



SOMERSET COUNTY COUNCIL
PENSION FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
2014/15



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Chairman's report

This annual report sets out the activities of the pension fund for the year ending 31 March 2015. 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.

Peninsula Pensions, our shared pension administration service with Devon County Council had its first full year of operations. The shared service has been rolling out a number of IT projects that both enhance the internal working of the team and provide self-service web-based access to employers and members. We look forward to reaping the benefits of this work in the future. The next step in the integration process is to move the pension payroll of the Somerset Fund into Peninsula Pensions, this project is well underway with plans for the first payroll to be paid by the shared service before the end of the year.

On the Governance side the Government produced the final version of the regulations and statutory guidance regarding the setting up of Local Pension Boards on 28th January, this left us with a challenging deadline to get the necessary structures in place by 1st April. The role of the new Board is to aid the existing committee in the running of the Fund, ensuring that we continue to manage the Fund to the highest standards of governance and demonstrate excellent value for money. The existing Committee look forward to working together with the new Board for the benefit of all of our stakeholders. Although not part of the financial year covered by this annual report it is worth reporting that the Board had its first meeting on 22nd July.

The future structure of the LGPS and how it invests continues to be a live topic. In last year's annual report I commented that the Government had indicated that its preferred solution was the use of Collective Investment Vehicles and Passive Management as methods for pushing down investment costs. With an election to be fought, in hindsight, it isn't surprising that the trail on this went cold. The issue was reignited by a statement made in the Chancellor's July budget and we are now expecting further clarification from Government as to what is being proposed and an ambitious timetable for progress to keep us busy through to the end of the current financial year and beyond.

Investment returns for the year, at 13.5%, were healthy and roughly double the level we need to maintain the overall funding position. We achieved positive returns on all asset classes and across all of our mandates.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was -0.6% below the benchmark return of 14.1%. 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 13.2%.

During the year, contributions paid into the scheme were greater than the pensions paid out, however due to the movement of the probation service into a new national structure we paid out significantly more in transfer values than we received. The net result is that before expenses and investment returns the fund reduced by £63m. We expect this figure to return to a broadly neutral level for the current 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. I would particularly like to thank Tim Carroll for his contribution to the committee as he stood down in May following more than a decade of service, his experience and contributions will be missed.

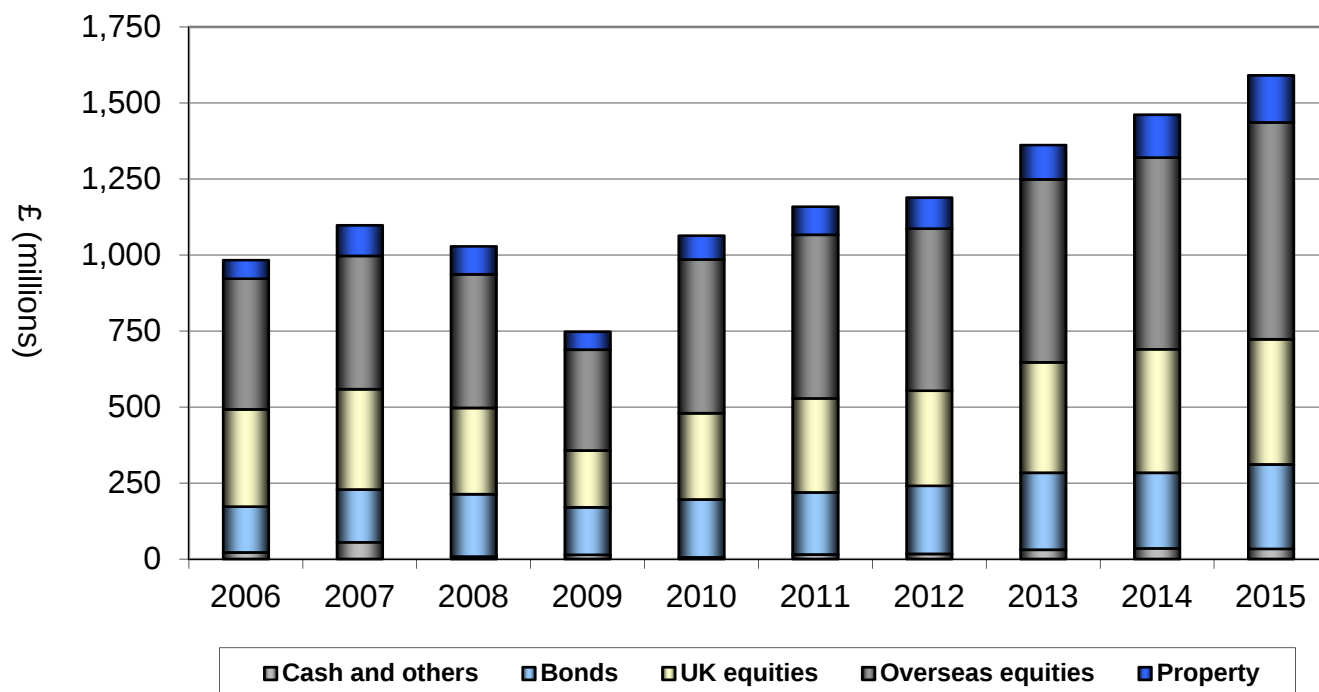
Graham Noel

Chairman of the pensions committee

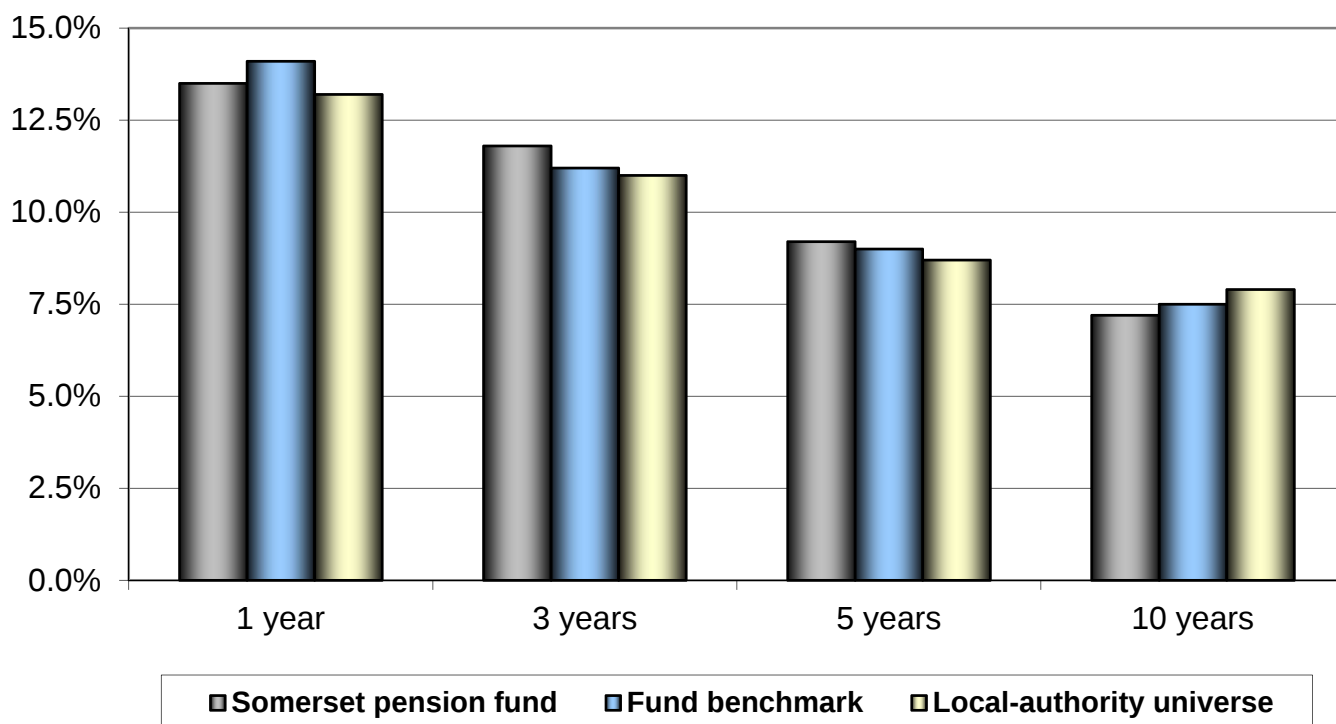
Summary of the scheme

Statistics

Fund investment assets



Annualised fund investment performance



Source: WM Company

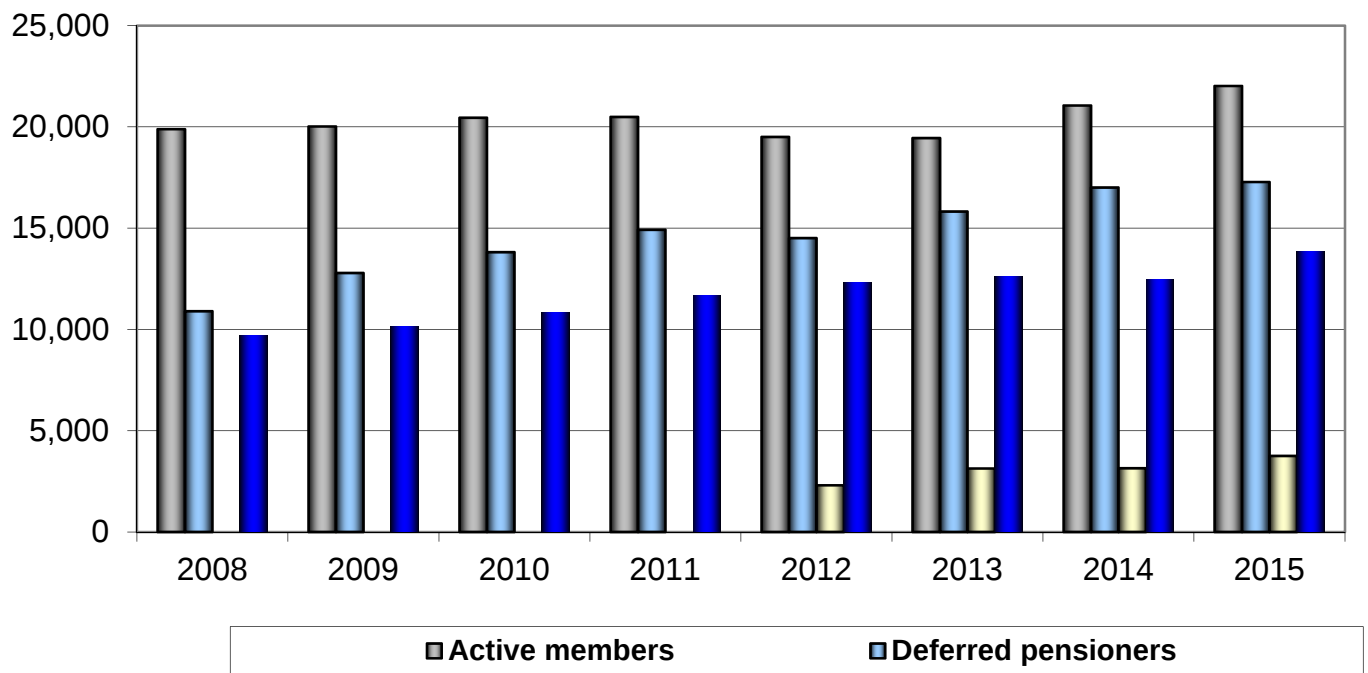
Analysis of investment assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	381.277	339.186	404.465	1,124.928
Fixed Interest	241.183	36.465	0.000	277.648
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	153.095	3.451	17.987	174.533
Cash	13.741	0.000	0.000	13.741
Other	0.000	0.000	0.000	0.000
Total	789.296	379.102	422.452	1,590.850

Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	12.556	5.524	9.611	27.691
Fixed Interest	8.137	2.828	0.000	10.965
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	13.299	0.465	0.000	13.764
Cash	0.192	0.000	0.000	0.192
Other	0.000	0.000	0.285	0.285
Total	34.184	8.817	9.896	52.897

Fund membership statistics



Employer statistics

	Active	Ceased	Total
Scheduled body	99	12	111
Admitted body	29	12	41
Total	128	24	152

Financial Statistics – five-year trends

	2010/2011 £ millions	2011/2012 £ millions	2012/2013 £ millions	2013/2014 £ millions	2014/2015 £ millions
Income from contributions	90.801	82.370	79.234	79.350	83.588
Spending on benefits	-78.102	-74.912	-77.719	-77.109	-147.041
Contributions less benefits	12.699	7.458	1.515	2.241	-63.453
Management Expenses				-6.175	-6.655
Investment income	28.686	34.888	35.076	50.732	52.221
Change in value of investments	52.568	-12.774	132.945	54.273	143.443
Net return on investments	81.254	22.114	168.021	105.005	195.664
Change in net assets	93.953	29.572	169.536	101.071	125.556

Value for money statistics

	2013/2014	2014/2015
Administration expenses (£m)	1.316	0.993
Investment management expenses (£m)	4.309	5.063
Oversight and governance expenses (£m)	0.550	0.599
Total expenses	6.175	6.655
Administration expenses per member	25.14	17.96
Total expenses per member	117.94	120.35
Investment expenses (p) per £ of assets	0.31	0.33
Total expenses (p) per £ of assets	0.44	0.44

Member numbers are the average of the opening and closing membership for the year.

Asset numbers are the average of the opening and closing investments assets for the year.

Other Statistics

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Income yield on average assets	3.07%	3.30%	3.02%	3.65%	3.47%
Average pension in payment (£)	4,151	4,358	4,531	4,736	4,693

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.

Graham Noel (Chairman)

Graham is one of the four county council representatives on the committee and is the councillor for Mendip West. Graham joined the committee in May 2013.

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.

Dawn Hill

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.

James Hunt

James is one of the four county council representatives on the committee and is the councillor for Upper Tone. James joined the committee in May 2013.

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.

Mark Simmonds (police representative)

Mark represents the Police and Crime Commissioner for Avon and Somerset on the committee. Mark is the Chief Finance Officer for the Police and Crime Commissioner for Avon and Somerset. Mark is an ACA qualified accountant. He has been a member of the committee since May 2013.

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 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 2014/2015, the committee formally met four times. At each 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 of the policies that help in the running of the fund as the documentation continues to be revised. 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. 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.

In addition to the above, at each of its meetings the committee has discussed the future investment arrangements of the LGPS as the government moves through the various stages of consultation on this and the process for setting up the new Pension Board.

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	Meetings with Fund Managers	Conference days
Number of meetings	4	1	2	
Committee members				
Graham Noel (Chairman)	4	1	1	
Sam Crabb	2		2	
Dawn Hill	2			
James Hunt	4	1	1	
Tim Carroll	4	1	1	
Mark Simmonds	3		1	
Caroline Moore	3	1	2	
Sarah Payne	4	1	2	2
Independent advisor				
Caroline Burton	4	1	2	

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, which shows the fund's key risks and the actions to mitigate those risks, 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. As at 31 March 2015 the key risks on the risk register were:

- The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.
- The pension fund has insufficient available assets to meet its long term liabilities.
- The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.
- Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.
- Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SouthWest One IT support.
- Risk of Regulatory change:
 - Implementation of change risks
 - Consequences of change risks
- Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.
- Failure of Pensions Committee to manage the fund effectively.
- Insolvency of the fund's Global Custodian.

In addition to the risk register, how the fund manage and aim 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. These are supported by monthly monitoring of investment exposures, risk and performance by officers and quarterly reporting to committee.

The management of third party risk such as late payment of contributions, or error and emissions by investment managers or custodian is managed through a robust set of internal controls and reconciliations.

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 the 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. A copy of the current budget report 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.

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.

Exercise of shareholder rights at company meetings

The fund is committed to the responsible use of its rights as a shareholder in companies. In particular we are committed to voting at company meetings wherever this is practically possible.

For those funds managed by external fund managers, they are responsible for deciding how the fund votes. Each of the external fund managers have written guidelines on how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Typically these policies will, to varying degrees, adhere to the principles and best practice guidelines of the various legislation, city codes of conduct and policies of trade bodies such as the Association of British Insurers.

For the in-house managed funds a specialist company is retained to provide analysis and advice on how we should vote our shares, the current provider is PIRC.

Twice a year a summary of the fund's voting activity is reported to the pensions committee and these reports 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 PIRC publishes the advice it gives clients (including SCC) on how to vote at company meetings on its website. Some of our external fund managers also place their voting record on their public websites.

Pension board

Under the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 Each LGPS fund was required to set up a Pension Board to assist the administering authority (the Pensions Committee) in the running of the fund. Whilst the Board did not come into existence until after the financial year covered by this annual report and didn't have a first meeting until July 2015 we have included details of the membership of the Board as this is important information for stakeholders of the Fund to be aware of.

Under the legislation the Board must have equal representatives of Employers and Members

Employer representatives

Mark Healey (Chairman)

Mark is a representative of the county council on the board and is the councillor for Huntspill. Mark joined the Board in July 2015.

Paul Deal

Paul is a finance officer of Somerset County Council and the chief financial officer of Mendip District Council. Paul joined the Board in July 2015.

Tim O'Connor

Tim is a Frome Town Councillor. Tim joined the Board in July 2015.

Member representatives

James Gilbody

James is a nominated union representative from UNISON. He is a licencing officer for Mendip District Council. James joined the Board in July 2015.

Mark Johnson

Mark is a finance officer of Somerset County Council. Mark joined the Board in July 2015.

Patricia Rowe

Patricia is a nominated union representative from UNITE. She is a finance officer for Somerset County Council. Patricia joined the Board in July 2015.

Pension fund administration

In accordance with the Pension Fund's scheme of delegation, a copy of which can be found later in this annual report, the Pensions Committee delegate most of the day to day work of the scheme to officers of Somerset County Council or to Peninsular Pensions, a shared service with Devon County Council. This section details this work.

Investment administration and accounting

The administration of the investments, which includes the monitoring of, and reconciling with, the fund's custodian and external fund managers, is undertaken by the investments team of Somerset County Council.

The accounting for the investments of the fund is also done by the investments team.

The team also report on all investment matters to the Pensions Committee.

Accounting for contributions and benefits

The monitoring and accounting of contributions received from employers is done by the corporate accounting team of Somerset County Council. The corporate accounting team also account for the benefits payments and undertake some other accounting tasks for the fund.

Membership administration

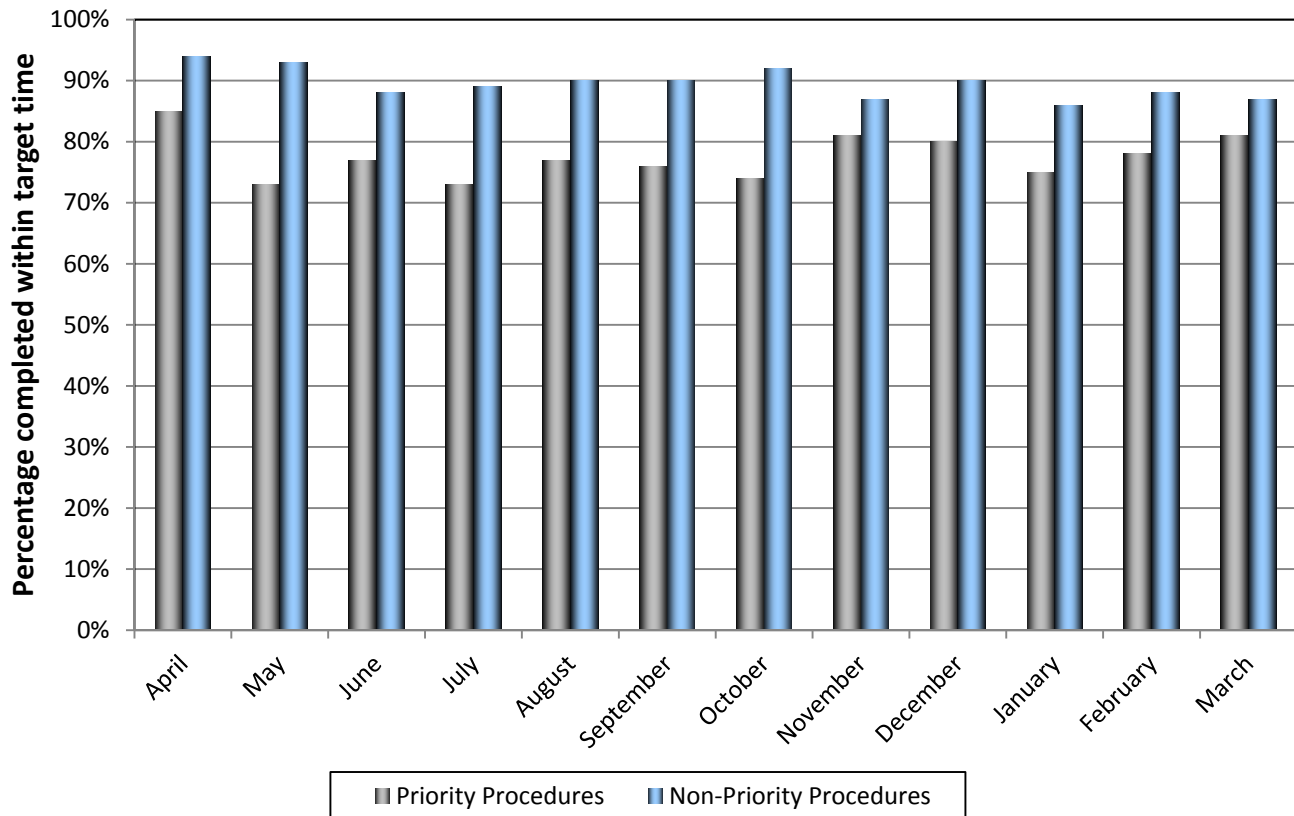
Membership administration involves all the tasks necessary to maintain the records of each of the members of the fund, be they active members (those currently paying in contributions), deferred (have paid into the fund in the past but are not currently contributing or drawing a pension) or pensioners.

