ensure that sufficient resources are available to meet all liabilities as they fall due.**

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

- 3. To manage employers' liabilities effectively.**

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Panel members are properly informed, and through regular monitoring of the funding position.

#### **4. To maximise the income from investments within reasonable risk parameters.**

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property.

The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

#### **Purpose of the fund**

The purpose of the Fund is:

- To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
- To receive monies in respect of contributions, transfer values and investment income.
- To appropriately invest monies not immediately required to meet liabilities.

#### **Responsibilities of key parties**

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Scheme Actuary. Their key responsibilities are as follows:

## **Administering authority**

The Administering Authority's key responsibilities are:

**1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.**

Individual employers must pay contributions in accordance with Regulations 39 through to 42 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. Employers not meeting these requirements will be subject to reporting requirements of the Pensions Regulator.

The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

- requesting that the Fund Actuary calculates the funding position at the date of cessation of the Admission Agreement
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement .

In determining the funding position at the date of cessation, the Fund Actuary will make no allowance for future investment returns over and above those available from gilt edged securities unless another employer in the Fund acts as guarantor of the liabilities remaining in the Fund.

**2. Invest surplus monies in accordance with the regulations.**

The Administering Authority will comply with Regulation 9 of the Investment Regulations.

**3. Ensure that cash is available to meet liabilities as and when they fall due.**

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

**4. Manage the valuation process in consultation with the Fund's actuary.**

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the Funding Strategy
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by Guidance and Regulation

**5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.**

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

**6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.**

The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

### **Individual employers**

Individual Employers will:

- Deduct contributions from employees' pay;
- Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date;
- Exercise discretions within the regulatory framework;
- Pay for added years in accordance with agreed arrangements;
- Notify the administering authority promptly of all changes to membership, or other changes which affect future funding.

### **The fund actuary**

The fund actuary will:

**1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.**

Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board of Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

**2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.**

Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

## **Solvency**

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions.

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement. It is unlikely that use of all of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

## **Funding strategy**

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 40 years. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with significantly more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

### **Identification of risks and counter measures**

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

#### Demographic

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

#### Regulatory

The risks relate to changes to regulations, national pension requirements or HM Revenue and Customs rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

## Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

## Statistical and financial

This covers items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

## Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

## Smoothing

The Administering Authority recognises that utilisation of a smoothing techniques in the solvency measurement introduces an element of risk, in that the smoothing techniques may not provide a true market based measure of the solvency position. The Administering Authority's policy is to review the impact of the smoothing techniques at each valuation to ensure that the disclosed solvency position is within an acceptable limit of the underlying market based position.

## Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 40 years.

## Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

## **Statement of investment principles**

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement. The Statement of Investment Principles is set out annually in the Fund's Annual Report and Accounts.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

## **Future monitoring**

The Administering Authority plans to formally review this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
May 2008**

# Statement of investment principles

## 1 Introduction

- a The Local Government Pension Scheme has existed for many years, and is based on primary legislation (The Superannuation Act 1972), and regulations approved as statutory instruments. These regulations can be revised or updated.
- b Somerset County Council are the statutory 'administering authority' for the Local Government Pension Scheme in the administrative county of Somerset (the 1974 boundaries). The pension fund provides a benefits package for local-authority employees who are not eligible to be members of other statutory schemes (for example, schemes for teachers, police officers and firefighters).
- c There are other public-sector employers in the county whose staff are entitled to belong to the pension fund (for example, further education colleges). Certain other organisations can apply to be included in the pension fund.
- d Because it is not a trust-based scheme, there is no group of trustees. In effect, Somerset County Council is 'the trustee'.
- e The responsibility for the fund is passed to the pensions committee. The committee is made up of:
- four Somerset County Council members;
  - a district councillor representing the five district councils;
  - a representative of Avon and Somerset Police Authority;
  - a representative of all other participating employers;
  - a members representative;

In addition to the eight committee members an independent advisor and officers of the County Council will attend all meetings. All of the committee members may vote at meetings.

The Section 151 Officer is responsible for putting the committee's decisions into practice, and for the day-to-day management of the pension fund.

- f As well as this statement, the committee maintains a range of specific policies and strategies, including:
- a governance policy statement;
  - a communication policy statement;
  - a funding strategy statement; and
  - a forward-looking committee business plan.

- g The committee has adopted this statement of investment principles.

## **2 Pensions committee responsibilities**

- a The terms of reference for the committee, which form part of the governance policy for the fund, say the committee's main responsibilities are to:
- Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.
  - Ensure all contributions due are collected from employers.
  - Ensure that all benefits due are paid correctly and in a timely manner.
  - Decide the aims of the investment policy.
  - Make arrangements for managing the fund's investments.
  - Regularly monitor investment performance.
  - Make arrangements to publish the fund's annual report and accounts.
  - Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.
  - Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
  - Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.
  - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- b The committee meets at least quarterly to consider investment strategies and the performance of its managers. At these meetings, it takes advice from its officers, managers and independent advisors as necessary.

## **3 Investment policy**

### **3.1 Overview**

- a In line with the fund's funding strategy statement, the committee has set an objective of the fund being at or above a 100% funding level, as calculated by the fund's actuary at the triennial valuation, so that it can meet its current and future liabilities. As the scheme provides for the actuary to value assets and liabilities regularly and to adjust the employers' contributions, our aim is to make sure that investment returns are as high as possible for a given acceptable level of risk so the cost to the employers is reduced as far as possible.
- b Under the Local Government Pension Scheme Investment Regulations (the regulations), we must invest any income we have left after paying out pensions. The pension fund's income comes from contributions by employers and employees, together with interest and dividends on investments.
- c The regulations have developed over the years and provide a legal framework within which the fund's money is managed. We keep to the limits on the maximum investment that can be made in various types of approved investment, as set out in the regulations and changed from time to time.

### 3.2 The type of investments to be held

a For the investment of pension fund money, we take account of:

- investments permitted by LGPS regulations;
- the need to spread funds over a wide range of investments;
- how suitable investments are; and
- proper advice, received at reasonable intervals.

b The fund may invest in the following types of asset:

- listed stocks and shares;
- government and corporate bonds;
- futures, forward currency contracts and options;
- cash deposits with suitable banks and building societies;
- to enter into stock-lending arrangements;
- to invest in unlisted collective investment schemes such as unit trusts and open-ended investment companies (OEICs);
- to invest in limited liability partnerships (LLPs) ; and
- to invest in unlisted shares.

c A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

### 3.3 The balance between different types of investment

a The fund will at all times hold a widely diversified portfolio of investments to reduce risk. Investments are spread over a range of asset classes (bonds, equities, property, cash and so on) and a number of different investment managers with varying investment styles.

b The committee will regularly review the balance between different types of investment to make sure that it continues to meet the needs of the fund.

### 3.4 Risk

a Investment by its very nature is a risk business and the returns achieved will to a considerable extent reflect the risks taken.

b Investment risk includes the absolute risk of reduction in the value of assets through negative returns. It cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be managed by making sure that the investments of the fund are invested across a number of different assets and markets. This is widely recognised as being an effective way of minimising the risk of reductions in the value of the fund's assets.

c Different types of investment have different risk characteristics and return potential. Historically the returns from equities have been higher than from bonds but they are more volatile and risky. In setting the investment strategy the fund looks at the expected risks and returns from various asset classes and the correlation between these returns to target an expected return within an acceptable level of risk.

- d Investment risk also includes the risk of under-performing the fund's benchmark. This is called relative risk. The adoption of a benchmark and the explicit monitoring of performance relative to that benchmark and a performance target, constrains the fund managers from deviating significantly from the intended approach, while permitting flexibility to manage the portfolio they have been given in such a way as to enhance returns.
- e The appointment of more than one fund manager introduces a meaningful level of diversification of manager risk. Although each fund manager typically only invests in a single asset class, they are expected to maintain a diversified portfolio of investments for their individual benchmarks.
- f The Committee does not impose specific portfolio risk limits on its investment managers, as it believes the out performance target set for each manager provides sufficient guidance as to the level of risk that each manager should be taking.
- g Continuous dialogue with, and monitoring of, fund managers by the fund aids the management of investment risk for each fund manager's portfolio and for the fund as a whole.
- h The most fundamental risk is that the fund's assets produce worse returns than those assumed by the Actuary, who values the assets and liabilities every three years, and that the solvency of the fund deteriorates.

### 3.5 The expected return on investments

- a Investment performance is measured independently from the managers of the funds. This measurement is compared with specific relevant indexes every three months.
- b Each manager has a specific target to outperform their relevant index. The targets are over a three-year period.
- c If a manager fails to achieve benchmark performance in four three-month periods in a row, or in six three-month periods in any eight three-month periods in a row, a formal review will take place on their strategy and choice of stocks.
- d The committee has a performance target for the fund of beating its own benchmark every year. The benchmark is set by the committee and revised from time to time. The current benchmark was formally agreed in February 2009 and introduced on 1 April 2009.
- e Longer-term performance is measured against the assumptions made by the actuary as part of the three-yearly actuarial valuation process.

### 3.6 Security of investments

- a To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian.

- b Most of the investments are quoted on major stock markets and may be sold quickly if necessary. The committee consider the cash-flow needs of the fund as a whole, how easily investments can be sold and the effect on the whole fund of holding investments that cannot be sold quickly when judging the suitability of new investment classes. No more than 20% of the total investments will be put into assets that we consider could not be sold quickly.
- c Only cash holdings and a small number of unit trusts stay under the control of the Chief Finance Officer.
- d Stock certificates and cash holdings are never under the control of an external manager.

### 3.7 Social, environmental and ethically responsible investment

- a The pensions committee have considered the implications of investing on a defined ethical basis. Evidence on performance and the spread of investment has led the committee to decide not to allocate funds on a specific ethical basis. Performance of ethical investments will be reviewed regularly.
- b The most effective way of understanding and influencing the social, environmental and ethical policies of those companies is by reasonable discussion with the companies it invests in, through a third party, while at the same time achieving financial returns that are compatible with the fund's longer-term financial objectives.
- c The corporate performance of companies and their value as investments are increasingly affected by social, environmental and ethical factors. To help companies to invest carefully and responsibly, the committee will encourage and support companies that have a positive response to social, environmental and ethical concerns. The committee expects companies to do the following.
  - Make a commitment to achieving recognised social, environmental and ethical best practice.
  - Regularly monitor their policies and practices.
  - Set up procedures which will lead to gradual improvements in performance.
  - Follow all current environmental and other relevant legislation and work to anticipate future changes to legislation.
  - Make available to shareholders regular and detailed reports of progress made towards maintaining and, where necessary, improving standards.
  - Work to take all reasonable and practical steps to reduce or get rid of damage to the environment.
  - Work to take all reasonable and practical steps to reduce or eliminate the company's impact on climate change.
  - Make available to shareholders information about the company's environmental and climate change impact so they can properly assess the risks to shareholders.
  - Actively and openly discuss the social, environmental and ethical effects of their business.

