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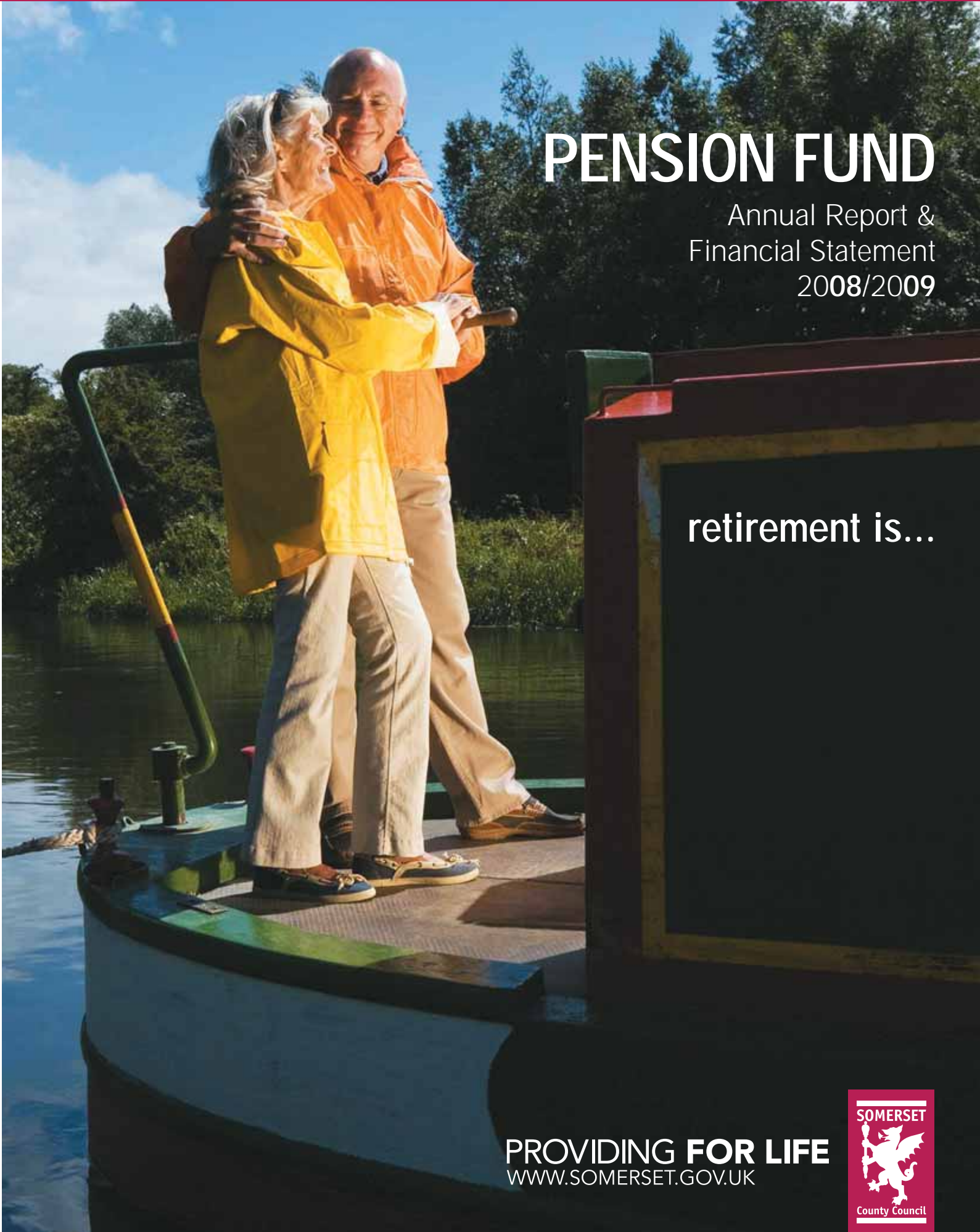
The pensions committee page of the Somerset County Council website is available using the following link.
All of the committee's papers and minutes are available from this address.
www.somerset.gov.uk/council/boards.asp?boardnum=26

Equal opportunities

Somerset County Council positively values 'diversity' (people's differences), and celebrates cultural and social differences. Our equal opportunities promise is to provide all services of equal quality which meet your needs and fulfil your rights. You can expect to be treated fairly, with respect, dignity and understanding, whoever you are and whatever your background.



You can also get this document in Braille, in large print, on tape and on disc, and we can translate it into different languages. We can provide a member of staff to discuss the details.