From the 1st September 2013 this service is provided by Peninsula Pensions. The Somerset County Council pensions team merged with the equivalent team from Devon County Council to form Peninsular Pensions, a shared service that provides membership administration to both pension funds.

It is believed that by combining the teams, and sharing the investment costs in systems, Peninsular Pensions will provide a better service to members and employers at a lower long term cost to the two funds.

A key benefit of Peninsular Pensions is investment in better technology to help members. Peninsular Pensions' website contains information about all aspects of the LGPS for members, including generic advice, downloadable forms and contact details. A member self service application within the website is being rolled out during 2015. The website address is www.peninsulapensions.org.uk.

Peninsula Pensions performance results 2014-15



In the graph above the Procedures are categorised as priority or non-priority along the following lines:

Priority

- Includes all tasks relating to a death in service, death of a pensioner and/or the death of a deferred member.
- Actual retirements for staff. This covers all available forms of retirement; ill-health, redundancy/efficiency, early retirement, age retirement etc.
- Any query not covered by the other categories that requires a response from ourselves. For example; a query on an Admitted Body Status, re-employed pensioner calculations, general telephone queries etc.

Non-Priority

- All tasks relating to the purchase and administration of Additional Pension or Additional Voluntary Contributions (AVC's).
- The process of making a scheme member a leaver before they reach retirement age (but only to include those members who opt-out of the scheme or leave the Somerset Pension Fund employer for employment elsewhere; not other reasons for leaving covered in the other categories).
- The production of cash equivalent transfer values (CETV's) for divorce proceedings, pension sharing and earmarking orders.
- 'Passive' notifications such as address changes, hour changes, marital status changes etc. Basically anything which doesn't require a direct response.
- The process of refunding a scheme members pension contributions (only available to members with less than 2 years total service).
- LGPS Retirement Estimates.
- The processing of all new starter forms for new employees (or 'opting-in' forms for existing staff) wishing to join the pension scheme.
- The transfer-in of a scheme members pension rights, accrued with a previous employer/pension provider.
- The transfer-out of pension benefits held in the Somerset Pension Fund to an external employer or pension provider (be it a new LGPS administering authority, personal pension plan or a private employer with its own pension arrangements).

With respect to staffing indicators Peninsula Pensions have undertaken the CIPFA benchmarking exercise for the 2014/15 though unfortunately the results were unavailable at time of writing. The results will provide the fund with information such as cost per member/pensioner and compare various performance indicators to other participating LGPS funds.

Pension payroll

Pensioner payroll services are provided by SouthWest One, a joint venture company between Somerset County Council, Taunton Deane Borough Council, Avon & Somerset Police and IBM.

All of the teams above are subject to regular internal audit review of processes and internal controls as well as review by external audit as part of their audit of the accounts of the fund.

Internal dispute resolution procedure

The LGPS has a 2-stage dispute resolution procedure. For stage 1 appeals relating to a decision or action by the member's employer, the dispute is dealt with by the nominated person for that employer. All other disputes are dealt with by the Head of Peninsula Pensions. If the member is not happy with the decision made at Stage 1 then they can move to Stage 2 where the issue will be looked at afresh by The Director of Finance and Performance of Somerset County Council. If the member is not happy with the decision made by the Stage 2 panel they can take their case to the Pensions Ombudsman for a final decision.

During 2014/15 there were 2 Stage 1 appeals and 1 Stage 2 appeal.

However as many Stage 1 appeals are dealt with by the member's employer we may not have been informed of all appeals.

Audit

The internal audit work for Somerset County Council and SouthWest One is provided by the South West Audit Partnership.

The internal audit work for Peninsula Pensions is provided by Devon Audit Partnership

External audit work on all areas of the Fund is undertaken by Grant Thornton.

In addition to the audit work undertaken on the directly controlled operations of the Fund by auditors, the Fund requests from its external fund managers and the global custodian reports undertaken by audit companies on the robustness of their internal control environments.

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 1st 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 was established in 1998 and is a wholly owned subsidiary of Standard Life Investments (Holdings) Limited, which in turn is a wholly owned subsidiary of Standard Life plc. Standard Life Investments is a leading asset management company, with £250.0 billion of assets under management on behalf of clients worldwide (as at 30 June 2015) invested across a wide range of geographies and investment capabilities.

With headquarters in Edinburgh, Standard Life Investments employs approximately 1,500 professionals globally, maintaining offices in key locations around the world including London, Dublin, Paris, Frankfurt, Stockholm, Brussels, Milan, Zurich, Boston, New York, Los Angeles, Toronto, Sydney, Hong Kong, Beijing, Seoul and Tokyo.

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

Standard Life Investments manage two sub-funds.

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

42% 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 £34.3 billion (as at 30 June 2015) 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 is focused on generating investment outperformance across its diverse range of products, which include: UK, European and emerging markets equities, specialist equities (such as financial sector equities and environmental equities), multi-manager products, convertibles, fixed income and absolute return strategies. They are committed to active fund management, aiming to add value for clients by selecting shares and securities they believe are capable of producing superior returns over time without exposing clients to unnecessary levels of risk. Over time, the company has established relationships with banks, insurance companies and other financial institutions not just in the UK but throughout Europe and internationally.

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).

Nomura Asset Management

Background

Owned by the Nomura Group, Nomura Asset Management was established in 1959 and has a major global presence with offices across Europe, the US and Asia. It has assets under management of over US\$300 billion, including over \$100 billion in equities (as at 30th June 2015). The firm employs over 1,200 people, including over 300 investment professionals.

Nomura Asset Management has investment capabilities across a range of asset classes, but is best known for its expertise in the management of Japanese and Far Eastern equity portfolios. Given the firm's leading position in Asia, it is well placed to understand factors influencing the region's markets and local business practices.

Nomura Asset Management counts among its clients many leading public and corporate pension funds, central banks, sovereign wealth funds and financial institutions.

Nomura Holdings Inc, the parent company of Nomura Asset Management, 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

Maple-Brown Abbott

Background

Maple-Brown Abbott was established in 1984, is independently owned by its directors and employees and is based in Sydney. They specialise in the management of investment portfolios across Australian equities, Asia Pacific ex-Japan equities and global listed infrastructure securities. They have built a very strong Australian equity business over their 30 year history and have been researching and managing broader Asian stocks since 2002. This was initially to provide greater insight to the competition affecting their Australian stocks but later led to a fully integrated sector research approach across the region. Maple-Brown Abbott manages AUD\$10.3 billion as at 30 June 2015.

Aim

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Maple-Brown Abbott'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 2014, prior to this the portfolio was managed by the in-house team on a passive basis.

Pioneer Investments

Background

A global investment management firm, founded in 1928, Pioneer Investments offers a diverse range of products across both traditional and non-traditional asset classes to clients that include institutions, corporations, intermediaries and private investors around the world. Today, Pioneer Investments has a presence in 28 countries worldwide and an experienced team of over 2,000 employees globally, including more than 360 investment professionals. Assets under management total £156 billion managed from our global investment centres in Boston, Dublin and London; supported by a network of local investments centres across the world. Pioneer Investments is fully owned by UniCredit, one of Europe's leading banking groups.

In April 2015, UniCredit, Santander, and affiliates of Warburg Pincus and General Atlantic signed a preliminary and exclusivity agreement to combine Pioneer Investments and Santander Asset Management. The combined firm will manage approximately £280 billion in assets under management. The parties to the agreement are currently working towards signing a definitive binding agreement and to full execution of the transaction subject to the customary regulatory approvals.

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 a global asset management business dedicated to building and providing focused investment solutions for clients that include local government organisations, pension funds, wholesale and retail banks, insurance companies, charities and private wealth managers. They employ over 300 investment professionals 940 people in 16 locations. Aviva have assets under management of approximately £248 billion across a range of real estate, equity and multi-asset, fixed income, money market and alternative funds.

Aviva Investors is the asset management business of Aviva plc, which 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 \$251 billion of assets, Neuberger Berman is one of the world's largest independently controlled asset managers. They have more than 2,150 employees worldwide (including 519 investment professionals) in over 18 countries across the globe, as at 30 June 2015.

NB Alternatives, a specialist part of Neuberger Berman, is a significant investor in private equity, with over US\$40 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 Technology Venture Partners LLP. 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 \$20.6 trillion of assets under custody 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.

Bank – NatWest

NatWest have been providing all of the standard banking requirements to the fund since these were split from Somerset County Council's bank accounts in March 2010.

NatWest is part of the Royal Bank of Scotland Group plc, which is listed on the London Stock Exchange.

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 offices across the UK. The firm also specialises in local government and the wider not for profit sector, including charity, education, social housing. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. The company is responsible for appointing auditors to local government, police and local NHS bodies and for setting audit fees. Before 1 April 2015, these responsibilities were discharged by the Audit Commission. PSAA has been tasked with ensuring that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014 and overseeing the delivery of consistent high quality and effective audit services to relevant authorities. Following the outsourcing of the Audit Commission's in-house 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 63 partners, with over 660 employees, including 82 associates, in seven offices across the UK.

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

- advice to defined-contribution pension schemes;
- accounting disclosures for UK and international companies;
- advice on business transactions;
- investment strategy reviews and advice on the funding strategy;
- pensions administration and management services, including pensioner payroll, preparing annual accounts and governance and secretarial services;
- tax-efficient retirement planning for executives, directors and wealthy individuals;
- actuarial advice to life, health and insurance markets in the UK and internationally;
- assistance to organisations on a wide range of their employee benefit package including pensions, wellbeing and retirement planning; and
- mortality investigations and analysis.

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 – Global Services Performance Services (formerly The WM Company)

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

GSPS provides performance measurement, compliance and strategic analysis services and employs more than 770 dedicated investment performance professionals across 18 offices worldwide. GSPS services approximately 1,280 clients with asset volumes exceeding \$12.6 billion.

GSPS currently measures about 90% of UK local authority pensions funds, with a combined value of more than £199 billion as at 31 March 2015. As well as producing the Local Authority Universe and CIPFA Statistics, GSPS is also responsible for working out the returns for the annual Local Government Conference Awards.

GSPS 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 65 local authority pension funds from across the country with combined assets of over £165 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.

The fund is also a member of the National Association of Pension Funds (NAPF)

Contributions and benefits

The Local Government Pension Scheme (LGPS) has been approved under the Local Government Superannuation Act 1972 and has been updated on a number of occasions since. The most recent version of the scheme is to move new benefits to a Career Average Revalued Earnings (CARE) scheme from 1st April 2014.

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 actual pay received, with nine contribution bands ranging from 5.5% to 12.5%.

Contribution rate	Salary range 2014-2015	Salary range 2015-2016
5.50%	£0 to £13,500	£0 to £13,600
5.80%	£13,501 to £21,000	£13,601 to £21,200
6.50%	£21,001 to £34,000	£21,201 to £34,400
6.80%	£34,001 to £43,000	£34,401 to £43,500
8.50%	£43,001 to £60,000	£43,501 to £60,700
9.90%	£60,001 to £85,000	£60,701 to £86,000
10.50%	£85,001 to £100,000	£86,001 to £101,200
11.40%	£100,001 to £150,000	£101,201 to £151,800
12.50%	More than £150,000	More than £151,801

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.