### 3.8 Corporate governance

- a Holding shares in public limited companies gives the fund the right to vote at company meetings. We have accepted this, and vote in line with a policy agreed by the committee.
- b The policy adopted is:
- to give external managers the power to vote on our behalf in line with their own process within industry standards and the principles of this statement;
  - for the in-house managed funds, to receive the Voting Issues Service of the Pension Investment Research Consultants (PIRC) and follow their recommendations in voting on all resolutions where practically possible; and
  - to consider individual voting issues as they arise.
- c The committee recognises its responsibility as an institutional investor to support and encourage good corporate-governance practices in the companies it invests in. The committee considers that good corporate governance can contribute to business health and success by encouraging boards, shareholders and other stakeholders to answer to each other. Good corporate governance also plays an important part in encouraging corporate responsibility to shareholders, employees and wider society.
- d To achieve this responsibility, the committee uses its voting rights attached to investments to support its corporate-governance policies. The committee's voting rights are an asset and will be used to further the long-term interests of the fund's beneficiaries. As a general principle, votes will be used to:
- protect shareholder rights;
  - reduce, as far as possible, risk to companies from corporate governance failing;
  - improve long-term value; and
  - encourage corporate social responsibility.
- e The fund is also a member of the Local Authority Pension Fund Forum. This forum promotes the investment interests of local-authority pension funds, and makes the most of their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies they invest in.
- f The fund is also a signatory to the Financial Reporting Council (FRC) Stewardship Code.

### 3.9 Stock lending

- a The fund has a stock lending program within the limits allowed by the LGPS regulations.
- b The fund derives a useful source of relative low risk return from stock lending.

#### 4 Accounts and audit

- a The investments of the pension fund are audited by both the internal and external auditors.
- b As soon as possible after the end of the financial year and after the external audit of the pension fund has been finished, we send each organisation an annual report which includes:
- the revenue account and balance sheet of the pension fund; and
  - any report by the auditor.
- c We hold a meeting each year, and invite representatives of employers and employees to take part. We formally present the annual report, and those present may question the committee, officers, its managers and its advisors.

#### 5 Working in line with Myners

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

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

- b Principle 1: Effective Decision Making

##### **Administering authority should ensure that:**

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

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

c Principle 2: Clear Objectives

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

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

d Principle 3: Risk and Liabilities

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

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

The fund is fully compliant with this principle.

e Principle 4: Performance Assessment

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

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

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

f Principle 5: Responsible Ownership

**Administering authorities should:**

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

The fund is fully compliant with this principle.

g Principle 6: Transparency and Reporting

**Administering authorities should:**

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

The fund is fully compliant with this principle.

6.0 Arrangements for reviewing this statement

6.1 This Statement of Investment Principles will be regularly reviewed by the pensions committee, particularly to ensure it continues to meet all regulatory and statutory requirements and that the level of compliance with the Myner's principles reflects the current status of the fund. Where there is significant change to the Statement the pensions committee will consult relevant stakeholders prior to amending the policy.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
September 2011**

# Financial Reporting Council Stewardship Code Statement

## **Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The Somerset County Council Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers, its specialist voting advisor and through membership of the Local Authority Pension Fund Forum.

## **Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. With respect to those equity managers whose own shares fall within the scope of their mandate each has an explicit policy not to invest in their own company's, or eventual parent's, shares.

In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings and a related parties disclosure is made annually in the fund's annual report.

## **Principle 3 - Institutional investors should monitor their investee companies.**

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. For the in-house managed fund we would expect PIRC, as our specialist voting advisor to monitor companies and engage with them prior to advising us on voting. Reports from our asset managers on voting and engagement activity are received by the fund on a quarterly basis and are augmented by quarterly meetings with officers and regular discussions.

In addition the fund receives an 'Alerts' service from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies.

## **Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers and PIRC, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However on occasion, the fund may itself choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum.

**Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.**

The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

In respect of shareholder voting, the fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and is undertaken by officers for the in-house managed fund following voting advice from PIRC. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues are often discussed with fund managers as they arise.

The fund discloses a summary of voting activity of each of the segregated equity funds twice a year as a committee paper, all of the committee papers are published on the County Council's website. The fund is minded to disclose in full voting activity at a given company meeting on request. A number of our asset managers and PIRC publish their voting activity (advice).

**Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.**

As noted above under principle 6 fund reports semi-annually on voting and stewardship activity through a report to the Pensions Committee. This includes both fund-specific information and an overview of activity undertaken through the Local Authority Pension Fund Forum.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
November 2010**

# Governance policy statement

## Introduction

Under the Local Government Pension Scheme (Amendment) (number 2) Regulations 2005 [SI 2005/3199], each administering authority in England and Wales must prepare, maintain and publish a governance policy setting out whether they are going to delegate their function or part of their function in relation to maintaining the pension fund to a committee, a subcommittee or an officer.

Somerset County Council is the administering authority for the Somerset County Council Pension Fund (the fund).

The fund's governance arrangements have also been produced in line with guidance and best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Responsibility for the fund

The County Council has delegated its responsibility for managing the Somerset County Council Pension Fund to a specific committee known as the Somerset County Council Pensions Committee.

## Membership of the pensions committee

The membership of the pensions committee allows for wider representation from all stakeholders, while keeping overall numbers to a manageable number to recognise the significant commitment, specialist knowledge and training that needs to be developed by committee members.

The approved arrangements for the make up of the pensions committee are:

- four county council elected members;
- one district councillor representing the five district councils;
- one representative for Avon and Somerset Police Authority;
- one representative of the admitted bodies and remaining smaller scheduled bodies; and
- a nominated member representative.

The committee will also be attended by:

- an officer; and
- a specialist adviser.

The total number of members on the committee will be 8.

All committee members have full voting rights.

## **Terms of reference**

These terms of reference provide the main responsibilities for the pensions committee on how they will take on the functions of Somerset County Council in its role as administering authority of the fund.

Main responsibilities:

- Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.
- Ensure all contributions due are collected from employers.
- Ensure that all benefits due are paid correctly and in a timely manner.
- Decide the aims of the investment policy.
- Make arrangements for managing the fund's investments.
- Regularly monitor investment performance.
- Make arrangements to publish the fund's annual report and accounts.
- Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.
- Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
- Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.
- Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

In line with the Myners' Investment Principles, members must consider their training and development needs. They should make sure they have enough resources in place to undertake their responsibilities and have developed a forward-looking business plan.

## **Meetings of the pensions committee**

The pensions committee will normally meet formally every March, June, September and December. These meetings will be open to members of the public.

There will also be an annual general meeting, normally in September each year, for all employers whose employees are members of the fund.

Pensions committee members will also receive a range of specific training and development to help them fulfil their role effectively.

## **Supporting governance policies and statements**

There is a range of policies and statements, which are also maintained to support effective governance arrangements for the fund as set out below.

- Statement of investment principles
- Funding strategy statement
- Communication policy
- Annual report and accounts
- Actuarial valuation
- Forward business plan

## **Arrangements for reviewing this policy**

This policy statement will be regularly reviewed by the pensions committee. If it is necessary to make any significant changes, we will consult all of the employers whose employees are members of the fund.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
September 2011**

# Governance Compliance Statement

## Introduction

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) an Administering Authority must, after consultation with such persons as it considers appropriate, prepare, publish and maintain a Governance Compliance Statement.

This statement is required to set out:

- (a) whether the Administering Authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;
- (b) if it does:-
  - 1 the terms of reference, structure and operational procedures of the delegation;
  - 2 the frequency of any committee or sub-committee meetings; and
  - 3 whether the committee or sub-committee includes representatives of employing authorities (including non-Scheme employers) or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or absence of delegation, complies with guidance given by the Secretary of State and, if it does not comply, the reason for not complying.

The statement must be revised and published by the Administering Authority following a material change in their policy on any of the matters referred to above.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
September 2011**

## Governance Compliance Statement

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
<b>A – Structure</b>		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Compliant</b>	Somerset County Council has established the Somerset County Council Pensions Committee for this purpose. The specific terms of reference for the Committee are set within the fund’s Governance Policy Statement.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	<b>Compliant</b>	The Pensions Committee includes representation of all the participating employers.  Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>Not Applicable</b>	There are no secondary committees or panels in place.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	<b>Not Applicable</b>	There are no secondary committees or panels in place.

<b>B – Representation</b>		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies);	<b>Compliant</b>	The Pensions Committee includes representation of all the scheme employers, including the County Council, District Councils, the Police Authority and the Admitted Bodies.
ii) scheme members (including deferred and pensioner scheme members);	<b>Compliant</b>	Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
iii) where appropriate, independent professional observers;	<b>Compliant</b>	The independent investment advisor attends all Pensions Committee Meetings.
iv) expert advisors (on an ad-hoc basis).	<b>Compliant</b>	Our in-house officer expert advisors attend all Pension Committee meetings, including the Chief Financial Officer, investments manager and fund administration manager.  The appointed actuary, external auditors and performance advisors also attend on an ad-hoc basis at least once per annum.

<p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p><b>Compliant</b></p>	<p>All members of the Pensions Committee receive equal access to the papers and training and have equal speaking rights in the consideration and discussion of all matters as part of the decision making processes.</p>
<p><b>C – Role of members</b></p>		
<p>a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p><b>Compliant</b></p>	<p>All new members receive regular specific training and access to external training and seminars.</p> <p>On appointment this includes specific time with lead officers to provide an induction into the role and a background to the Fund. Copies of relevant Committee Reports and Annual Reports are also made available.</p> <p>A specific Terms of Reference is also in place for the Pensions Committee (copy at Annex 1) and specific legal guidance as to the role of Members has been provided to the Committee by the County Council Monitoring Officer.</p> <p>All Committee Members also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of a financial or non-financial nature and abstain from participation in that item on the agenda if appropriate.</p>

<p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p><b>Compliant</b></p>	<p>Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.</p>
<p><b>D – Voting</b></p>		
<p>a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p><b>Compliant</b></p>	<p>All members of the Pensions Committee have full voting rights.</p>
<p><b>E – Training, facility time and expenses</b></p>		
<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p><b>Compliant</b></p>	<p>A formal training policy for members has been adopted by the Pensions Committee.</p> <p>The Committee forward work plan provides for specifically tailored training days, together with access to, and support for, external training provision and attendance at appropriate seminars.</p> <p>All members are encouraged to undertake regular training including attendance at the specific training days.</p> <p>All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.</p>

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<b>Compliant</b>	All Pensions Committee members have equal access and rights to training and related support.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	<b>Compliant</b>	A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.
<b>F – Meetings (frequency/quorum)</b>		
a) That an administering authority's main committee or committees meet at least quarterly.	<b>Compliant</b>	The Pensions Committee meets on a quarterly basis and forward dates have been agreed for at least twelve months in advance. A forward meeting plan is also in place
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	<b>Not Applicable</b>	There are no secondary committees or panels in place.
c) That an administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	<b>Compliant</b>	The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.