PENSION FUND

Annual Report &
Financial Statement
2008/2009

retirement is...

PROVIDING FOR LIFE
WWW.SOMERSET.GOV.UK



A low-angle, close-up shot of a middle-aged man with a receding hairline, wearing dark sunglasses and a light pink button-down shirt. He is reclining on a white cushioned lounge chair, with his head tilted back and a slight smile on his face. His right hand is resting on the arm of the chair, which has a light-colored woven texture. The background is a clear, vibrant blue sky with a few wispy clouds. The overall mood is one of relaxation and leisure.

retirement is...

having to work flat out!

Contents

7454



**Crystal
Mark**

Clarity
approved by
Plain English Campaign

[illegible]

Glossary of terms

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 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.

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.

Best practice

The best way of doing things.

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

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.

Glossary of terms

Derivatives

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

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.

Employer of sound covenant

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

Equities

Ordinary shares in a company.

Ethical basis

Not allowing investment in a company or type of company for ‘ethical’ (moral) reasons.

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.

Index-linking

When pension benefits are updated in line with the retail price index.

Liquid assets

Assets that can be sold to provide cash very quickly.

Local Agenda 21

An action plan for lasting development to improve quality of life without damaging the environment.

Mandate

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

Mid price

The price half-way 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.

Glossary of terms

Passive management or passive investment

Tracking an index and not taking active investment decisions.

Peer group

Other local-authority pension funds.

Pooled investment vehicles

An investment where the assets are not held directly by the investors, but are held in a ‘pool’. Examples of pooled investment vehicles 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.

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.

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.

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.

Glossary of terms

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.

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.

Venture capital

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

WM Company

The company appointed by 97 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.

retirement is...

having to work
really late...



Chairman's report



This annual report for 2008/2009 sets out the activities of the pension fund for the year. We have produced it 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 scheme members and employers).

The Government continues to issue new consultations and guidance in relation to the Local Government Pension Scheme (LGPS), which have included a review of the investment regulations governing the scheme.

We are expecting further consultations as we move towards next year's actuarial valuation.

Investment returns for the year were negative for the second year running. The return for the year was -27.6%. Except for cash, no asset class produced a positive return during the year. Returns on the UK and European equities and property were particularly poor.

Since 2004 the fund has had a customised benchmark. During the year, the fund produced a return of -27.6%. This was slightly worse than the fund's benchmark, which produced a return of -27.5%. While we measure ourselves against our own benchmark, we are still interested in how other local-authority funds perform. A typical local-authority pension fund's return in 2008/2009 was -19.9%.

During the year, contributions paid into the scheme were more than the pensions paid out, and we expect this situation to continue into the medium term. We made this extra money available to investment managers. The end result can be seen in the revenue account, where an extra £20.4 million is shown at the end of the financial year.

This year, we were pleased to welcome North Petherton Town Council and Williton Parish Council to the list of employers who contribute to the scheme and whose employees will now be admitted as members.

As part of our ongoing search for excellent investment returns, the committee last year agreed to invite tenders for fund managers to invest in private-equity and emerging-market equity on behalf of the fund. We completed the process for selecting an emerging-market equity manager by appointing Pioneer Investments in March 2009, and we hope to finish the search for a private-equity manager in the summer of the same year.

After we removed F&C as our bonds manager last year, Standard Life took over managing that portfolio temporarily. Following a thorough tendering process, in