	2013/2014		2014/2015		2015/2016		2016/2017	
	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m
Common fund rate	17.9%	0.000	20.4%	0.000	20.4%	0.000	20.4%	0.000
Somerset County Council	13.5%	5.830	13.5%	7.173	13.5%	8.517	13.5%	9.860
Mendip District Council	13.0%	0.320	12.8%	0.410	12.8%	0.500	12.8%	0.590
Sedgemoor District Council	12.9%	0.520	13.0%	0.690	13.0%	0.860	13.0%	1.030
South Somerset District Council	18.4%	0.000	13.9%	0.640	13.9%	0.840	13.9%	1.040
Taunton Deane Borough Council	18.4%	0.000	13.5%	0.760	13.5%	0.990	13.5%	1.220
West Somerset District Council	13.2%	0.160	12.9%	0.210	12.9%	0.260	12.9%	0.310
Avon and Somerset Police	13.7%	0.000	11.0%	2.640	11.0%	2.760	11.0%	2.880
Avon and Somerset Probation	13.2%	0.220	13.2%	0.220	13.2%	0.220	13.2%	0.220
Further education colleges	13.0%	Variable	13.0%	Variable	13.0%	Variable	13.0%	Variable
Acadamies	15.1%	0.000	18.1%	0.000	18.1%	0.000	18.1%	0.000
Town councils	14.6%	Variable	14.9%	Variable	14.9%	Variable	14.9%	Variable
Admitted organisations	10.7% to 18.0%	Variable	11.0% to 25.1%	Variable	11.0% to 25.1%	Variable	11.0% to 25.1%	Variable

A full actuarial valuation of the fund was carried out as at 31 March 2013 and this showed a funding level of 75.3%. This was lower than the level at the 2010 valuation, principally because of a reduction in the discount rate used to calculate the liabilities, reflecting underlying market conditions. A fall in the funding level at the 2013 valuation inevitably saw increases in the contribution rates of most of the employers within the fund. Most employers have been asked 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 due using data from 31 March 2016. 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 pension calculated at $1/80^{\text{th}}$ of final salary for each year of service for pre-April 2008 service;
- A pension calculated at $1/60^{\text{th}}$ of final salary for each year of service for service between April 2008 and March 2014;
- A pension calculated on $1/49^{\text{th}}$ of actual pay for each year of service from April 2014 to provide a pension based on CARE (Career Average) salary;
- The revaluation of earnings as part of the CARE calculation will be based on CPI;
- Normal retirement age for post April 2014 service synchronised with state retirement age, Normal retirement age for pre-April 2014 service is 65;
- Up to 25% of the pension can be exchanged for a tax-free lump sum, $3/80^{\text{th}}$ of pre-April 2008 service will be paid as a 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;
- An 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; and
- 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.

There is a so called 50/50 option where an employee can chose to pay half the contributions but will accrue half of the benefits.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. The increase applied from April 2015 was 1.2%.

For more details of the current benefits visit the LGPS members' website: www.LGPS2014.org

Principles and policies

The statements, policies and principles listed below are those that were in place at 31st March 2015.

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 the Police and Crime Commissioner for Avon and Somerset;
 - 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.

Through an adopted scheme of delegation the County Council's Chief Financial Officer (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 quarters in a row, or in six quarters out of eight quarters, 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 employer 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
July 2013**

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. The fund believes that it is better to utilise these third parties to undertake its stewardship activities as they have significantly greater experience and resources with which to research stewardship issues and engage with companies.

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 stewardship activities.

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
July 2013**

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 the Police and Crime Commissioner for Avon and Somerset;
- 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 a 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
July 2013**

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
July 2013**

Governance Compliance Statement

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
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.	Compliant	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.	Compliant	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.	Not Applicable	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.	Not Applicable	There are no secondary committees or panels in place.

B – Representation		
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);	Compliant	The Pensions Committee includes representation of all the scheme employers, including the County Council, District Councils, the Police and the Admitted Bodies.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
iii) where appropriate, independent professional observers;	Compliant	The independent investment advisor attends all Pensions Committee Meetings.
iv) expert advisors (on an ad-hoc basis).	Compliant	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.

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.	Compliant	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.
C – Role of members		
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.	Compliant	All new members receive regular specific training and access to external training and seminars. 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. Specific Terms of Reference are also in place as part of the Fund's Governance Policy Statement and specific legal guidance as to the role of Members has been provided to the Committee by the County Council Monitoring Officer. 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.

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.	Compliant	Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.
D – Voting		
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.	Compliant	All members of the Pensions Committee have full voting rights.
E – Training, facility time and expenses		
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.	Compliant	A formal training policy for members has been adopted by the Pensions Committee. 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. All members are encouraged to undertake regular training including attendance at the specific training days. All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.

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.	Compliant	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	Compliant	A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	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.	Not Applicable	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.	Compliant	The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.

G – Access

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.

Compliant

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.

H – Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Compliant

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.

The Committee also receives regular reports and updates on approved policies including the communications policy statements.

There are also annual reports from the appointed actuary, external auditor and performance advisors.

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.

All references in this document to the Chief Financial Officer means the most senior finance officer and appointed Section 151 Officer of Somerset County Council, it does not refer to a job title for that individual. Where committee delegates tasks to the Chief Financial Officer they are then free to assign tasks to other officers at their discretion.

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. The Committee will meet with external fund managers periodically at their discretion 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 be informed by the Chief Financial Officer of applications from organisations who wish to join the fund as admitted bodies and any requests to alter the terms of an existing admission agreement. Where the regulations allow it the committee will approve any such applications and also may set any pre-conditions on the acceptance of new admitted bodies.

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.

Contract Standing Orders

The Contract Standing Orders of Somerset County Council apply to the operation of the Somerset County Council Pension Fund, however the Contract Standing Orders contain the ability for the Pensions Committee to exempt the fund from clauses where it is deemed this is necessary by Pensions Committee. The following sections of Contract Standing Orders will not apply to Contracts relating to the Fund and will be replaced by the provisions given below.

Section 24 – exempted in full

Replaced by:

No procurement process for requirements with a value of over £25,000 will commence before the requirement has been countersigned by the Chief Financial Officer

Section 29 – clarification

The relevant Senior Leadership Team officer for the fund is the Chief Financial Officer.

Use of a Waiver must be approved by the Chief Financial Officer.

Section 30 – exempted in full

Replaced by:

Approval to accept a proposal or tender can only be given by the Chief Financial Officer.

Section 31 – exempted in full

Replaced by:

Every contract shall be signed on behalf of the Council, acting in its capacity as the administering authority of the Pension Fund, by 2 officers who have been given authority to do so by the Chief Financial Officer.

Section 35 – partial exemption

Exempt from consulting with or obtaining the approval of the Business Development Director or Legal Services.

Replaced by:

Consult with specialist legal advisors.

Section 37 & Section 38 – partial exemption

Exempt from having to include SCC Terms and Conditions

Section 39, 40 & 41 – exempted in full

Replaced by:

A contract may only be signed after having been approved by specialist legal advisors.

Section 43 – partial exemption

Any variations or changes will need to be approved by the Chief Financial Officer and comply with Contract Standing Orders (as modified by this Pension's Committee Scheme of Delegation).

Section 45 – exempt from 45.1 in full

Replaced by:

Subject to the provisions of the contract, every extra or variation will be evidenced and authorised in writing by the Council Officer responsible for the contract or the agent acting on behalf of the Council.

All variations will be reported to the Chief Financial Officer.

Section 46 – exempted in full

Replaced by:

Approval of the Chief Financial Officer must be sought to terminate a contract.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
March 2014**

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 1st 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 2nd and 3rd 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
July 2013**

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 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 arrange pre-retirement seminars for members approaching retirement.

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 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.

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. The fund also has an ambition to develop a member self service website.

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 2013**

Pension administration strategy

1. Introduction

Peninsula Pensions is a shared pension administration service, run by Devon County Council, providing the Local Government Pension Scheme (LGPS) administration for both Devon and Somerset administering authorities.

The shared service started on 1 September 2013 with both teams coming together in one office in February 2014.

The Devon and Somerset Pension Funds and their Committees remain independent from each other with each Administering Authority retaining Investment responsibility. Both the Devon and Somerset Pension Fund Committees, have agreed to the implementation of a Pension Administration Strategy (PAS). Although there will be one strategy per fund, the contents will be the same for both, to ensure an equal, efficient and quality service for all stakeholders.

The Pensions Administration Strategy supports the pension fund on behalf of its employing authorities and the administering authority. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations.

In no circumstances does this strategy override any provision or requirement of the regulations set out below nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

The Fund will review and revise this policy statement if policies which relate to strategy matters change. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

2. The Regulations

In accordance with Regulation 59 of the Local Government Pension Scheme (Administration) Regulations 2013:

- 1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.
- 2) The matters are:
 - a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
 - b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
 - (i) the setting of performance targets,
 - (ii) the making of agreements about levels of performance and associated matters, or
 - (iii) such other means as the administering authority considers appropriate;
 - c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
 - d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
 - e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

- f) the publication by the administering authority of annual reports dealing with:
 - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
 - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and

g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

3) An administering authority must:

a) keep its pension administration strategy under review; and

b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

5) An administering authority must publish:

a) its pension administration strategy; and

b) where revisions are made to it, the strategy as revised.

6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

3. The Administration Strategy

This strategy formulates the administrative arrangements between the pension fund and the participating employing authorities. It recognises that both fund employers and Peninsula Pensions have a shared role in delivering an efficient and effective pension fund to its scheme members and this can only be achieved by co-operation.

With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

An annual report will be issued by Peninsula Pensions to illustrate the extent to which the standard of performance established under this strategy has been achieved and such other matters arising from the strategy as appropriate.

4. Liaison and Communication

The delivery of a high quality, cost-effective administration service is not the responsibility of just the administering authority, but depends on the administering authority working with a number of individuals in different organisations to make sure that members and other interested parties receive the appropriate level of service and ensure that statutory requirements are met.

Peninsula Pensions will have an Employer Liaison Officer who will be the main contact for any administration query relating to the correct interpretation of the LGPS regulations, employer responsibilities and help when completing interfaces and forms.

Each employing authority will designate named individual(s) to act as a **Pensions Liaison Officer** the primary contact with regard to any aspect of administering the LGPS. The Pension Liaison Officer(s) will be given a user name and password to access the employer section of the Peninsula Pensions website

Peninsula Pensions will employ a multi-channel approach in liaising and communicating with employing authorities to ensure that all requirements are consistently met.