<b>G – Access</b>		
a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>Compliant</b>	All members of the Pensions Committee receive the same agenda and papers containing advice for each meeting. All our Pensions Committee members can ask questions of our professional advisors who attend the Pensions Committee meetings.
<b>H – Scope</b>		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>Compliant</b>	<p>Each meeting of the Pensions Committee receives a report on the performance of our pension fund, progress against the Forward Business Plan and key issues in respect of benefits administration.</p> <p>The Committee also receives regular reports and updates on approved policies including the communications policy statements.</p> <p>There are also annual reports from the appointed actuary, external auditor and performance advisors.</p>

**I – Publicity**

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

**Compliant**

The Governance Arrangements of the Pensions Committee are formally reviewed every four years as part of the Forward Business Plan.

There are procedures in place for the re-appointment of individuals to the Pensions Committee at least every four years.

All of the policies adopted by the Pensions Committee on behalf of the administering authority including the Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement are published annually in the Fund's annual report and financial statement and are available on the County Council's website. All of the policies and the annual report are available in hard or electronic copy on request.

# Pensions Committee Scheme of Delegation

## Introduction

In order to meet its obligations from time to time the Pensions Committee will find it necessary to delegate certain functions to officers. This document provides a clear framework around standard operating functions as to what decisions and operations have been delegated to officers and what has been retained by the Committee.

This scheme of delegation will refer in turn to each of the main responsibilities of the Committee as laid out in the Committee's terms of reference, which form part of the fund's Governance Policy Statement.

Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.

The Chief Financial Officer is responsible for ensuring the legal operation of the fund and will bring matters of significance to the attention of the Committee.

Ensure all contributions due are collected from employers.

The Chief Financial officer will maintain procedures to ensure relevant employers pay contributions and that these contributions meet the requirements set by the fund's actuary.

Ensure that all benefits due are paid correctly and in a timely manner.

The Chief Financial officer will maintain procedures to ensure the correct calculation and payment of benefits by the fund

Decide the aims of the investment policy.

Committee agree the aims of the investment policy and publish this in the form of the funding strategy statement and statement of investment principles.

### Make arrangements for managing the fund's investments.

The Committee will decide the fund's asset allocation both in terms of asset classes and investment mandates that will be managed either internally or by external fund managers.

The Committee will decide the fund's voting, engagement and socially responsible investment policies. The Chief Financial Officer will make arrangements for the implementation, monitoring and any necessary reporting against the agreed policies.

The Committee will advise the Chief Financial Officer of their preferences when appointing external fund managers, under County Council contract standing orders all contracts must be awarded and managed by officers. The Committee will advise the Chief Financial Officer if they wish a fund manager's contract to be terminated.

The Chief Financial Officer is responsible for the appointment of a global custodian for the fund and the management of this contract.

Where the Committee decide that assets will be managed in-house the Chief Financial Officer will make suitable arrangements for these assets in accordance with any guidelines provided by Committee.

The strategic asset allocation of the fund is set by the Committee. Once agreed by Committee the Chief Financial Officer is responsible for the monitoring of the investment assets against the strategic asset allocation and periodically rebalancing of the fund to optimise the balancing of risk and return. The Chief Financial Officer will report on all actions in this regard to the Committee at each formal meeting.

The Chief Financial Officer is responsible for the day to day monitoring and recording of the investment assets.

### Regularly monitor investment performance.

The Committee will review the performance of all fund managers quarterly and receive an annual presentation from the external performance measurement provider. The Committee will meet with external fund managers periodically to discuss performance.

The Chief Financial Officer will review the performance of all fund managers monthly and officers will meet with external fund managers quarterly to discuss performance.

### Make arrangements to publish the fund's annual report and accounts.

The Chief Financial Officer will make arrangements for the production and audit of the fund's annual report and accounts. The Committee will receive the external auditor's report annually.

### Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.

The Chief Financial Officer will make arrangements for the drafting of all policies and statements and undertake consultations as applicable. The Committee will be responsible for approving all policies and statements after receiving feedback from any consultations undertaken.

Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.

The Chief Financial Officer will appoint a suitable actuary for the fund in consultation with the Committee and instigate the valuation process. The Committee will receive the actuary's draft valuation report and approve it. The Committee will meet with the actuary at least annually to receive an update.

Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.

The Committee will approve or reject all requests from organisations who wish to join the fund as admitted bodies and any requests to alter the terms of an existing admission agreement.

Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

The Committee will instruct the Chief Financial Officer on what it wishes to be included in any representations, which he will then draft and send accordingly.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
September 2011**

# **Pensions Committee Training Policy**

## **Introduction**

The 2004 Pensions Act requires that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits. Members of the Pensions Committee are not legally trustees and are not bound by this law, however they should aspire to reach a similar standard.

Within the Local Government Pension Scheme (LGPS) the statutorily required Governance Compliance Statement requires the fund to compare its practice to the following statement:

“That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.”

Pension Committee members will be expected to undertake regular training to ensure they have sufficient knowledge of the LGPS, pension benefits and investment issues to make informed decisions for the benefit of all stakeholders.

## **CIPFA Knowledge and Skills Framework**

The Chartered Institute of Public Finance and Accountancy (CIPFA) in 2010 published a Pensions Finance Knowledge and Skills Framework and accompanying guidance for elected representatives, non-executives and officers.

The fund has formally adopted the framework, will assess all relevant individuals against the suggested standards of knowledge and ensure relevant training is made available.

An assessment of competence against the framework and training undertaken by relevant individuals will be provided in the fund's annual report as required by the framework.

## **Annual Training Commitment**

Pension Committee members are encouraged to undertake training within the following guidelines:

### Level 1 - New Pensions Committee members 1<sup>st</sup> year of office

New members should have 1-3 days training via:

- Receiving 1/2 day in-house induction training on the LGPS and its benefits, the membership and role of the Committee and the current investment structure of the fund.
- Reading the Pension Committee Members Handbook containing key documents such as the Fund Members guide, the Fund Annual Report and Financial Statement and background reading and knowledge building for 1/2 day.
- Attending at least one days external training on relevant topics.
- Attending the annual employers communications meeting.

### Level 2 – Members 2<sup>nd</sup> and 3<sup>rd</sup> year of office

Should undergo 1 or 2 days a year personal training to build their knowledge and skills in specific topics in greater depth such as:

- Investing in specific asset classes
- Fund manager performance measurement
- SRI, corporate governance, and activism
- Actuarial valuation
- Fund accounting and taxation
- Third party pensions administration

### Level 3 - Member serving longer than 3 years

Should seek to have at least 2 days a year of "updating and refreshment" personal training and/or more advanced training in specialist topics, on either fund investment or pensions administration.

The training undertaken by each member of the committee in each financial year will be reported annually in the fund's annual report and financial statement along with their attendance record at Committee Meetings.

## **Suitable Events**

It is anticipated that at least 1 days annual training will be arranged and provided by officers to address specific training requirements to meet the Committee's forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses.

There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
June 2010**

# Communication policy statement

## Introduction

Under the Local Government Pension Scheme (Amendment) (number 2) Regulations 2005 [SI 2005/3199], each administering authority in England and Wales must prepare, maintain and publish a statement by no later than 1 April 2006, setting out their policy on communicating with members, members' representatives, future members and employers whose employees are members in the fund.

This document represents the communication policy based on good custom and practice that has developed over many years. This policy will be continually reviewed to make sure it provides for effective and efficient communication with the range of stakeholders in the Somerset County Council Pension Fund.

## Scheme members

The fund will communicate with scheme members in the following ways.

- The fund will send new members appropriate scheme literature within 15 days of receiving confirmation that a new employee is eligible for the scheme. The fund will issue a formal statutory notice of scheme membership within 20 days of receiving filled-in entry forms or confirmation of the transfer of pension rights.
- The fund will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.
- The fund will send newsletters to current scheme members and pensioners once a year.
- The fund will send pensioners advice slips every month.
- The fund will arrange pre-retirement seminars for members approaching retirement.
- The fund will arrange pensions presentations for groups of members, and will consider regular 'roadshows' for the future.

It is also important to recognise that not all individuals who are eligible to join the scheme will be aware of the benefits of being a member. The fund will contact people who are non-members to remind them of the benefits and the process for joining the scheme.

## Scheme employers

The employers whose employees are members of the Somerset County Council Pension Fund are key stakeholders. The fund needs to communicate with them effectively so we can build the partnerships needed to manage the scheme efficiently and effectively.

Communication provided will include:

- an annual general meeting to give an update on the investment and administration of the fund, together with key developments affecting the LGPS (this will include details of the current actuarial position of the fund);
- a meeting every year for employers about administration;
- site visits to larger employers every year, and to others when requested;
- formal consultation on regulatory issues with employers; and
- training seminars for employers.

### **Elected members**

This includes communicating with the members of the pensions committee and the county council as administering authority.

- The pensions committee meeting is made up of elected members from both the county council and employing authorities. These meetings are open to all stakeholders and members of the public.
- The fund will provide specific technical training sessions.
- We will report to the County Council every year.

### **Miscellaneous**

The fund will communicate with a range of stakeholders in the following ways.

- The fund will issue an annual report and accounts to employing authorities, elected members and other interested stakeholders.
- The fund will review and maintain a funding strategy statement after consulting employing authorities.
- The fund will review and maintain the statement of investments principles after consulting employing authorities.
- The fund will develop a website providing up-to-date scheme information with help from the Local Government Pensions Committee.