Chairman's report

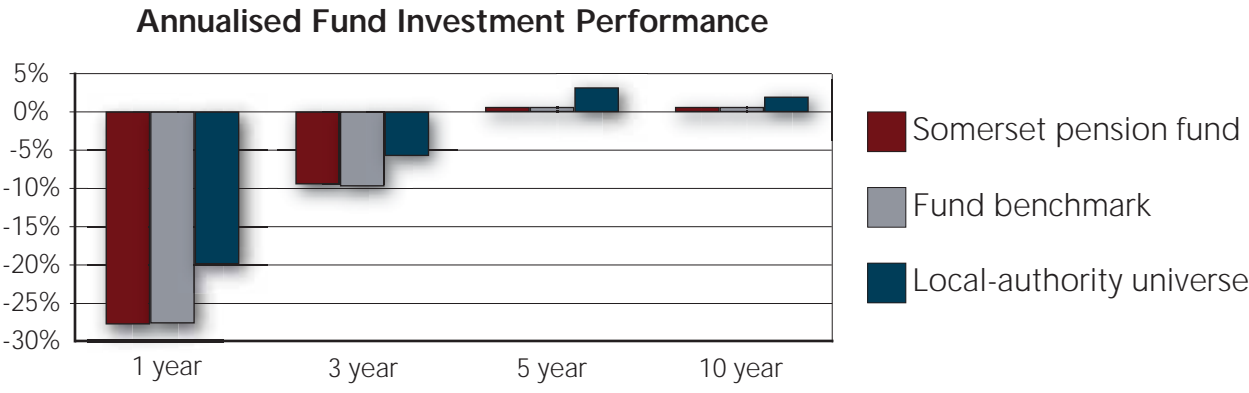
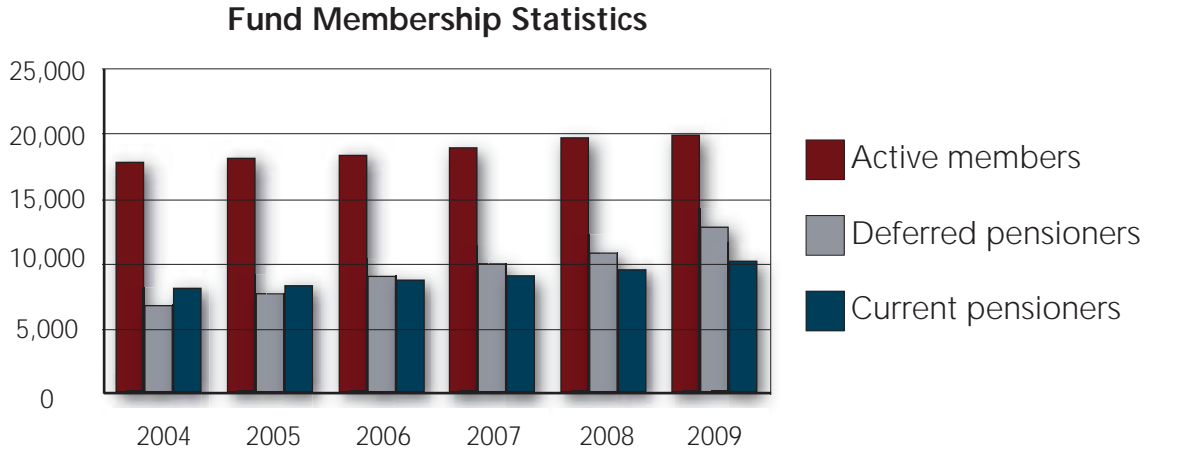
September 2008 we appointed Standard Life to manage that portfolio on a permanent basis.

The committee noticed that, while UBS were doing a fine job at producing good performance on the Pacific ex-Japan equity part of their portfolio, the Japanese equity returns were not as good as we would have liked. As a result, we decided that UBS should lose the Japanese equity part of their portfolio and this is now being managed by the in-house team while we invite tenders for a permanent new manager.

The committee has also agreed new benchmarks for all of the equity managers and has slightly changed the fund's planned asset allocation, both of which came into force on 1 April 2009. The changes are covered in the section describing our fund managers on pages 11 to 15.

I would like to thank my fellow committee members and all of the officers involved with the fund for their continued efforts over the year in providing an excellent fund for the member organisations and their employees. I would particularly like to thank Anthony Clarke and Alan Ham for their service to the pensions committee as they, like me, will not be serving on the committee after the county council elections in June 2009. Alan has been working on this committee (and the investments panel before it) for 18 years and I know his presence will be particularly missed. Finally, I would like to wish the new committee and my successor, Councillor Bob Little, every success for the future as they continue to take the fund forward.