The various channels of communication employed by the fund include:

1. **Peninsula Pensions website** – the main communication tool for both employers and scheme members.
 - o **Employers** – Dedicated and secure employer section where employers can access procedure guides, information on courses run by the fund, access back copies of the Pensions Line, access Employer Self Service and Interface information.
 - o **Electronic communication** – unless agreed separately all employers will be required to provide data through the Employer Self Service Portal and/or Interfaces.
 - o **Scheme members** – access to up-to-date information about all aspects of the LGPS. Member Self service area where member's can update personal details, review annual benefit statements and newsletters and do their own pensions estimates.
 - o **Contact Details** – All Peninsula Pension Staff roles and contact information together with both Funds Investment Team contact details
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. **Periodic newsletters** issued to scheme members and all employing authorities and placed on Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding, minimum number of attendees 10 required
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Quarterly E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held when required to review scheme developments, or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review the investment and administrative issues that the pension fund has experienced during the preceding 12 months, and also to look forward at the challenges that lie ahead for the next 12 months.
9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

Note: Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

Payroll providers – where an employer delegates responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form needs to be completed confirming which areas you are allowing them to act on your behalf for. If the information received from the payroll provider results in wrong information/benefit being paid the responsibilities under the Local Government Pension Regulations rest with the Employer.

5. Standards of Performance - Employers

Expectation is to complete 90% of cases within the timescale quoted.

Employer Responsibility	Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods
To ensure that all employees subject to automatic admission are brought into the scheme from the date of appointment. Determine their pensionable pay and contribution rate.	1 month
Update Peninsula Pensions with changes to scheme members details such as change of hours or name.	1 month
Deduct scheme member contributions including APCs and pay over to the fund.	As stipulated by your pension fund
To deduct from a members pay and pay over any Additional Voluntary Contributions (AVCs) to the in-house AVC provider	Before the 19 th of the following month after deducted from pay
On cessation of membership determine reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Retirees preferably at least 1 month before date of leaving.. All within 5 working days of final payday. Leavers under age 55 within 1 month from final payday.
Where a member dies in service determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Preferably within 2 weeks of date of death. All within 5 working days of final payday.
Provide monthly CARE data within required format	Within 2 weeks of pay run
Provide end-of-year data within required format	30 April each year

Publishing a policy relating to the key employing authority discretions required by the LGPS regulations	Within 1 month of publication
Under Data Protection Act 1998 an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS.	Ongoing requirement
There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct .	Annually

6. Level of Performance – Peninsula Pensions

Expectation is to complete 90% of cases within timescale quoted based on all relevant information being received from the scheme employer.

Peninsula Pensions Responsibility	Timescale
To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.	Ongoing support
Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.	Ongoing support
To accurately record and update member records on pension administration systems.	10 working days
To produce a statutory notification and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.	1 month of notification
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	3 months
To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.	Sent out/available on MSS by 31 August

To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.	Sent out/available on MSS by 30 June
To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.	Within 10 working days
To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 10 working days
To produce retirement estimates for employers, once in receipt of all of the necessary information.	Within 10 working days
To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records, and authorise payment of lump sum and set up of payroll record.	Within 5 working days
Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	Ongoing requirement, online security within databases regularly reviewed.

Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.	Peninsula Pensions will maintain links to these discretions on their website.
Notification of Pension Fund Triennial Valuation results including contributions rates	Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

7. Financial Information

Contributions (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

Employer contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

Administration fees and other charges

Interest on late payments

- In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.
- Interest will be calculated at 1% above base rate on a day-to-day basis from the due date to the date of payment and compounded with three-monthly rests.

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case, and
- the extent to which the pension fund and the employing authority have complied with those provisions in carrying out their functions under these regulations.

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three year period.

The costs associated with the administration of the scheme are charged directly to the pension fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

Note: If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Please note charges are set out separately within the attached appendix.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
March 2015**

Director of Finance and Performance's report

Investment activity

During the 2014-2015 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 0.9% to 1.2% of the fund as we move to ultimately having 3% of the fund invested in private equity.

At the end of the 2012-2013 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. Maple-Brown Abbott was appointed as the new manager of this mandate and they took control of the account in July 2014.

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 sixth full year. The Bank did not purchase any further UK gilts under the quantitative easing program during the year.

Investment returns

Returns for the year were positive for the whole fund over the whole year. Markets during the year were relatively consistent and appreciated in each quarter. Returns were particularly strong in the second half of the year after producing a more steady 4.5% in the first half of the year. Returns from most of the equities were in high single figures with the UK being the exception, US returns were particularly strong when converted in GB pounds due to the strength of the US dollar. Bond returns were very strong as geopolitical tension in Ukraine and the Middle East and continued debt problems in Greece led to investors seeking safe haven assets. Property returns were also strong with returns in the mid-teens.

Key market indicators

	Start of year	End of year	Percentage change for the year
Base rate	0.50%	0.50%	
Strength of sterling			
against US dollars	1.67	1.48	-11%
euro	1.21	1.38	14%
yen	172.00	178.00	3%
Stock markets (quoted in local currency)			
FTSE 100 (UK)	6,598	6,773	3%
FTSE All Share (UK)	3,556	3,664	3%
Dow Jones (USA)	16,458	17,776	8%
S&P 500 (USA)	1,872	2,068	10%
FTSE Eurofirst 300 ex UK (Europe)	1,502	1,799	20%
Nikkei 225 (Japan)	14,828	19,207	30%
MSCI Emerging Market	995	975	-2%

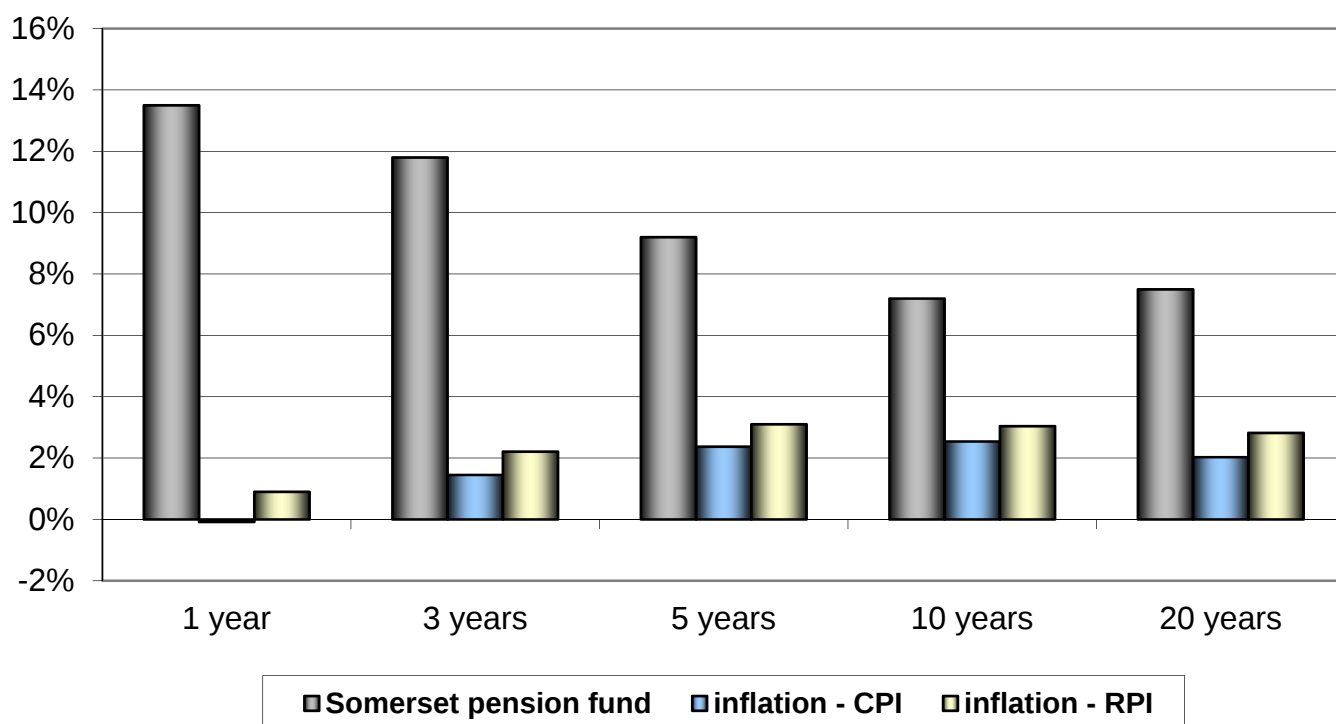
Source: Bank of England
Bloomberg

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 2014/2015, 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 38th out of 84 funds for 2014/2015, compared with being 27th out of 84 in 2013/2014.

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 29th out of 79 local-authority funds. Over the 10-year period, we are placed 55th out of 72 funds. Over 20 years, we are 40th out of 59 funds.

Annualised time-weighted return

	One year %	Five years %	10 years %	20 years %
Best	25.0	11.9	10.7	9.5
Upper 25%	14.9	9.6	8.4	8.1
Weighted average	13.2	8.7	7.9	7.8
Lower 25%	11.8	8.2	7.3	7.4
Worst	1.1	2.9	4.5	6.0
Somerset	13.5	9.2	7.2	7.5
Position out of 100	45	36	76	67
Ranked	38	29	55	40
out of	84	79	72	59

Source: WM Company

Overall fund performance

Like most pension funds, the fund's total return was positive for the financial year at a return of 13.5%. 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 14.1% and the fund underperformed against this by 0.6%. 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	20.3%	19.4%	0.9%
Standard Life	UK equity	3.8%	6.6%	-2.8%
Somerset County Council	Passive US equity	26.0%	26.6%	-0.6%
Jupiter	European equity	13.8%	7.5%	6.3%
Nomura	Japanese equity	26.1%	26.0%	0.1%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	3.9%	12.8%	-8.9%
Standard Life	Bonds	15.5%	16.1%	-0.6%
Aviva	Property	15.3%	16.6%	-1.3%
Neuberger Berman	Global private equity	24.8%	0.3%	24.5%
Technology Venture Partners	Venture capital	0.0%	0.3%	-0.3%
Somerset County Council	Cash	0.5%	0.3%	0.2%
Whole Fund		13.5%	14.1%	-0.6%

Source: WM Company

3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	15.7%	15.4%	0.3%
Standard Life	UK equity	11.3%	10.6%	0.7%
Somerset County Council	Passive US equity	18.5%	19.0%	-0.5%
Jupiter	European equity	17.9%	14.1%	3.8%
Nomura	Japanese equity	11.6%	12.3%	-0.7%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	-0.6%	2.8%	-3.4%
Standard Life	Bonds	9.8%	9.3%	0.5%
Aviva	Property	8.2%	9.4%	-1.2%
Neuberger Berman	Global private equity	18.1%	0.4%	17.7%
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.9%	0.4%	0.5%
Whole Fund		11.8%	11.2%	0.6%

Source: WM Company

5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	11.1%	10.9%	0.2%
Standard Life	UK equity	9.1%	8.3%	0.8%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	13.1%	7.2%	5.9%
Nomura	Japanese equity	7.7%	6.9%	0.8%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	-1.7%	2.2%	-3.9%
Standard Life	Bonds	9.3%	9.5%	-0.2%
Aviva	Property	7.8%	8.4%	-0.6%
Neuberger Berman	Global private equity	3.7%	0.4%	3.3%
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	1.0%	0.4%	0.6%
Whole Fund		9.2%	9.0%	0.2%

Source: WM Company

10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	10.5%	10.5%	0.0%
Standard Life	UK equity	5.6%	5.0%	0.6%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	11.2%	8.3%	2.9%
Nomura	Japanese equity	Initial investment in March 2010		
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	Initial investment in March 2009		
Standard Life	Bonds	Initial investment in February 2008		
Aviva	Property	3.8%	4.2%	-0.4%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Technology Venture Partners	Venture capital	0.0%	2.1%	-2.1%
Somerset County Council	Cash	Comparable data not available		
Whole Fund		7.2%	7.5%	-0.3%

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 2015.