### **Arrangements for reviewing this policy**

This policy statement will be regularly reviewed by the pensions committee. If we need to make any significant changes, we will consult all employers whose employees are members of the fund and publish the amended policy.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
July 2009**

# **Director of Finance and Performance's report**

## **Investment activity**

During the 2012-2013 financial year, the planned-asset allocation of the fund was not changed. We have continued to gradually build up the private equity investment, which has risen from 0.5% to 0.6% of the fund as we move to ultimately having 3% of the fund invested in private equity.

At the end of the year UBS Global Asset Management were removed from the Far East ex-Japan equity fund and it was decided that this would be managed on a passive basis in-house until a new manager could be appointed following a tender exercise. As this change took place on 1<sup>st</sup> April 2013 it is not reflected in the accounts.

# Investment market background

## Interest rates

With the economy being slow to recover from the financial crisis the Bank of England kept UK interest rates at 0.5% for the fourth full year. The Bank also added to the unconventional method of trying to lower interest rates in the real economy by purchasing a further £50bn of UK gilts under the quantitative easing program.

## Investment returns

Returns for the year were strongly positive for the whole fund over the whole year. This masked periods of strong and weak performance and a wide variety of returns from different assets. Performance was negative in the first quarter of the financial year and then picked up pace with nearly two thirds of the year's return coming in the final quarter. Returns from bonds and most of the equities were in double figures, returns within equities were in the high teens with the exception of emerging markets. Property returned a very small positive for the year.

## Key market indicators

	Start of year	End of year	Percentage change for the year
<b>Base rate</b>	0.50%	0.50%	
<b>Strength of sterling</b>			
against US dollars	1.60	1.52	-5%
euro	1.20	1.19	-1%
yen	132.64	143.15	8%
<b>Stock markets (quoted in local currency)</b>			
FTSE 100 (UK)	5,768	6,412	11%
FTSE All Share (UK)	3,003	3,381	13%
Dow Jones (USA)	13,212	14,579	10%
S&P 500 (USA)	1,408	1,569	11%
FTSE Eurofirst 300 ex UK (Europe)	1,154	1,294	12%
Nikkei 225 (Japan)	10,084	12,398	23%
MSCI Emerging Market	1,041	1,035	-1%

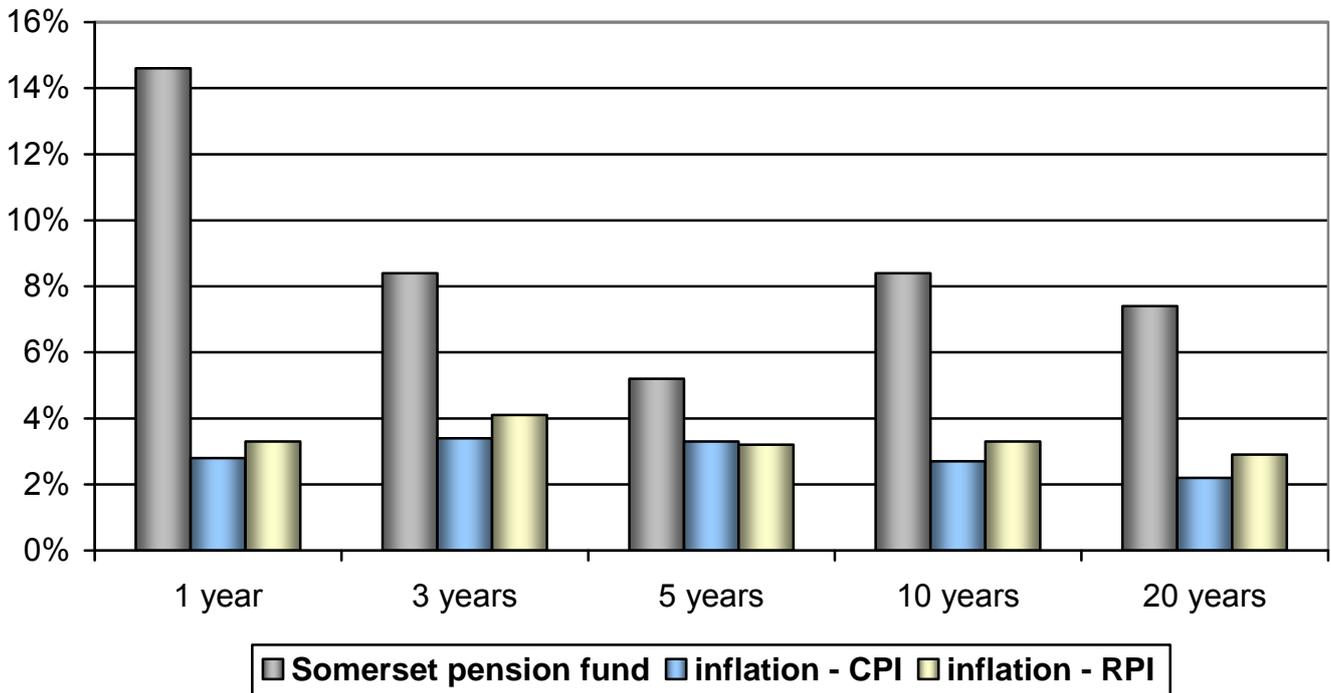
Source: Bank of England  
Bloomberg

# Investment performance

The success or failure of a pension fund depends largely on the performance of its investments. Benefits are worked out based on final salary, and these benefits are 'index-linked' to protect their value over time. Taking the above into account, there is one simple but important comparison that can be made. This is to compare the growth in value of the fund with the rate of inflation.

For 2012/2013, the fund grew at a rate that was comfortably above inflation. Looking back over five-, 10- and 20-year periods, we can see from the chart below that the fund has grown more strongly than inflation over the longer term.

## Annualised fund investment performance in relation to inflation



Source: WM Company  
Bloomberg

Another measure of performance is how the fund has performed against other funds with similar structures and aims (a 'peer group'). The WM Company provides us with statistics on the performance of a peer group of local-authority pension funds.

Against this peer group of local-authority funds, we are ranked 28th out of 85 funds for 2012/2013, compared with being 47th out of 81 in 2011/2012.

The aims of pension-fund management are long term so it is important to measure performance over, say, five-, 10- or 20-year periods. The WM Company statistics also give these figures for comparison.

For the five-year period, we are placed 68th out of 82 local-authority funds. Over the 10-year period, we are placed 63rd out of 76 funds. Over 20 years, we are 43rd out of 58 funds.

### Annualised time-weighted return

	One year %	Five years %	10 years %	20 years %
Best	17.9	10.1	11.8	9.0
Upper 25%	14.8	7.4	9.9	8.0
Weighted average	13.8	6.5	9.4	7.8
Lower 25%	12.7	5.7	8.8	7.4
Worst	4.2	2.6	5.6	6.3
Somerset	14.6	5.2	8.4	7.4
Position out of 100	32	82	82	74
Ranked	28	68	63	43
out of	85	82	76	58

Source: WM Company

## Overall fund performance

Like most pension funds, the fund's total return was strongly positive for the financial year at a return of 14.6%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers and is calculated for us by the WM Company. The return on our scheme-specific benchmark was 13.8% and the fund outperformed against this by 0.8%. The performance of each of the fund managers is shown in the table below.

## 1 year fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	18.3%	18.3%	0.0%
Standard Life	UK equity	16.8%	16.8%	0.0%
Somerset County Council	Passive US equity	19.1%	19.9%	-0.8%
Jupiter	European equity	30.6%	18.0%	12.6%
Nomura	Japanese equity	11.2%	14.0%	-2.8%
UBS	Far East equity	17.5%	20.0%	-2.5%
Pioneer	Emerging market equity	2.1%	7.3%	-5.2%
Standard Life	Bonds	12.9%	11.6%	1.3%
Aviva	Property	0.2%	0.3%	-0.1%
Neuberger Berman	Global private equity	18.9%	0.4%	18.5%
Yorkshire Fund Managers	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	1.1%	0.4%	0.7%
<b>Whole Fund</b>		<b>14.6%</b>	<b>13.8%</b>	<b>0.8%</b>

Source: WM Company

### 3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	9.0%	8.9%	0.1%
Standard Life	UK equity	9.4%	8.8%	0.6%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	13.8%	4.0%	9.8%
Nomura	Japanese equity	5.0%	3.9%	1.1%
UBS	Far East equity	7.0%	9.2%	-2.2%
Pioneer	Emerging market equity	-1.6%	3.2%	-4.8%
Standard Life	Bonds	10.0%	10.4%	-0.4%
Aviva	Property	4.8%	4.7%	0.1%
Neuberger Berman	Global private equity	-4.8%	0.4%	-5.2%
Yorkshire Fund Managers	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	1.1%	0.4%	0.7%
<b>Whole Fund</b>		<b>8.4%</b>	<b>8.4%</b>	<b>0.0%</b>

Source: WM Company

## 5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	9.2%	9.4%	-0.2%
Standard Life	UK equity	3.4%	3.1%	0.3%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	7.6%	1.7%	5.9%
Nomura	Japanese equity	Initial investment in March 2010		
UBS	Far East equity	13.1%	14.0%	-0.9%
Pioneer	Emerging market equity	Initial investment in March 2009		
Standard Life	Bonds	9.5%	9.3%	0.2%
Aviva	Property	-2.6%	-1.4%	-1.2%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Yorkshire Fund Managers	Venture capital	0.0%	1.0%	-1.0%
Somerset County Council	Cash	Comparable data not available		
<b>Whole Fund</b>		<b>5.2%</b>	<b>6.3%</b>	<b>-1.1%</b>

Source: WM Company

# **Financial statements**

## **Our responsibilities**

**As the trustee of the fund, Somerset County Council must:**

- appoint an officer to manage the fund's financial affairs – for us, that officer is the Director of Finance and Performance; and
- manage the fund's affairs to protect its assets and make sure resources are used economically, efficiently and effectively.

### **Responsibilities of the Director of Finance and Performance**

The Director of Finance and Performance is responsible for preparing the pension fund's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the code'), must give a true and fair view on the financial position of the pension fund at the accounting date and its income and spending for the year ended 31 March 2013.

In preparing this statement of accounts, the Director of Finance and Performance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and cautious; and
- followed the code.

The Director of Finance and Performance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

## Background

The Somerset County Council pension fund is a defined benefit pension plan for the employees of the County Council and other employers in Somerset.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to a large number of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Children, Schools and Families). The fund also extends to cover employees of district councils, civilian employees of the Police and Crime Commissioner for Avon and Somerset (police officers have a separate scheme) and employees of other member bodies. A full list of employers who paid into the fund during the financial year is contained in note 1 of the accounts.