David Gladding
Chairman of the pensions committee



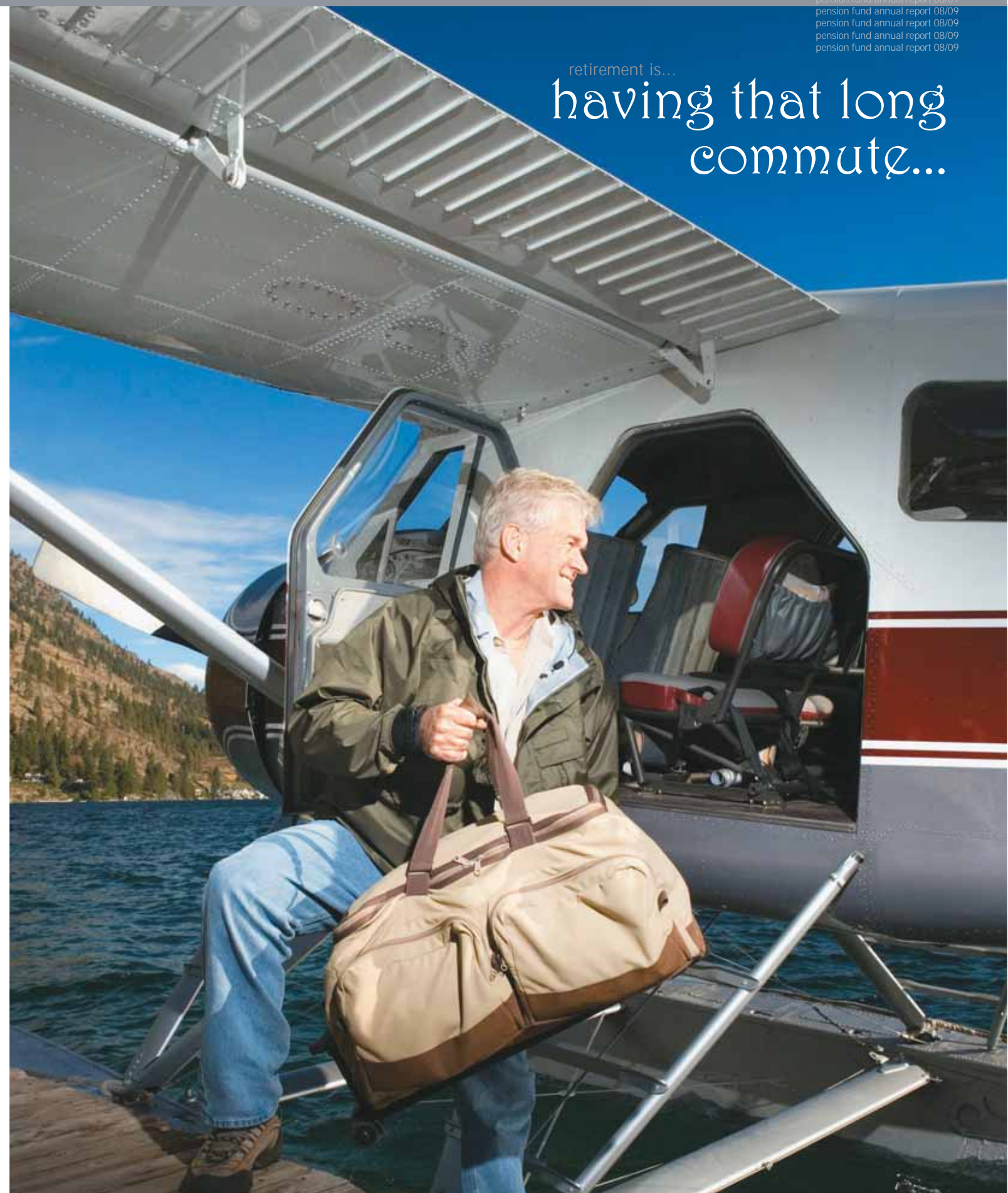
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Stacked bar chart showing the assets of the UK pension fund industry from 2000 to 2009. The y-axis represents assets in £ (millions), ranging from 0 to 1,250. The x-axis shows the years from 2000 to 2009. The assets are categorized into six components: Property (yellow), Overseas equities (grey), UK equities (dark red), Bonds (dark blue), and Cash and others (green). The total assets peaked in 2007 at approximately £1,100 million and fell to around £750 million in 2009.

Year	Property	Overseas equities	UK equities	Bonds	Cash and others	Total
2000	20	200	350	100	50	720
2001	20	180	320	100	80	680
2002	20	160	320	100	60	640
2003	20	120	280	100	50	550
2004	20	180	350	100	50	700
2005	20	300	280	100	30	750
2006	20	450	320	100	20	950
2007	20	450	350	180	60	1,100
2008	20	450	280	200	0	1,000
2009	20	300	200	150	0	750

	2004/2005 £ (millions)	2005/2006 £ (millions)	2006/2007 £ (millions)	2007/2008 £ (millions)	2008/2009 £ (millions)
Income from contributions and recoveries	59.335	63.555	70.373	75.245	80.682
Spending on benefits	-45.488	-48.350	-50.997	-56.673	-60.251
Contributions less benefits	13.847	15.205	19.376	18.572	20.431
Investment Income	21.160	22.396	26.673	33.248	34.230
Change in market value of investments	44.673	169.019	75.411	-120.631	-327.662
Net return on investments	65.833	191.415	102.084	-87.383	-293.432
Net increase in the fund during the year	79.680	206.620	121.460	-68.811	-273.001
Closing net assets	775.981	982.601	1,104.061	1,035.250	762.249
Closing market value of investments	771.464	983.242	1,097.674	1,028.464	747.453

retirement is...
having that long
commute...