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 Education). 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 nine tiered contribution bands dependent on the individual employee's pay, the nine contribution bands range from 5.5% to 12.5%. 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 rates for the 2014-2015 financial year were the first year covered by the valuation of the fund as at 31 March 2013. 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 2014 to 2017 plus a fixed sum of £7.17m for 2014/2015, £8.52m for 2015/2016 and £9.86m for 2016/2017. This compares with a rate of 13.5% and a lump sum of £5.83m for the 2013/2014 year set under the 2010 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 20.4% at the 2013 valuation (17.9% at the 2010 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 20.4% is made up of a rate of 13.4% for new service and 7.0% for deficit funding. As part of the 2013 valuation all employers except academy schools 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 75% of the fund's liabilities.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-2014 service and to career average re-valued earnings (CARE) for 2014 and beyond service, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Fund Account

2013/2014		2014/2015		Notes
£ millions	£ millions	£ millions	£ millions	
Restated				
	Contributions and other income			
20.002	Contributions from employees	20.328		1
53.060	Contributions from employers	59.283		1
1.458	Recoveries from member organisations	1.425		1
4.830	Transfer values received	2.552		2
79.350		83.588		
	Less benefits and other payments			
-59.432	Recurring pensions	-61.789		1
-11.775	Lump sum on retirement	-14.513		1
-1.549	Lump sum on death	-1.383		1
-4.345	Transfer values paid	-69.269		2
-0.008	Refund of contributions to leavers	-0.087		3
-77.109		-147.041		
2.241	Net additions from dealings with members		-63.453	
	Management Expenses			
-1.316	Administrative expenses	-0.993		4
-4.309	Investment management expenses	-5.063		5
-0.550	Oversight and governance expenses	-0.599		6
-6.175		-6.655	-6.655	
	Investment income			
46.759	Investment income received	47.766		7
4.771	Investment income accrued	5.131		7
-0.805	Less irrecoverable tax	-0.679		
0.007	Other income (such as commission)	0.003		
50.732		52.221		
	Change in market value of investments			
55.460	Realised profit or loss	69.068		9
-1.187	Unrealised profit or loss	74.375		9
54.273		143.443		
105.005	Net return on investments		195.664	
101.071	Net increase in the net assets available for benefits during the year		125.556	
	Change in actuarial present value of promised retirement benefits			
-199.996	Vested benefits	-723.812		10
93.658	Non-vested benefits	281.510		10
-106.338	Net change in present value of promised benefits		-442.302	
-5.267	Net increase/(decrease) in the fund during the year		-316.746	
-1,111.972	Add net liabilities at beginning of year		-1,117.239	
-1,117.239	Net liabilities at end of year		-1,433.985	

Net Asset Statement

On 31 March 2014 £ millions		On 31 March 2015 £ millions		Notes
	Investment assets and liabilities			
1,461.211	Investment assets	1,591.174		8
-0.008	Investment liabilities	-0.324		8
5.543	Other investment balances	0.463		11
	Current assets			
4.746	Contributions due from employers	4.818		
0.000	Cash at bank	0.000		
0.632	Other debtors	0.508		
	Current liabilities			
0.000	Unpaid benefits	0.000		
-0.622	Bank overdraft	-0.004		
-1.846	Other creditors	-1.423		
1,469.656	Net assets of the scheme available to fund benefits at end of year	1,595.212		
	Actuarial present value of promised retirement benefits			
-2,159.986	Vested benefits	-2,883.798		10
-426.909	Non-vested benefits	-145.399		10
-1,117.239	Net liabilities at end of year	-1,433.985		

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 2014/15, 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 and the Neuberger Berman Crossroads XX fund are valued using data supplied by the funds 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;
- 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; and
- Cash and cash equivalents on the Net Asset statement are restricted to 'cash at bank' and 'bank overdraft'. All cash (overdraft) not in the pensions fund's standard bank account with NatWest is treated as an Investment asset and is shown in note 8.

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	8.526	10.016	1.420	19.962
- Additional	0.178	0.168	0.020	0.366
Total	<u>8.704</u>	<u>10.184</u>	<u>1.440</u>	20.328
Employers' contributions				
- Normal	18.682	19.570	2.982	41.234
- Augmentation	0.675	0.631	0.032	1.338
- Deficit funding	7.173	8.464	1.074	16.711
Total	<u>26.530</u>	<u>28.665</u>	<u>4.088</u>	59.283
Recurring pension and lump sum payments	-37.829	-32.890	-6.966	-77.685
Money recovered from member organisations	0.064	1.332	0.029	1.425
	<u>-2.531</u>	<u>7.291</u>	<u>-1.409</u>	<u>3.351</u>

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
County council			
Somerset	8.704	26.530	35.234
Police & Crime Commissioner			
Avon & Somerset	4.280	9.986	14.266
District councils			
Mendip	0.271	0.936	1.207
Sedgemoor	0.536	1.782	2.318
South Somerset	0.698	2.083	2.781
Taunton Deane	0.868	2.731	3.599
West Somerset	0.038	0.450	0.488
Parish and town councils			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.004	0.012	0.016
Burnham & Highbridge Burial Board	0.005	0.017	0.022
Chard Town Council	0.011	0.035	0.046
Cheddar Parish Council	0.004	0.005	0.009
Crewkerne Town Council & Burial Board	0.008	0.024	0.032
Frome Town Council	0.019	0.055	0.074
Glastonbury Town Council	0.007	0.019	0.026
Ilminster Town Council	0.004	0.013	0.017
Langport Town Council	0.001	0.002	0.003
Lower Brue Drainage Board	0.029	0.077	0.106
Minehead Town Council	0.006	0.019	0.025
Nether Stowey Parish Council	0.001	0.003	0.004
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.001	0.005	0.006
Street Parish Council	0.003	0.008	0.011
Wellington Town Council	0.001	0.002	0.003
Wells Burial Board & Parish Council	0.022	0.032	0.054
Williton Parish Council	0.001	0.002	0.003
Wincanton Town Council	0.003	0.008	0.011
Yeovil Town Council	0.010	0.027	0.037
Other bodies			
Avon and Somerset Probation Trust	0.140	0.317	0.457
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.119	0.295	0.414
Further-education colleges			
Bridgwater College	0.571	1.346	1.917
Richard Huish Sixth Form College	0.100	0.235	0.335
Somerset College of Art and Technology	0.257	0.593	0.850
Strode College	0.127	0.331	0.458
Yeovil College	0.217	0.494	0.711

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Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies			
Ansford Academy	0.027	0.084	0.111
Avishayes Academy	0.017	0.055	0.072
Axbridge Academy	0.010	0.034	0.044
Bath & Wells Academy Trust	0.118	0.360	0.478
Bishop Fox's Academy	0.041	0.125	0.166
Bridgwater College Academy	0.091	0.277	0.368
Brookside Academy	0.062	0.193	0.255
Bruton Sexey's School	0.043	0.116	0.159
Brymore Academy	0.052	0.153	0.205
Buckland St. Mary Church of England School	0.000	0.001	0.001
Buckler's Mead Academy	0.046	0.141	0.187
Buckler's Mead Leisure	0.002	0.008	0.010
Castle Academy	0.062	0.174	0.236
Castle Primary School	0.001	0.002	0.003
Courtfields Academy	0.042	0.129	0.171
Crispin Academy	0.055	0.167	0.222
Danesfield Academy	0.027	0.084	0.111
Enmore Academy	0.005	0.016	0.021
Hambridge Primary School	0.001	0.003	0.004
Hamp Academy	0.019	0.060	0.079
Hayesdown Academy	0.013	0.042	0.055
Haygrove Academy	0.053	0.161	0.214
Holyrood Academy	0.062	0.188	0.250
Horrington Primary School	0.007	0.021	0.028
Huish Academy	0.017	0.052	0.069
Huish Episcopi Academy	0.068	0.208	0.276
Huish Episcopi Primary Academy	0.001	0.002	0.003
King Ina C of E Academy	0.012	0.041	0.053
Kings of Wessex Academy	0.044	0.127	0.171
Kings of Wessex Leisure	0.012	0.028	0.040
Kingsmead Academy	0.043	0.128	0.171
Maiden Beech Academy	0.029	0.086	0.115
Manor Court Primary School	0.022	0.070	0.092

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Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies (continued)			
Middlezoy Primary School	0.000	0.001	0.001
Minehead Middle School	0.038	0.114	0.152
North Town Academy	0.018	0.058	0.076
Oakfield Academy	0.029	0.093	0.122
Old Cleeve Academy	0.011	0.033	0.044
Othery Primary School	0.000	0.001	0.001
Pen Mill Academy	0.014	0.044	0.058
Preston Academy	0.049	0.144	0.193
Preston C of E Primary School	0.019	0.064	0.083
Priorswood Academy	0.012	0.038	0.050
Redstart Academy	0.023	0.067	0.090
Selwood Academy	0.036	0.111	0.147
St. Dunstan's Academy	0.025	0.079	0.104
St. Cuthbert's Academy	0.007	0.023	0.030
St. Michael's Academy	0.013	0.041	0.054
St. Peter's Academy	0.008	0.023	0.031
Stanchester Academy	0.029	0.091	0.120
Steiner Academy, Frome	0.011	0.033	0.044
Tatworth Academy	0.007	0.024	0.031
Taunton Academy	0.047	0.148	0.195
The Blue School, Wells	0.084	0.258	0.342
Weare Academy	0.009	0.027	0.036
Wedmore Academy	0.012	0.038	0.050
Wellesley Park Primary School	0.016	0.051	0.067
West Somerset Community College	0.095	0.334	0.429
Westfield Academy	0.053	0.159	0.212
Whitstone Academy	0.030	0.092	0.122
Willowdown Academy	0.008	0.024	0.032
Woolavington Academy	0.012	0.040	0.052
Total other scheduled employers	<u>10.184</u>	<u>28.665</u>	<u>38.849</u>

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Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Admitted bodies			
Aster Communities Ltd	0.050	0.199	0.249
BAM FM	0.009	0.025	0.034
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.002	0.008	0.010
Edward and Ward Ltd	0.030	0.095	0.125
Glen Cleaning Company Ltd	0.000	0.001	0.001
Homes in Sedgemoor	0.103	0.236	0.339
ICM	0.013	0.041	0.054
Learning South West	0.014	0.052	0.066
Leisure East Devon	0.013	0.023	0.036
Magna West Somerset Housing Association	0.086	0.225	0.311
Mama Bear's	0.001	0.006	0.007
May Gurney Ltd	0.029	0.078	0.107
MD Building Services	0.032	0.081	0.113
National Autistic Society	0.012	0.044	0.056
NSL Ltd	0.028	0.075	0.103
SHAL Housing Ltd	0.040	0.115	0.155
1610 Ltd	0.055	0.098	0.153
SASP	0.015	0.030	0.045
Society of Local Council Clerks	0.021	0.053	0.074
Somerset Care Ltd	0.064	0.330	0.394
Somerset Rural Youth Project	0.001	0.003	0.004
South West Audit Partnership	0.115	0.322	0.437
South West Heritage	0.033	0.079	0.112
South West Provincial Councils	0.039	0.176	0.215
Taylor Shaw Ltd	0.001	0.004	0.005
Tone Leisure Ltd	0.084	0.173	0.257
Wyvern Nursery Ltd	0.025	0.048	0.073
Yarlington Housing Group	0.521	1.459	1.980
Total admitted employers	<u>1.440</u>	<u>4.088</u>	<u>5.528</u>
Total	<u>20.328</u>	<u>59.283</u>	<u>79.611</u>