Contributions by employees are based on seven tiered contribution bands dependent on the individual employee's pay, the seven contribution bands range from 5.5% to 7.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of his valuation of the fund. The last valuation of the fund was made as at 31 March 2010. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 13.5% for each of the years from 2011 to 2014 plus a fixed sum of £3.77m for 2011/2012, £4.88m for 2012/2013 and £5.83m for 2013/2014. This compares with a rate of 15.1% for the 2010/2011 year set under the 2007 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 17.9% at the 2010 valuation (14.7% at the 2007 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 17.9% is made up of a rate of 13.1% for new service and 4.8% for deficit funding. As part of the 2010 valuation most employers have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund's assets covered 77% of the fund's liabilities. The next actuarial valuation will take place in 2013 using data at 31 March 2103, the results will set the contribution rates for 2014 to 2017 and will take account of the new career average scheme being introduced by the Government.

The pension and lump-sum payments that employees receive when they retire are currently related to their final year's salary and also how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.



# Net Asset Statement

On 31 March 2012 £ millions		On 31 March 2013 £ millions	Notes
	<b>Investment assets and liabilities</b>		
1,191.087	Investment assets	1,361.834	7
-2.350	Investment liabilities	-0.195	7
4.897	Other investment balances	4.706	11
	<b>Current assets</b>		
4.936	Contributions due from employers	4.622	
0.021	Cash at bank	0.014	
3.502	Other debtors	0.263	
	<b>Current liabilities</b>		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-3.044	Other creditors	-2.659	
<b>1,199.049</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>1,368.585</b>	
	<b>Actuarial present value of promised retirement benefits</b>		
-1,839.085	Vested benefits	-1,959.990	
-455.168	Non-vested benefits	-520.567	
<b>-1,095.204</b>	<b>Net liabilities at end of year</b>	<b>-1,111.972</b>	

## Accounting policies

The Pension Fund financial statements have been prepared in line with the conditions of Chapter 2 – Recommended Accounting Practice of the Pension SORP 2007; and

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2012/13, which is based upon the International Financial Reporting Standard (IFRS), as amended for the UK public sector.

The Fund account is prepared on a full accruals basis, with the exception of transfer values. As a result the following apply:

- investments are included at market value;
- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;

- fixed interest securities are valued excluding accrued income;
- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager;
- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;
- The Neuberger Berman Crossroads 2010 fund is valued using data supplied by the fund quarterly;
- the South West Regional Venture Fund is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;
- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid. This treatment is in line with the revised SORP which applied fully from 1 April 1998. 1 transfer into the scheme amounting to £18,000 was agreed but not settled on 31 March 2013. There was no transfer out outstanding at the end of the financial year. Neither of these appear in these accounts; and
- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes.

# Notes to the Accounts

## Note 1: Contributions and benefits

	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.503	8.848	1.076	<b>18.427</b>
- Additional	<u>0.249</u>	<u>0.248</u>	<u>0.002</u>	<b>0.499</b>
Total	<u>8.752</u>	<u>9.096</u>	<u>1.078</u>	<b>18.926</b>
Employers' contributions				
- Normal	18.495	20.614	2.636	<b>41.745</b>
- Augmentation	0.866	0.602	-0.009	<b>1.459</b>
- Deficit funding	<u>4.880</u>	<u>5.135</u>	<u>0.890</u>	<b>10.905</b>
Total	<u>24.241</u>	<u>26.351</u>	<u>3.517</u>	<b>54.109</b>
Recurring pension and lump sum payments	-33.192	-32.480	-6.305	<b>-71.977</b>
Money recovered from member organisations	0.057	1.392	0.029	<b>1.478</b>
	<u><u>-0.142</u></u>	<u><u>4.359</u></u>	<u><u>-1.681</u></u>	<u><u>2.536</u></u>

**Note 1: Contributions and benefits (continued)**

	Employees' contributions	Employers' contributions	Total
<b>County council</b>			
Somerset	8.752	24.241	32.993
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	3.266	9.035	12.301
<b>District councils</b>			
Mendip	0.263	0.803	1.066
Sedgemoor	0.495	1.582	2.077
South Somerset	0.789	2.104	2.893
Taunton Deane	0.733	1.940	2.673
West Somerset	0.151	0.391	0.542
<b>Parish and town councils</b>			
Axbridge Town Council	0.001	0.002	0.003
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.006	0.016	0.022
Burnham & Highbridge Burial Board	0.004	0.012	0.016
Chard Town Council	0.010	0.034	0.044
Cheddar Parish Council	0.004	0.004	0.008
Crewkerne Town Council & Burial Board	0.007	0.018	0.025
Frome Town Council	0.015	0.043	0.058
Glastonbury Town Council	0.005	0.014	0.019
Ilminster Town Council	0.005	0.014	0.019
Langport Town Council	0.005	0.003	0.008
Lower Brue Drainage Board	0.026	0.070	0.096
Minehead Town Council	0.005	0.016	0.021
Nether Stowey Parish Council	0.001	0.002	0.003
Shepton Mallet Town Council	0.002	0.005	0.007
Somerton Town Council	0.002	0.006	0.008
Street Parish Council	0.002	0.006	0.008
Wellington Town Council	0.001	0.002	0.003
Wells Burial Board & Parish Council	0.015	0.023	0.038
Williton Parish Council	0.001	0.003	0.004
Wincanton Town Council	0.002	0.008	0.010
Yeovil Town Council	0.009	0.024	0.033
<b>Other bodies</b>			
Avon and Somerset Magistrates Court	0.000	2.245	2.245
Avon and Somerset Probation Trust	0.854	2.043	2.897
Exmoor National Park	0.108	0.288	0.396
<b>Further-education colleges</b>			
Bridgwater College	0.532	1.229	1.761
Richard Huish Sixth Form College	0.094	0.212	0.306
Somerset College of Art and Technology	0.188	0.434	0.622
Strode College	0.148	0.368	0.516
Yeovil College	0.163	0.371	0.534

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**Note 1: Contributions and benefits (continued)**

	Employees' contributions	Employers' contributions	Total
<b>Academies</b>			
Ansford Academy	0.025	0.064	0.089
Avishayes Academy	0.014	0.038	0.052
Axbridge Academy	0.006	0.015	0.021
Bath & Wells Academy Trust	0.001	0.002	0.003
Bishop Fox's Academy	0.032	0.080	0.112
Bridgwater College Academy	0.042	0.111	0.153
Brookside Academy	0.055	0.145	0.200
Bruton Sexey's School	0.039	0.083	0.122
Buckler's Mead Academy	0.040	0.099	0.139
Buckler's Mead Leisure	0.001	0.002	0.003
Castle Academy	0.051	0.129	0.180
Crispin Academy	0.049	0.122	0.171
Enmore Academy	0.005	0.012	0.017
Haygrove Academy	0.047	0.120	0.167
Holyrood Academy	0.055	0.139	0.194
Huish Episcopi Academy	0.057	0.151	0.208
Kings of Wessex Academy	0.033	0.080	0.113
Kings of Wessex Leisure	0.007	0.016	0.023
Kingsmead Academy	0.041	0.098	0.139
Maiden Beech Academy	0.026	0.067	0.093
Minehead Middle School	0.033	0.090	0.123
Monteclefe Academy	0.004	0.010	0.014
North Town Academy	0.015	0.043	0.058
Oakfield Academy	0.028	0.073	0.101
Pen Mill Academy	0.005	0.013	0.018
Preston Academy	0.044	0.110	0.154
Redstart Academy	0.020	0.048	0.068
Selwood Academy	0.030	0.085	0.115
St. Dunstan's Academy	0.028	0.072	0.100
St. Cuthbert's Academy	0.003	0.007	0.010
St. Michael's Academy	0.010	0.015	0.025
Stanchester Academy	0.031	0.078	0.109
Steiner Academy, Frome	0.003	0.007	0.010
Tatworth Academy	0.007	0.017	0.024
Taunton Academy	0.048	0.113	0.161
The Blue School, Wells	0.071	0.181	0.252
Weare Academy	0.008	0.020	0.028
Wedmore Academy	0.011	0.025	0.036
West Somerset Community College	0.072	0.193	0.265
Westfield Academy	0.051	0.128	0.179
Whitstone Academy	0.035	0.077	0.112
<b>Total other scheduled employers</b>	9.096	26.351	35.447

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**Note 1: Contributions and benefits (continued)**

	Employees' contributions	Employers' contributions	Total
<b>Admitted bodies</b>			
Aster Communities Ltd	0.063	0.234	0.297
BAM FM	0.004	0.013	0.017
Care Focus Somerset Ltd	0.004	0.008	0.012
Connect South West	-0.006	0.055	0.049
DHI Ltd	0.001	0.001	0.002
Edward and Ward Ltd	0.029	0.094	0.123
Homes in Sedgemoor	0.092	0.267	0.359
ICM	0.021	0.088	0.109
Learning and Skills Network	-0.083	-0.304	-0.387
Learning South West	0.020	0.056	0.076
Leisure East Devon	0.016	0.029	0.045
Lovell Partnership	0.018	0.040	0.058
Magna West Somerset Housing Association	0.096	0.238	0.334
Mama Bear's	0.001	0.004	0.005
May Gurney Ltd	0.029	0.066	0.095
MD Building Services	0.015	0.038	0.053
National Autistic Society	0.013	0.039	0.052
NSL Ltd	0.023	0.065	0.088
SHAL Housing Ltd	0.022	0.058	0.080
1610 Ltd	0.059	0.113	0.172
SASP	0.021	0.042	0.063
Society of Local Council Clerks	0.019	0.050	0.069
Somerset Care Ltd	0.070	0.623	0.693
Somerset Rural Youth Project	0.001	0.004	0.005
South West Provincial Councils	0.029	0.162	0.191
Tone Leisure Ltd	0.074	0.153	0.227
Wyvern Nursery Ltd	0.012	0.026	0.038
Yarlington Housing Group	0.415	1.255	1.670
<b>Total admitted employers</b>	<u>1.078</u>	<u>3.517</u>	<u>4.595</u>
<b>Total</b>	<u><u>18.926</u></u>	<u><u>54.109</u></u>	<u><u>73.035</u></u>

## Note 2: Transfer Values

2011/2012 £ millions		2012/2013 £ millions
0.000	Group transfer values received	0.892
4.681	Individual transfer values received	3.829
<b>4.681</b>		<b>4.721</b>
0.000	Group transfer values paid	0.000
-2.951	Individual transfer values paid	-4.572
<b>-2.951</b>		<b>-4.572</b>