Pensions committee

Somerset County Council, the administering authority for the pension fund, have passed on this responsibility 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.

The committee described below served throughout the year covered by this report.

David Gladding (Chairman)



David is one of the four county council representatives on the committee and is the councillor for Yeovil East. David has been a member of the pensions committee (previously the investments panel) since 2001.

Sam Crabb



Sam is one of the four county council representatives on the committee and is the councillor for Ilchester. Sam joined the committee in May 2008.

Alan Ham



Alan is one of the four county council representatives on the committee and is the councillor for Brent. Alan has been a member of the pensions committee (previously the investments panel) since 1990.

Anthony Clarke



Anthony is one of the four county council representatives on the committee and is the councillor for North Curry. Anthony has been a member of the pensions committee since 2005.

Tim Carroll (district councils' representative)



Tim represents the five district councils that are members of the fund. Tim is the leader of South Somerset District Council and the portfolio holder for strategy, policy and performance. Tim has been a member of the pensions committee (previously the investments panel) since 1998.

Ian Dewey (police authority representative)



Ian represents the Avon and Somerset Police Authority, where staff who are not eligible for the police officers' pension scheme are entitled to join the fund. Ian is a member of the police authority, is the chair of their human resources committee, and sits on the appointments committee and the remuneration subcommittee.

Ian is a member of Bath and North East Somerset Council, has also served on the former Bath City Council and the County of Avon Council and was a former manager with BP Oil. Ian has been a member of the pensions committee since 2005.

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 Yarlinton 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.

Pensions 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 Miller (employees' and members' representative)



Sarah is the employees' and members' representative on the pensions committee. She is employed by the county council as their Extended Schools Services Manager within the Children and Young Person's Directorate and during her career has worked in a variety of roles and directorates, giving her a wide range of experience of local-government services. Sarah is also the UNISON Branch Office Liaison Officer. Sarah joined the investment panel as the members' representative in 2004.

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

Caroline Burton - Independent advisor



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 investment advisory committee of Cancer Research UK, a director of Teesland Advantage Property Income Trust, a director of Rathbone Brothers plc and a member of the management committee of Hermes Property Unit Trust.

Caroline has been the independent advisor to the pensions committee (previously the investments panel) since 2002.

Roger Kershaw - Officer (Corporate Director – Resources)



Roger has been the lead officer for the pension fund since 2005. Following the council elections in June 2009, councillors David Gladding, Anthony Clarke and Alan Ham are no longer members of the pensions committee. They have been replaced by the following members.

Bob Little



Bob is one of the four county council representatives on the committee and is the councillor for Castle Cary. Bob has taken over from David Gladding as chair of the committee.

Dawn Hill



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

John Wilkins



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

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 13 parts for investment-management purposes.

In-house



Background

This part is managed under the direct control of the Head of Finance. The management is done in-house as it has proved over many years to be a cost-efficient way to invest.

Aims

To track the benchmark.

Benchmark

FTSE Multinational Series Multinational Index. This index contains companies from all over the world that sell more than 30% of their product outside their local geographic region. From 1 April 2009, the benchmark for this fund changed to the FTSE All-World Developed Index.

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 to be held in the UK and overseas.

Allocation of the fund

45% of the part of the fund invested in equities. From 1 April 2009, the target allocation is 25% of the whole fund.

Appointed

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

From 30 March 2009, the in-house investments team have also been running an extra Japanese equity portfolio temporarily while we wait for the outcome of the tendering process.

Standard Life Investments



Background

Standard Life Investments was set up in 1998 and is a subsidiary owned entirely by Standard Life Investments (Holdings) Limited, which in turn is owned entirely by Standard Life plc. Standard Life Investments is a leading asset management company, with around £117.7 billion of assets under management, including £19.9 billion invested in UK equities and £49.9 billion in bonds, as at 31 March 2009. Standard Life Investments carries out business in the UK, Ireland, France, Hong Kong, Australia, Canada and the USA, and has representative offices in Germany, Korea and China. In India, it carries out business through a joint venture, HDFC AMC.