Note 2: Transfer values

2013/2014 £ millions		2014/2015 £ millions
0.000	Group transfer values received	0.000
4.830	Individual transfer values received	2.552
4.830		2.552
0.000	Group transfer values paid	-63.123
-4.345	Individual transfer values paid	-6.146
-4.345		-69.269

Note 3: Refunds

2013/2014 £ millions		2014/2015 £ millions
-0.006	Contributions refunded to members who leave service	-0.059
-0.003	Interest accumulated on refunds agreed in the past	-0.003
-0.009		-0.062
0.000	Deductions from contributions equivalent premium	-0.035
0.001	Less payments to Department for Work and Pensions contributions equivalent premium	0.010
-0.008		-0.087

Note 4: Administrative expenses

2013/2014 £ millions		2014/2015 £ millions
-0.455	Benefits administration costs charged by Somerset CC	-0.216
-0.769	Benefits administration costs charged by Devon CC	-0.749
-1.224		-0.965
-0.003	Legal advice costs charged by Somerset CC	0.000
-0.045	External legal advice	-0.028
-0.048		-0.028
-0.044	Other expenses	0.000
-1.316		-0.993

Note 5: Investment management expenses

2013/2014 £ millions		2014/2015 £ millions
	Fund manager fees	
-0.224	Aviva	-0.252
-0.846	Jupiter*	-0.689
0.000	Maple-Brown Abbott*	-0.176
-0.169	Pioneer	-0.191
-0.041	Somerset County Council	-0.042
-1.439	Standard Life*	-1.566
-0.360	Other fund managers	-0.449
-3.079		-3.365
	Other expenses	
-0.800	Transaction costs	-1.246
-0.041	Custody fees	-0.045
-0.389	Property unit trust managers' fees	-0.407
-1.230		-1.698
-4.309		-5.063

The “other fund manager” fees identified above is an estimate of fund management fees that are deducted from within investments held by the pension fund but not invoiced to the fund.

*The fund manager fees for these managers may include performance related fees. The total performance related fees attributable to the 2014/2015 financial year are £781,000 (£827,000 in 2013/2014).

The transaction costs shown above are broken down as follows:

2013/2014				2014/2015	
£ millions	£ millions			£ millions	£ millions
Broker				Broker	
comm-issions	Taxes and Fees	Manager	Asset Class	comm-issions	Taxes and Fees
Purchase Costs					
0.019	0.019	Somerset County Council	Passive global equity	0.028	0.043
0.113	0.380	Standard Life	UK equity	0.173	0.558
0.011	0.000	Somerset County Council	Passive US equity	0.009	0.000
0.017	0.013	Jupiter	European equity	0.012	0.002
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.000	0.000	Maple-Brown Abbott	Far East equity	0.067	0.014
0.010	0.010	Somerset County Council	Far East equity	0.000	0.000
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.170	0.422			0.289	0.617
Sales Costs					
0.019	0.020	Somerset County Council	Passive global equity	0.031	0.018
0.101	0.000	Standard Life	UK equity	0.171	0.000
0.012	0.001	Somerset County Council	Passive US equity	0.010	0.001
0.017	0.000	Jupiter	European equity	0.027	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.000	0.000	Maple-Brown Abbott	Far East equity	0.045	0.037
0.010	0.028	Somerset County Council	Far East equity	0.000	0.000
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.159	0.049			0.284	0.056
0.329	0.471			0.573	0.673
	0.800				1.246

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

Note 6: Oversight and governance expenses

2013/2014 £ millions		2014/2015 £ millions
0.000	Committee services costs charged by Somerset CC	0.000
-0.183	Investments administration costs charged by Somerset CC	-0.271
-0.183		-0.271
-0.128	Actuary's fees	-0.112
0.038	Recharge of Actuary's fees to employers	0.048
-0.090		-0.064
-0.024	External audit fees	-0.024
0.000	Fee rebate	0.003
-0.024		-0.021
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.054	Professional services and subscriptions	-0.057
-0.121	IT systems	-0.125
-0.021	Performance measurement fees	-0.022
-0.002	External legal advice	-0.006
-0.022	Voting advice fees	-0.023
-0.033	Other expenses	-0.010
-0.550		-0.599

Note 7: Investment income

2013/2014 £ millions		2014/2015 £ millions
10.259	Fixed interest	10.293
0.590	Index linked	0.672
17.711	UK equities	14.347
12.479	Foreign equities	13.344
10.192	Property unit trusts	13.764
0.148	Cash invested internally	0.192
0.000	Venture capital	0.000
0.000	Commission recapture	0.000
0.151	Stock lending	0.285
51.530		52.897

Note 8: Investment Assets & Liabilities

31 March 2014				31 March 2015			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
UK equities							
396.744		27.2		403.005		25.3	
9.375		0.6		8.604		0.5	
406.119		27.8		411.609		25.8	
Overseas equities							
279.408		19.1		329.413		20.7	
157.235		10.8		161.615		10.2	
30.740		2.1		37.042		2.3	
63.304		4.3		69.320		4.4	
0.955		0.1		0.936		0.1	
0.000		0.0		3.556		0.2	
38.027		2.6		47.940		3.0	
60.901		4.2		63.497		4.0	
630.570		43.2		713.319		44.9	
Bonds							
36.583		2.5		41.535		2.6	
105.719		7.2		126.265		7.9	
11.918		0.8		8.915		0.6	
0.000		0.0		0.000		0.0	
4.768		0.3		5.608		0.4	
33.241		2.3		30.611		1.9	
56.613		3.9		64.468		4.0	
0.000		0.0		0.246		0.0	
248.842		17.0		277.648		17.4	
Property							
134.862		9.2		151.175		9.5	
5.753		0.4		3.451		0.2	
140.615		9.6		154.626		9.7	
Private equity							
9.823		0.7		14.031		0.9	
1.932		0.1		3.004		0.2	
1.920		0.1		1.920		0.1	
13.675		0.9		18.955		1.2	
Derivatives							
0.150		0.0		1.276		0.1	
0.000		0.0		0.000		0.0	
0.150		0.0		1.276		0.1	
Cash and others							
21.240		1.5		13.741		0.9	
21.240		1.5		13.741		0.9	
<u>1,461.211</u>		<u>100.0</u>	Investment assets	<u>1,591.174</u>		<u>100.0</u>	

Table continued on next page

Note 8: Investment Assets & Liabilities (continued)

31 March 2014				31 March 2015			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
Derivatives							
-0.008		0.0		-0.324		0.0	
0.000		0.0		0.000		0.0	
-0.008		0.0		-0.324		0.0	
<u>-0.008</u>		<u>0.0</u>	Investment liabilities	<u>-0.324</u>		<u>0.0</u>	
<u>1,461.203</u>		<u>100.0</u>	Net investment assets	<u>1,590.850</u>		<u>100.0</u>	
Made up of							
1,177.409			Historical cost	1,232.681			
283.794			Unrealised profit or loss	358.169			
<u>1,461.203</u>				<u>1,590.850</u>			

Note 9: 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
2013/2014	Total	1,361.639	-39.363	1,043.327	-958.673	55.460	-1.187	1,461.203
Somerset County Council	Global equity	356.910	0.000	111.682	-118.047	25.019	28.901	404.465
Standard Life	UK equity	376.771	0.000	148.039	-136.289	14.254	-21.498	381.277
Somerset County Council	US equity	75.935	0.000	44.904	-47.472	6.406	9.356	89.129
Jupiter	European equity	90.015	0.000	15.685	-22.002	3.096	5.564	92.358
Nomura	Japanese equity	38.027	0.000	0.000	0.000	0.000	9.913	47.940
SCC / M-BA	Far East equity	38.130	0.000	34.926	-27.334	-0.580	1.120	46.262
Pioneer	Emerging Market equity	60.901	0.000	0.000	0.000	0.000	2.596	63.497
Standard Life	Bonds	248.842	0.000	117.524	-109.856	-2.133	23.271	277.648
Standard Life	Derivatives	0.084	0.000	711.888	-712.038	0.149	0.622	0.705
Aviva	Property	140.615	0.000	10.374	-4.622	-2.761	11.020	154.626
Aviva	Currency	0.058	0.000	32.877	-32.877	0.000	0.189	0.247
Neuberger Berman	Global private equity	11.755	0.000	3.402	-1.220	-0.050	3.148	17.035
TVP	UK venture capital	1.920	0.000	0.000	0.000	0.000	0.000	1.920
Somerset County Council	Cash	21.240	-33.340	0.000	0.000	25.668	0.173	13.741
2014/2015	Total	<u>1,461.203</u>	<u>-33.340</u>	<u>1,231.301</u>	<u>-1,211.757</u>	<u>69.068</u>	<u>74.375</u>	<u>1,590.850</u>

Note 10: Actuarial present value of promised retirement benefits

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.

To assess the value of the Fund's liabilities at 31 March 2015, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013

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. The assumptions used are as follows:

31 March 2014		31 March 2015
Financial assumptions		
3.6%	RPI increases	3.3%
2.8%	CPI increases	2.5%
5.0%	Salary increases	4.3%
2.8%	Pension increases	2.5%
4.5%	Discount Rate	3.4%
Life expectancy (from age 65)		
23.6	Retiring today - Males	23.7
26.0	- Females	26.1
25.8	Retiring in 20 years - Males	26.0
28.3	- Females	28.4

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 20 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

CPI is assumed to be 0.8% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are assumed to increase at 1.8% per annum above CPI in addition to a promotional scale.