## Note 3: Refunds

2011/2012 £ millions		2012/2013 £ millions
-0.008	Contributions refunded to people who leave with less than three months' service	-0.010
-0.001	Interest accumulated on refunds agreed in the past	-0.002
<b>-0.009</b>		<b>-0.012</b>
0.001	Deductions from contributions equivalent premium	0.002
-0.001	Less payments to Department for Work and Pensions contributions equivalent premium	-0.003
<b>-0.009</b>		<b>-0.013</b>

## Note 4: Administration Expenses

2011/2012 £ millions Restated		2012/2013 £ millions
-0.652	Benefits administration costs charged by Somerset CC	-0.652
-0.190	Investments administration costs charged by Somerset CC	-0.192
<b>-0.842</b>		<b>-0.844</b>
-0.120	Actuary's fees	-0.114
0.030	Recharge of Actuary's fees to employers	0.041
<b>-0.090</b>		<b>-0.073</b>
-0.002	Legal advice costs charged by Somerset CC	-0.002
-0.076	External legal advice	-0.088
<b>-0.078</b>		<b>-0.090</b>
-0.022	Audit fees	-0.030
-0.049	Other expenses	-0.120
<b>-1.081</b>		<b>-1.157</b>

## Note 5: Investment Income

2011/2012 £ millions		2012/2013 £ millions
10.274	Fixed interest	9.809
0.693	Index linked	0.721
10.029	UK equities	10.463
11.711	Foreign equities	11.574
5.611	Property unit trusts	5.525
0.248	Cash invested internally	0.377
0.000	Venture capital	0.000
0.003	Commission recapture	0.001
0.160	Stock lending	0.096
<b>38.729</b>		<b>38.566</b>

## Note 6: Investment Expenses

2011/2012 £ millions Restated		2012/2013 £ millions
	<b>Fund manager fees</b>	
-0.177	Aviva Investors	-0.200
-0.135	JP Morgan Asset Management	0.000
-0.424	Jupiter Asset Management	-0.915
-0.162	Pioneer	-0.149
-0.054	Record Currency Management	0.000
-0.906	Standard Life Investments	-1.000
-0.126	UBS Global Asset Management	-0.048
<b>-1.984</b>		<b>-2.312</b>
	<b>Other expenses</b>	
-0.070	Professional services and subscriptions	-0.091
-0.160	Specialist IT systems	-0.115
-0.155	Custody fees	-0.073
-0.020	Performance measurement fees	-0.021
-0.889	Property unit trust managers' fees	-0.548
<b>-1.294</b>		<b>-0.848</b>
<b>-3.278</b>		<b>-3.160</b>

## Note 7: Investment Assets & Liabilities

31 March 2012				31 March 2013			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>UK equities</b>							
306.718		25.8		355.891		26.1	
5.869		0.5		7.118		0.5	
	<b>312.587</b>		<b>26.3</b>		<b>363.009</b>		<b>26.6</b>
<b>Overseas equities</b>							
232.162		19.5		264.018		19.4	
121.460		10.2		142.203		10.4	
25.105		2.1		27.989		2.1	
67.851		5.7		73.558		5.4	
0.642		0.1		0.851		0.1	
34.507		2.9		38.361		2.8	
51.429		4.3		54.954		4.0	
	<b>533.156</b>		<b>44.8</b>		<b>601.934</b>		<b>44.2</b>
<b>Bonds</b>							
19.140		1.6		35.629		2.6	
112.793		9.5		115.081		8.5	
52.037		4.4		64.941		4.8	
0.000		0.0		0.000		0.0	
0.685		0.1		0.000		0.0	
0.000		0.0		1.025		0.1	
39.483		3.3		36.389		2.7	
	<b>224.138</b>		<b>18.9</b>		<b>253.065</b>		<b>18.7</b>
<b>Property</b>							
93.436		7.9		104.958		7.7	
8.520		0.7		7.812		0.6	
	<b>101.956</b>		<b>8.6</b>		<b>112.770</b>		<b>8.3</b>
<b>Private equity</b>							
3.295		0.3		7.169		0.5	
2.000		0.2		2.000		0.1	
	<b>5.295</b>		<b>0.5</b>		<b>9.169</b>		<b>0.6</b>
<b>Derivatives</b>							
1.526		0.1		0.646		0.0	
0.000		0.0		0.000		0.0	
	<b>1.526</b>		<b>0.1</b>		<b>0.646</b>		<b>0.0</b>
<b>Cash and others</b>							
12.429		1.0		21.241		1.6	
	<b>12.429</b>		<b>1.0</b>		<b>21.241</b>		<b>1.6</b>
	<b><u>1,191.087</u></b>		<b><u>100.2</u></b>		<b><u>1,361.834</u></b>		<b><u>100.0</u></b>
<b>Investment assets</b>							

Table continued on next page



## Note 8: Movement in Investment Assets

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2011/2012	Total	1,158.975	-17.379	3,128.598	-3,068.683	9.791	-22.565	1,188.737
Somerset County Council	Global equity	297.865	0.000	44.127	-41.711	-0.788	39.607	339.100
Standard Life	UK equity	285.454	0.000	109.690	-92.524	5.083	25.350	333.053
Somerset County Council	US equity	66.850	0.000	32.268	-32.731	-0.156	8.958	75.189
Jupiter	European equity	68.074	0.000	8.797	-11.801	-0.042	17.189	82.217
Nomura	Japanese equity	34.507	0.000	0.098	0.000	-0.098	3.853	38.360
UBS	Far East equity	41.564	0.000	16.867	-21.208	1.408	3.438	42.069
Pioneer	Emerging Market equity	51.429	0.000	2.500	0.000	0.000	1.025	54.954
Standard Life	Bonds	224.138	0.000	124.717	-113.107	5.937	11.379	253.064
Standard Life	Derivatives	0.367	0.000	515.620	-515.687	0.044	0.169	0.513
Aviva	Property	101.956	0.000	28.673	0.000	-11.384	-6.474	112.771
Aviva	Currency	0.163	0.000	57.808	-57.808	0.000	-0.224	-0.061
Record	Currency	-1.354	0.000	1.354	0.000	-1.354	1.354	0.000
Neuberger Berman	Global private equity	3.295	0.000	2.913	0.000	0.000	0.961	7.169
Yorkshire	UK venture capital	2.000	0.000	0.000	0.000	0.000	0.000	2.000
Somerset County Council	Cash	12.429	-18.896	0.000	0.000	27.597	0.111	21.241
<b>2012/2013</b>	<b>Total</b>	<b><u>1,188.737</u></b>	<b><u>-18.896</u></b>	<b><u>945.432</u></b>	<b><u>-886.577</u></b>	<b><u>26.247</u></b>	<b><u>106.696</u></b>	<b><u>1,361.639</u></b>

## Note 9: Transaction Costs

The following amounts are included in the purchases and sales values disclosed in note 8 for costs associated with those transactions.

2011/2012 £ millions		2012/2013 £ millions
	<b>Purchase Costs</b>	
0.228	Broker commissions	0.210
<u>0.391</u>	Taxes and Fees	<u>0.473</u>
0.619		0.683
	<b>Sales Costs</b>	
0.214	Broker commissions	0.219
<u>0.021</u>	Taxes and Fees	<u>0.019</u>
0.235		0.238
<u><b>0.854</b></u>		<u><b>0.921</b></u>

## Note 10: Management Structure

31 March 2011		Manager	Asset class	31 March 2013	
£ millions	%			£ millions	%
297.865	25	Somerset County Council	Passive global equity	339.100	25
285.454	24	Standard Life	UK equity	333.053	24
66.850	6	Somerset County Council	Passive US equity	75.189	5
68.074	6	Jupiter	European equity	82.217	6
34.507	3	Nomura	Japanese equity	38.360	3
41.564	3	UBS	Far East equity	42.069	3
51.429	4	Pioneer	Emerging market equity	54.954	4
224.505	19	Standard Life	Bonds	253.577	19
102.119	9	Aviva	Property	112.710	8
-1.354	0	Record Currency Management	Currency	0.000	0
3.295	0	Neuberger Berman	Global private equity	7.169	1
2.000	0	Yorkshire Fund Managers	UK venture capital	2.000	0
12.429	1	Somerset County Council	Cash	21.241	2
<u>1,188.737</u>	<u>100</u>	<b>Net investment assets</b>		<u>1,361.639</u>	<u>100</u>

## Note 11: Other investment balances

31 March 2012		31 March 2013	
£ millions		£ millions	
<b>Assets</b>			
4.545	- Accrued income		4.328
0.544	- Accrued Recoverable tax		0.651
2.019	- Payments due on investments sold		1.667
<u>7.108</u>			<u>6.646</u>
<b>Liabilities</b>			
-2.211	- Payments not made on purchases and losses due on sales		-1.940
<u>4.897</u>			<u>4.706</u>

## Note 12: Major Holdings

31 March 2012			31 March 2013		
Rank	£ millions	Stock	Description	Rank	£ millions
1	51.429	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	54.954
2	34.507	Nomura Japan Fund	Pooled fund of Japanese equities	2	38.360
4	16.714	HSBC	UK bank	3	26.003
3	21.576	Royal Dutch Shell	UK oil company	4	21.846
6	14.382	Vodafone	UK mobile phone company	5	17.044
5	15.413	BP	UK oil company	6	15.861
7	14.287	Glaxosmithkline	UK drugs producer	7	13.749
11	9.087	Schroders UK PUT	UK property unit trust	8	10.869
8	11.323	Rio Tinto	UK mining company	9	10.791
9	10.155	BHP Billiton	UK mining company	10	9.159
21	6.667	Barclays	UK bank	11	9.074
12	9.024	Aviva Pooled Pension PUT	UK property unit trust	12	8.813
17	7.129	Standard Chartered	UK bank	13	8.151
39	4.464	Threadneedle PUT	UK property unit trust	14	8.126
14	8.232	Blackrock property fund	UK property unit trust	15	8.031
15	7.929	British American Tobacco	UK tobacco company	16	7.916
26	5.876	Prudential	UK life insurance company	17	7.493
13	8.983	BG Group	UK gas company	18	7.271
10	9.234	Apple	US electronics company	19	7.201
64	3.295	Neuberger Berman Crossroads 2010 fund	Private equity fund	20	7.169

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (Pioneer Emerging Market Equity Fund) makes up 4.0% of the net investment assets.

## Note 13: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or facilitates more efficient portfolio management.

During the year the fund used forward foreign exchange contracts and bond futures.

The year end value of derivatives is as follows:

31 March 2012 £ millions				31 March 2013 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
<b>Forward foreign-exchange contracts</b>						
0.386	-0.019	0.367	Standard Life fixed Interest	0.646	-0.134	0.512
0.163	0.000	0.163	Aviva	0.000	-0.061	-0.061
0.977	-2.331	-1.354	Record passive fund	0.000	0.000	0.000
<b>1.526</b>	<b>-2.350</b>	<b>-0.824</b>		<b>0.646</b>	<b>-0.195</b>	<b>0.451</b>
<b>Government bond futures</b>						
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	Australian bond future	0.000	0.000	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
0.000	0.000	0.000	US treasury future	0.000	0.000	0.000
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>1.526</b>	<b>-2.350</b>	<b>-0.824</b>		<b>0.646</b>	<b>-0.195</b>	<b>0.451</b>

Standard Life hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or high yield bonds. Typically Standard Life chose to hedge 100% of their currency risk.

Aviva also hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio. The non-sterling investments are 4 funds that invest in European property and are priced in euros. Typically Aviva chose to hedge 100% of their currency risk.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Standard Life to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Standard Life may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2012 £ millions				31 March 2013 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
<b>Forward foreign-exchange contracts</b>						
47.387	-47.020	0.367	Standard Life fixed Interest	41.726	-41.214	0.512
8.860	-8.697	0.163	Aviva	8.103	-8.164	-0.061
125.476	-126.830	-1.354	Record passive fund	0.000	0.000	0.000
<b>181.723</b>	<b>-182.547</b>	<b>-0.824</b>		<b>49.829</b>	<b>-49.378</b>	<b>0.451</b>
<b>Government bond futures</b>						
0.916	-0.916	0.000	UK gilt future	0.356	-0.356	0.000
0.000	0.000	0.000	Australian bond future	1.323	-1.323	0.000
0.000	0.000	0.000	Canadian bond future	1.050	-1.050	0.000
1.242	-1.242	0.000	US treasury future	1.517	-1.517	0.000
<b>2.158</b>	<b>-2.158</b>	<b>0.000</b>		<b>4.246</b>	<b>-4.246</b>	<b>0.000</b>
<b>183.881</b>	<b>-184.705</b>	<b>-0.824</b>		<b>54.075</b>	<b>-53.624</b>	<b>0.451</b>

## Note 14: Stock Lending

31 March 2012 £ millions		31 March 2013 £ millions
22.506	Value of stock on loan	52.575
23.803	Value of collateral held against loaned stock	55.966

31 March 2012 %		31 March 2013 %
	<b>Form of collateral provided</b>	
16.8	UK Government debt	30.6
0.0	US Government debt	1.2
0.0	Euro area Governments debt	48.4
0.6	US\$ denominated corporate debt	0.0
4.1	€ denominated corporate debt	0.0
3.0	UK equities	2.3
75.5	Overseas equities	17.5
<b>100.0</b>		<b>100.0</b>

## Note 15: Membership Statistics

As at 31 March	2007	2008	2009	2010	2011	2012	2013
<b>Active scheme members</b>	<b>19,071</b>	<b>19,886</b>	<b>20,022</b>	<b>20,450</b>	<b>20,492</b>	<b>19,505</b>	<b>19,446</b>
<b>Pensioners</b>							
Current (in payment)	9,126	9,706	10,126	10,821	11,664	12,301	12,636
Deferred (future liability)	10,059	10,897	12,787	13,817	14,923	16,816	18,958
<b>Total (active plus pensioners)</b>	<b>38,256</b>	<b>40,489</b>	<b>42,935</b>	<b>45,088</b>	<b>47,079</b>	<b>48,622</b>	<b>51,040</b>
Active members for each current pensioner	2.09	2.05	1.98	1.89	1.76	1.59	1.54

## Note 16: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Equitable Life and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

<b>31 March 2012</b> <b>£ millions</b>	<b>31 March 2013</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>	
4.063 Prudential	3.814
0.511 Equitable Life	0.448
<b>4.574</b>	<b>4.262</b>
<b>2011/2012</b> <b>£ millions</b>	<b>2012/2013</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>	
0.597 Prudential	0.477
0.000 Equitable Life	0.000
<b>0.597</b>	<b>0.477</b>

## **Note 17: Related Parties**

Pensions Committee members, Tim Carroll, Sam Crabb, William Wallace Anthony Trollope-Bellew and John Wilkins were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee member Caroline Moore was an active member of the standard scheme during the year and Committee member Sarah Payne was a deferred member of the standard scheme during the year.

Pensions Committee member Sarah Payne has personal investments that are managed by Jupiter Asset Management.

The fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken by Standard Life, Jupiter Asset Management, UBS Global Asset Management, Nomura Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member bodies. Decisions about suitable investments for the in-house funds are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in note 4.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 1 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

**Note 18: Remuneration**

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in note 4 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2013 of 2 officers who undertake work for the fund is greater than £50,000. The pay of these 2 officers is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work these 2 officers undertake for the pension fund.

Year to 31 March 2013						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2012/13 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2012/13 £
Director of Finance and Performance	100,000.00	-	-	100,000.00	13,500.00	113,500.00
Strategic Manager - Finance Technical	55,800.00	-	-	55,800.00	7,600.00	63,400.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2012 is shown in the table below.

Year to 31 March 2012						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2011/12 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2011/12 £
Director of Finance and Performance	84,800.00	-	-	84,800.00	11,400.00	96,200.00
Strategic Manager - Finance Technical	50,000.00	-	-	50,000.00	6,750.00	56,750.00

### **Note 19: Statement of Investment Principles**

We have prepared a Statement of Investment Principles, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full details of the statement are published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

### **Note 20: Contingent liabilities**

There were no contingent liabilities as at 31 March 2013.

### **Note 21: Post balance sheet events**

There were no post balance sheet events as at 30th September 2013.

### **Note 22: Nature and Extent of Risks Arising from Financial Instruments**

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure financial instruments means all of the fund's investment assets and investment liabilities as shown in note 7 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2013 being £1,362m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 10 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of unit trusts stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

## Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in Sterling. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 12 of these accounts.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data has been provided by the WM Company, the fund's performance measurement advisor, and is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2013 by the amounts shown below.

<b>Asset class</b>	<b>Value of Assets £ millions</b>	<b>Volatility</b>	<b>Increase in Assets £ millions</b>	<b>Decrease in Assets £ millions</b>
UK equities	363.009	17.90%	64.979	-64.979
Foreign equities	601.934	15.30%	92.096	-92.096
UK bonds	150.710	7.70%	11.605	-11.605
Overseas bonds	37.414	13.20%	4.939	-4.939
UK index-linked bonds	64.941	7.20%	4.676	-4.676
Property	112.770	6.20%	6.992	-6.992
Cash	21.241	0.00%	0.000	0.000
Others	9.620	7.50%	0.722	-0.722
<b>Net investment assets</b>	<b><u>1,361.639</u></b>		<b><u>186.007</u></b>	<b><u>-186.007</u></b>

## Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £8m and all counterparties must be rated at least "A" or higher by a major rating agency. In this context the fund's cash balances (including the cash held at bank or net of bank overdraft) of £21.3m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted. Details of the collateral held are provided within note 14 of these accounts.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet its obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 13 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

## Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £1bn of assets which could be realistically liquidated into cash in less than a week.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 13 of these accounts.

The bond futures have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £10,000 and therefore do not pose a significant liquidity risk to the fund.

## Note 23: Fair Value Hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The table below analyses the fund's investment assets at 31 March 2013 into the 3 levels of the fair value hierarchy.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities	363.009			363.009
Overseas equities	601.934			601.934
Bonds	253.065			253.065
Property funds		112.770		112.770
Private Equity funds			9.169	9.169
Forward foreign-exchange contracts	0.451			0.451
Government bond futures	0.000			0.000
Cash	21.241			21.241
<b>Net investment assets</b>	<b><u>1,239.700</u></b>	<b><u>112.770</u></b>	<b><u>9.169</u></b>	<b><u>1,361.639</u></b>

## Note 24: Disclosures

There is a restatement on the fund account within administration expenses and investment expenses for the prior year. An amount of £76,000 for external legal expenses was disclosed as part of professional services and subscriptions in investment expenses in the 2011-12 accounts. This amount has been moved to the administration expenses and disclosed separately in the notes in this year's restatement of the 2011-12 accounts.

UBS Global Asset Management ceased to manage the Far East equity mandate on behalf of the fund on 31<sup>st</sup> March 2013. From the 1<sup>st</sup> April 2013 this mandate has been run by the in-house team on a passive basis.

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2012-13 accounts the relevant standards relate to the accounting of employee benefits (IAS19), comprehensive income (IAS1), financial instruments disclosures (IAS 7) and income taxes (IAS12). The changes to comprehensive income and income taxes are not relevant to the fund. The changes to the employee benefits disclosures affect how the fund is represented in the accounts of our employers but does not affect the fund's accounts. The changes to financial instruments disclosures specifically addresses the effect or potential effect of netting arrangements. No such netting of assets and liabilities occurs within the fund except within individual derivatives contracts, where full disclosure is already made. As a result it is not anticipated that any of these changes would require different disclosure within these accounts if they had been adopted.

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19. In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. There has been no significant change to any individual assumptions between 31 March 2012 and 31 March 2013.



**Kevin Nacey, Director of Finance and Performance**  
**September 2013**

# **Actuary's statement**

## **Introduction**

The last full triennial valuation of the Somerset County Council Pension Fund was carried out by Barnett Waddingham as at 31 March 2010 in accordance with Regulation 38 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). The results were published in our report dated March 2011.

## **2010 Valuation**

The results for the Fund were as follows

- The funding level was calculated to be 77% i.e. the value of the accumulated assets represented 77% of the value of the accrued liabilities of Fund as at the valuation date.
- The common contribution rate was set at 17.9% of payroll assuming the funding level was to be restored over a 25 year period. This is the average contribution rate required from employers to restore the funding level to 100% over the next 25 years.
- However each employing body pays their own contribution rate to reflect its own particular circumstances and funding position within the Fund. The County Council is paying an ongoing contribution of 13.5% of payroll plus additional monetary amounts in respect of deficit recovery.
- Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

## **Asset Value and Key Financial Assumptions**

The value of the Fund's assets as at 31 March 2010 for valuation purposes was £1,068m.

The contribution rates were calculated using the Projected Unit Method taking account of market conditions as that date as follows.