The discount rate is the annualised yield at the 20 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

2013/2014 £ millions	2014/2015 £ millions
77.329	79.362
112.872	111.526
126.633	407.323
59.559	0.000
-215.807	0.000
0.000	-95.516
-73.826	-84.602
1.111	3.901
18.467	20.308
106.338	442.302

Note 11: Other investment balances

31 March 2014 £ millions		31 March 2015 £ millions	
Assets			
3.820	- Accrued income		4.214
0.951	- Accrued Recoverable tax		0.917
2.452	- Payments due on investments sold		0.372
<u>7.223</u>			<u>5.503</u>
Liabilities			
-1.680	- Payments not made on purchases and losses due on sales		-5.040
<u>5.543</u>			<u>0.463</u>

Note 12: Management structure

31 March 2014 £ millions		%	Manager	Asset class	31 March 2015 £ millions	%
356.910	24		Somerset County Council	Passive global equity	404.465	25
376.771	26		Standard Life	UK equity	381.277	24
75.935	5		Somerset County Council	Passive US equity	89.129	6
90.015	6		Jupiter	European equity	92.358	6
38.027	3		Nomura	Japanese equity	47.940	3
0.000	0		Maple-Brown Abbott	Far East equity	46.262	3
38.130	3		Somerset County Council	Far East equity	0.000	0
60.901	4		Pioneer	Emerging market equity	63.497	4
248.926	17		Standard Life	Bonds	278.353	17
140.673	10		Aviva	Property	154.873	10
11.755	1		Neuberger Berman	Global private equity	17.035	1
1.920	0		Technology Venture Partners	UK venture capital	1.920	0
21.240	1		Somerset County Council	Cash	13.741	1
1,461.203	100		Net investment assets		1,590.850	100

Note 13: Major holdings

31 March 2014				31 March 2015	
Rank	£ millions	Stock	Description	Rank	£ millions
1	60.901	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	63.497
2	38.027	Nomura Japan Fund	Pooled fund of Japanese equities	2	47.940
3	25.465	HSBC	UK bank	3	24.904
9	11.812	Aviva Pooled Pension PUT	UK property unit trust	4	15.699
5	16.493	BP	UK oil company	5	15.291
10	11.801	Schroders UK PUT	UK property unit trust	6	15.281
4	22.862	Royal Dutch Shell	UK oil company	7	15.267
21	8.839	Barclays	UK bank	8	15.232
7	13.491	Vodafone	UK mobile phone company	9	14.136
14	9.823	Neuberger Berman Crossroads 2010 fund	Private equity fund	10	14.031
39	6.251	Lloyds Bank	UK bank	11	13.619
15	9.507	Prudential	UK life insurance company	12	12.950
29	7.319	Glencore	UK mining company	13	12.490
6	14.120	Glaxosmithkline	UK pharmaceutical company	14	12.470
11	10.755	Blackrock property fund	UK property unit trust	15	12.216
27	7.404	Apple	US consumer electronics company	16	12.054
8	12.162	Rio Tinto	UK mining company	17	12.041
12	10.459	BT	UK fixed line phone company	18	11.305
19	9.007	IPIF	UK property unit trust	19	11.281
16	9.460	Lendlease	UK property unit trust	20	10.594

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 14: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate 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 2014				31 March 2015		
£ millions				£ millions		
Asset	Liability	Net value		Asset	Liability	Net value
Forward foreign-exchange contracts						
0.092	-0.008	0.084	Standard Life fixed Interest	1.029	-0.324	0.705
0.058	0.000	0.058	Aviva	0.247	0.000	0.247
0.150	-0.008	0.142		1.276	-0.324	0.952
Government bond futures						
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Austrian 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
0.000	0.000	0.000		0.000	0.000	0.000
0.150	-0.008	0.142		1.276	-0.324	0.952

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 corporate 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 2014 £ millions				31 March 2015 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
Forward foreign-exchange contracts						
44.610	-44.526	0.084	Standard Life fixed Interest	53.041	-52.336	0.705
7.184	-7.126	0.058	Aviva	4.304	-4.057	0.247
51.794	-51.652	0.142		57.345	-56.393	0.952
Government bond futures						
3.395	-3.395	0.000	UK gilt future	4.095	-4.095	0.000
1.969	-1.969	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Australian bond future	3.999	-3.999	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
2.138	-2.138	0.000	US treasury future	11.084	-11.084	0.000
7.502	-7.502	0.000		19.178	-19.178	0.000
59.296	-59.154	0.142		76.523	-75.571	0.952

Note 15: Stock Lending

31 March 2014 £ millions		31 March 2015 £ millions
52.232	Value of stock on loan	117.118
55.536	Value of collateral held against loaned stock	128.515

31 March 2014 %		31 March 2015 %
Form of collateral provided		
34.0	UK Government debt	14.2
6.7	US Government debt	5.6
47.9	Euro area Governments debt	25.2
0.0	US\$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
2.7	UK equities	1.9
8.7	Overseas equities	53.1
100.0		100.0

Note 16: Membership Statistics

As at 31 March	2009	2010	2011	2012	2013	2014	2015
Active scheme members	20,022	20,450	20,492	19,505	19,446	21,057	22,020
Pensioners							
Current (in payment)	10,126	10,821	11,664	12,301	12,636	12,460	13,871
Deferred (future liability)	12,787	13,817	14,923	14,509	15,823	17,006	17,280
Undecided leavers *				2,307	3,135	3,147	3,754
Total (active plus pensioners)	42,935	45,088	47,079	48,622	51,040	53,670	56,925
Active members for each current pensioner	1.98	1.89	1.76	1.59	1.54	1.69	1.59

* For 2009 to 2011 undecided leavers are included in deferred pensioners.

Note 17: 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.

31 March 2014 £ millions	31 March 2015 £ millions
Value of additional voluntary contributions	
3.813 Prudential	4.499
0.408 Equitable Life	0.393
<u>4.221</u>	<u>4.892</u>

2013/2014 £ millions	2014/2015 £ millions
Additional voluntary contributions paid during the year	
0.437 Prudential	0.493
0.000 Equitable Life	0.000
<u>0.437</u>	<u>0.493</u>

Note 18: Related Parties

Pensions Committee members, James Hunt, Tim Carroll and Sam Crabb were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee members Caroline Moore and Mark Simmonds were active members 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, 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 notes 4, 5 and 6.

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 19: 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 notes 4, 5 and 6 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2015 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 2015				Total wages and benefits but not including pensions contributions 2013/14	Employer's pension contributions	Total wages and benefits including pensions contributions 2013/14
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	102,800.00	-	-	102,800.00	13,900.00	116,700.00
Strategic Manager - Finance Technical	63,500.00	-	-	63,500.00	8,600.00	72,100.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2014 is shown in the table below.

Year to 31 March 2014				Total wages and benefits but not including pensions contributions 2013/14	Employer's pension contributions	Total wages and benefits including pensions contributions 2013/14
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	100,000.00	-	-	100,000.00	13,500.00	113,500.00
Strategic Manager - Finance Technical	56,100.00	-	-	56,100.00	7,600.00	63,700.00

Note 20: 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 statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

Note 21: Contingent liabilities

There were no contingent liabilities as at 31 March 2015.

Note 22: Post balance sheet events

There were no post balance sheet events as at 24th September 2015.

Note 23: 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 8 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2015 being £1,591m.

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 12 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 14 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 2015 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	411.609	17.90%	73.678	-73.678
Foreign equities	713.319	15.30%	109.138	-109.138
UK bonds	176.715	7.70%	13.607	-13.607
Overseas bonds	36.465	13.20%	4.813	-4.813
UK index-linked bonds	64.468	7.20%	4.642	-4.642
Property	154.626	6.20%	9.587	-9.587
Cash	13.741	0.00%	0.000	0.000
Others	19.907	7.50%	1.493	-1.493
Net investment assets	<u>1,590.850</u>		<u>216.958</u>	<u>-216.958</u>

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 "BBB+" or higher by the three major rating agencies. In this context the fund's cash balances (including the cash held at bank or net of bank overdraft) of £13.8m 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 15 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 14 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 14 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 £20,000 and on occasion as large as £75,000 and therefore do not pose a significant liquidity risk to the fund.

Note 24: 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 2015 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	411.609			411.609
Overseas equities	713.319			713.319
Bonds	277.648			277.648
Property funds		154.626		154.626
Private Equity funds			18.955	18.955
Forward foreign-exchange contracts	0.952			0.952
Government bond futures	0.000			0.000
Cash	13.741			13.741
Net investment assets	<u>1,417.269</u>	<u>154.626</u>	<u>18.955</u>	<u>1,590.850</u>

Note 25: Disclosures

There has been a restatement of the management expenses of the prior year of these accounts. This was necessary to bring the prior year disclosures in line with new CIPFA guidance on the disclosure of expenses within the fund. The restated expenses are £1.25m higher than in the original disclosure for 2013/14.

From the 1st April 2013 Far East equity mandate had been run by the in-house team on a passive basis following the removal of UBS Global Asset Management. It was always the intention to hire a replacement external active manager for this mandate and Maple-Brown Abbott were appointed in 2014 and took over control of the assets on 1st August 2014.

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2014-15 accounts the relevant standards relate to the accounting of fair value measurement (IFRS13), levies (IFRIC21) and annual improvements to a number of standards. The changes resulting from the annual improvements cycle and IFRIC21 are not relevant to the fund. It is possible that the changes to fair value measurement could have a material effect on these accounts, this new standard comes into effect for accounting periods beginning on or after 1 January 2013, but CIPFA/LASAAC Local Authority Accounting Code Board have decided to defer the implementation of this standard to the 2015/16 Code, so there will be no impact to our accounts during 2014/15.

A handwritten signature in black ink, appearing to read 'K Nacey', with a stylized flourish at the bottom.

Kevin Nacey, Director of Finance and Performance
September 2015

Actuary's statement

Introduction

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

2013 valuation results

The 2013 valuation certified a common contribution rate of 20.4% of pensionable pay to be paid by each employing body participating in the Somerset County Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2013 for valuation purposes was £1,355m which represented 75% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

At 31 March 2015, the smoothed assets had increased to an estimated £1,594m and the corresponding deficit was £352m. Therefore the estimated updated funding position at 31 March 2015 was 82% which is an improvement on the position at 31 March 2013. This is largely a result of the additional contributions paid to the Fund as well as the good asset performance over the period. The change in the assumptions over the period has only had a small impact and caused a minor increase in the liabilities.

Assumptions

The assumptions used to value the benefits at 31 March 2013 and used in providing an estimated position at 31 March 2015 are summarised below:

Assumption	31 March 2013	31 March 2015
Discount rate	6.1% p.a.	5.7% p.a.
Pension increases	2.7% p.a.	2.5% p.a.
Salary increases	2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter	4.3% p.a.
Mortality	S1PA tables with a multiplier of 90%, with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the relevant actuarial valuation report.

Updated positionsince the 2013 valuation

Since March 2013, investment returns have been higher than assumed at the 2013 triennial valuation. The liabilities will have increased slightly due to the accrual of new benefits and due to the decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly lower compared to the results at 31 March 2013.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017. We will continue to monitor the financial position of the Fund on a regular basis.



Melanie Stephenson FIA
Actuary, Barnett Waddingham LLP

Independent auditor's statement to the Members of Somerset County Council Pension Fund on the Pension Fund Financial Statements

We have audited the pension fund financial statements of Somerset Pension Fund for the year ended 31 March 2015 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 2014/15.

This report is made solely to the members of Somerset Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension 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 pension fund financial statements. In addition, we read all the financial and non-financial information in the Chief Financial Officer's Introduction and the Annual Report and Financial Statements to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the Chief Financial Officer's introduction and the annual report¹ for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Peter Barber

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

Grant Thornton UK LLP

Hartwell House

55-61 Victoria Street

Bristol

BS1 6FT

30 September 2015

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

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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>

The pension board 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=54>

These accounts are also available on the internet at.

<http://www.somerset.gov.uk/irj/public/services/directory/service?rid=/wpcccontent/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.