Rate of return on investments	7.1% per annum
Risk adjusted discount rate	7.0% per annum
Rate of increase in pay	5.0% per annum
Rate of increase to pensions in payment	3.0% per annum

## Post Valuation Events and the 2013 Valuation

Since March 2010, investment returns have been slightly less than expected. This will have a negative effect on the financial position of the Fund and we expect that the funding level may be slightly lower than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.



Graeme Muir FFA  
Partner  
14 May 2013



Anna Short FFA  
Associate

# **Independent auditor's report to the Members of Somerset County Council Pension Fund**

## **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements of Somerset County Council Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. This report is made solely to the members of Somerset County Council Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Director of Finance and Performance and auditor**

As explained more fully in the Statement of the Director of Finance and Performance's Responsibilities, the Director of Finance and Performance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the pension fund financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Performance, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on other matters**

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

## **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Simon Garlick

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

27 September 2013

## Glossary of terms

### **Absolute annual investment return**

An investment return that is an exact amount, for example 7%, rather than a return compared to a benchmark.

### **Accrual (to accrue)**

An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

### **Active members**

Members of the pension fund who are currently working and contributing to the fund.

### **Actuary**

An independent consultant who advises the fund and reviews the financial position of the fund every three years.

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

A calculated value for the amount of money needed today to meet the pension payments the fund will make in the future. In calculating this value the actuary takes account of factors such as investment returns, inflation and life expectancy.

### **Actuarial valuation**

A valuation to check that the funding is on track to cover liabilities and review employers' contributions.

### **Administering authority**

The organisation that runs the pension fund.

### **Admitted organisations**

An organisation that takes part in the pension scheme under an 'admission agreement' (that is, an agreement and terms under which they are allowed to join our scheme).

### **Annualised return**

The average yearly return over a period of more than one year.

### **Asset allocation**

The percentage of the fund set aside for each type of investment.

### **Augmentation**

Payments to provide new benefits or improved benefits such as early retirement.

### **Benchmark**

An index (for example, the FTSE 100) or peer group that the fund, or a section of the fund, is measured against to work out whether the fund has performed well.

### **Bid price**

The price at which investments can be sold.

### **Bid-offer spread**

The difference between the bid price and the offer price.

### **CIPFA**

Chartered Institute of Public Finance and Accountancy

### **Co-investment**

Investing alongside someone else in the same investment.

### **Collateral**

Assets placed with a lender as security against a borrower failing to make agreed payments. For example, in the case of a mortgage, the house would usually be the collateral against which the bank lent money to an individual.

### **Common contribution rate**

The normal contributions of member authorities and organisations must meet 100% of benefits. The common contribution rate is the future service cost of members' contributions, including an allowance for expenses.

**Corporate governance**

The system by which companies are controlled and directed, and the way they respond to their shareholders, employees and society.

**Currency hedges**

Assets that are owned to reduce the effects of foreign-exchange movements on the fund.

**Deferred benefits**

Built-up pension rights, for ex-employees, that are kept in the pension fund.

**Deferred pension**

The pension benefit that is paid from the normal retirement date to a member of the fund who no longer pays contributions as a result of leaving employment or opting out of (leaving) the pension scheme before their retirement age.

**Derivatives**

A type of investment that is linked to another asset. Examples of derivatives are options, forwards and futures.

**Developed markets**

Countries that index providers (such as FTSE or MSCI) have decided have strong regulation and large investment markets that are well developed.

**Dividend**

The distributed profits of a company.

**85-year rule**

The 85-year rule allows members to retire before 65 without reduced benefits if their age and their service together add up to more than 85.

**Emerging markets**

Countries that index providers (such as FTSE or MSCI) have decided have weak regulation and new or small investment markets.

**Employer of sound covenant**

An employer who is unlikely to become insolvent (unable to pay its debts).

**Engagement**

Discussions between investors or their fund managers and companies about corporate governance or socially responsible investment.

**Equities**

Ordinary shares in a company.

**Ethical investments**

Investments that are moral and are not linked to companies that, for example, are involved in trading weapons, exploiting developing countries or contributing to climate change.

**Ex-dividend**

A share is 'ex-dividend' on a date set by a company when current shareholders are entitled to a dividend on their holding. Even if the holding is sold, the previous owner will receive the income. On that date, the market price of a share will be adjusted to reflect the income due to the holder. (For example, a share which goes ex-dividend with a dividend of 10p will see the market price reduce by that amount.) Stock may be sold ex-dividend (without dividend entitlement) or 'cum-div' (with dividend entitlement).

**Full-funding basis**

When the future value of assets matches the future value of liabilities. At the last actuarial valuation, which was carried out as at 31 March 2007, the fund was 95% funded. This means that the value of the assets was 95% of the estimated value of the liabilities.

**Futures or forwards**

Buying or selling a package of shares, currency or commodities (for example, coffee or metal) at a specific point in the future at a price agreed when the contract is taken out.

**Hedging**

A process of reducing or removing the risk of a portfolio by buying or selling assets that act in an opposite way to those already owned.

**Historical cost**

The amount paid for an investment when it was bought.

**Index-linking**

When pension benefits are updated in line with inflation.

**Liquid assets**

Assets that can be sold to provide cash very quickly.

**Mandate**

An agreement with an investment manager to manage a particular type of asset.

**Mid price**

The price halfway between the bid price and the offer price.

**Myners**

Paul Myners was commissioned by the Government to review and report on UK institutional investment.

**Option**

The right to buy or sell shares within a set timescale at a price confirmed at the time the option is bought.

**Over-the-counter trades**

A trade for an investment that has not taken place on a stock exchange and has been made to meet the particular needs of the investor.

**Passive management or passive investment**

Tracking an index and not taking active investment decisions.

**Peer group**

Other local-authority pension funds.

**Pooled investments**

Investments where the assets are not held directly by the investors, but are held in a 'pool'. Examples of pooled investments are unit trusts, life funds, open-ended investment companies and limited liability partnerships.

**Portfolio**

A collection of stocks, shares and other securities.

**Preserved benefits**

The benefits to which members would be entitled if they left service, based on the service they had completed up to the date they left. As long as members had enough service, the benefits they had earned up to the date they left would be held (preserved) in the fund for them and would be paid when they retired. Between leaving service and retirement, the benefits would be increased broadly in line with price inflation.

**Projected unit method**

One of the common methods actuaries use to estimate the cost of future benefits from a pension scheme. The method works out the cost of the benefits members are expected to earn over a period (often one year) following the valuation date, allowing for predicted future increases in pay until members retire or leave service. The cost is set out as a percentage of members' contributions. As long as the distribution of members remains stable (that is, new members join the scheme to replace scheme members who have left), the cost is expected to remain stable.

**Quantitative analysis system**

A computer model to help analyse share holdings and make investment decisions.

**Quoted investment**

A company listed on a stock exchange.

**Realised profit**

A realised profit is the profit (or loss) when an investment is sold and is the difference between what it was sold for and what was paid for it.

**Recoverable tax**

Tax that has been paid but can be claimed back.

**Recurring pension**

A pension that is paid regularly, usually every month.

**Real discount rate**

The discount rate is the return that the actuary uses to work out how much money needs to be saved today to pay future liabilities. For example, if the discount rate is 5.25% then you need to save £95 today to have £100 in a year's time. The real discount rate is a discount rate where the effects of inflation have been removed.

**Safe custody**

The responsibility for keeping the fund's financial assets safe, settling transactions, collecting income, and other procedures relating to investments.

**Scheduled organisations**

Local-government organisations which have the automatic right to take part in the pension scheme.

**Secondary investments**

A private equity fund that is bought from an existing investor, rather than being an investor when the fund was first created.

**Settle transactions**

Swapping money for assets when you buy or sell shares or bonds. Financial assets usually settle two or three days after the trade is agreed.

**Shareholder engagement**

Where the owners of shares try to influence a company's behaviour by campaigning in the press, voting at company meetings or talking to company managers. Typical issues that might be raised are the company's effect on the environment, their labour standards and pay for the board of managers.

**Smoothed market value, smoothing mechanism**

Most shares and bonds that the fund owns change value every few minutes and the price can vary quite a lot. The fund's actuary will make an adjustment for this when valuing the fund so that extreme highs and lows are ignored.

**Solvency**

Whether the assets of the fund are greater than the liabilities.

**Specific ethical investment**

Investing in companies that do not invest in, for example, the arms trade, third-world exploitation, animal testing or tobacco, or in companies which promote environmentally-friendly products, education and training, waste management and so on.

**S&P 500**

A broad-based equity index made up of the 500 largest equity stocks quoted in the US.

**Statutory instrument**

Secondary legislation made by government ministers.

**Statutory pension scheme**

A pension scheme established by an Act of Parliament and run in line with statutory instruments.

**Stock lending or securities lending**

Shares owned are lent on the stock market to generate income. The owner keeps all benefits, except for the voting rights.

**Tender**

A process of assessing and choosing a business to do work on your behalf.

**Time-weighted return**

Estimating the performance of a fund, taking into account the effect of money coming into, or leaving the fund, during the period of time you are looking at, so those money movements don't give an inaccurate return.

**Transfer value**

The capital payment made from one pension fund to another when the person paying contributions changes to another pension scheme.

**Transition management**

Organising the complex movements of assets that happen when a scheme changes its investments or its asset managers.

**Unlisted shares**

Shares for companies not listed on the stock exchange.

**Unrealised loss**

An unrealised loss is the loss suggested when an asset was bought for more than it is currently worth, but the loss is not 'available' (or 'realised') until the asset is sold.

**Unrealised profit**

An unrealised profit is the profit suggested when an asset was bought for less than it is currently worth, but the profit is not 'available' (or 'realised') until the asset is sold.

**Venture capital**

Investments in small companies that are not listed on a stock exchange.

**Vested benefits**

Benefits due now and in the future to members of the fund that are already drawing their pension.

**WM Company**

The company appointed by most local authorities to collect performance statistics.

**Yield**

The yearly interest paid by a bond divided by its price. When we refer to yields, this usually means the yield on UK government bonds.

## Contacts

If you would like more information, please contact one of the following people.

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The pensions committee page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

<http://www1.somerset.gov.uk/council/boards.asp?boardnum=26>

These accounts are also available on the internet at.

<http://www.somerset.gov.uk/irj/public/services/directory/service?rid=/wpccontent/Sites/SCC/Web%20Pages/Services/Services/Resources/Pensions%20-%20Pension%20Fund%20Accounts>

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.



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