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 Multinational Series All-Share ex-Multinationals. This index contains all of the companies in the FTSE All-Share index, except those that are multinational companies. From 1 April 2009, the benchmark is the FTSE All-Share index.

Fund managers

Type of investments

UK equities

Allocation of the fund

35% of the part of the fund invested in equities. From 1 April, the target allocation is 23% of the whole fund.

Appointed

July 2004

Fixed-income portfolio

Aim

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

Benchmark

22% FTSE Actuaries UK government all-stock gilt total return index
21% FTSE Actuaries UK government index-linked all-stocks total return index
43% iBoxx Sterling non-gilt over 10-year total return index
15% Merrill Lynch European Currency High Yield Index

Type of investments

Bonds

Allocation of the fund

The target allocation is 19% of the whole fund.

Appointed

February 2008

JP Morgan Asset Management



Background

JP Morgan Asset Management is one of the world's largest asset-management companies with over US\$1,114 billion (£777 billion) of assets under management as at 31 March 2009. Worldwide, it employs 14,931 staff in 47 offices. It specialises in managing investments for large institutions and pension funds, and manages \$80.9 billion (£56.4 billion) of assets for clients who invest in American equities. JP Morgan Asset Management is the asset-management division of JP Morgan Chase & Co, which is listed on the New York Stock Exchange.

Aim

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

Benchmark

FTSE Multinational Series FTSE Local US. This index contains US companies, except those that are multinational companies. From 1 April 2009, the benchmark is the S&P 500 index.

Type of investments

US and Canadian equities

Allocation of the fund

7% of the part of the fund invested in equities. From 1 April 2009, the target allocation is 5% of the whole fund.

Appointed

February 1999

Fund managers

Jupiter Asset Management



Background

Jupiter was set up in its present form in 1985, although parts of the business date back nearly 200 years. Jupiter's institutional business was further developed when it took over Queen Anne's Gate Investment Management in 1994. Today, Jupiter manages the assets of a number of corporate and local-authority pension funds.

In 1995 Commerzbank (one of Germany's leading banks) bought 75% of Jupiter, and bought the rest in 2000. In June 2007, Jupiter's management and private-equity group, TA Associates, completed a management buyout of the Jupiter Group from Commerzbank. Jupiter's management now owns a majority stake in the business.

As at 31 March 2009, Jupiter managed £15.4 billion of assets, of which £2.2 billion was invested in continental European equities.

Aim

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

Benchmark

FTSE Multinational Series FTSE Local Europe ex-UK. This index contains European companies in European Union countries and Switzerland, except those that are multinational companies. From 1 April 2009, the benchmark is the FTSE World Europe ex-UK Index.

Type of investments

European equities, not including UK equities

Allocation of the fund

7% of the part of the fund invested in equities. From 1 April 2009, the target allocation is 5% of the whole fund.

Appointed

April 1989 (revised mandate from July 2004).

UBS Global Asset Management



Background

UBS Global Asset Management is one of the world's leading asset managers, with around 3,700 employees based in 26 countries. It provides traditional, alternative, real-estate and private-equity investment solutions to private clients, financial intermediaries and institutional investors worldwide. Its invested assets totalled £353 billion as at 31 March 2009.

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

Aim

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

Benchmark

60% FTSE Multinational Series FTSE Local Japan
40% FTSE Multinational Series FTSE Local Asia Pacific ex-Japan
From 1 April 2009, the benchmark is the FTSE All-World Developed Asia Pacific ex-Japan Index.

Type of investments

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

Allocation of the fund

6% of the part of the fund invested in equities. From 1 April 2009, the target allocation is 3% of the whole fund.

Appointed

July 2004

Fund managers

Pioneer Investments



Background

Pioneer Investments is a leading asset manager with an 80-year history of providing investment management solutions to clients from institutions, corporations and private investors around the world. Pioneer is a worldwide organisation, employing around 2,300 people (including 400 investment professionals) in over 25 countries. Its main investment offices are based in Boston, Dublin and Singapore, and are supported by 12 local investment offices (including London) to manage £143 billion of total assets under management as at 31 March 2009.

Pioneer Investments is a subsidiary of the Italian listed company, Unicredit SpA.

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 3% of the whole fund.

Appointed

March 2009

Aviva Investors



Background

Aviva Investors is a worldwide asset management business dedicated to building and providing focused investment solutions for clients who include pension funds, local-government organisations, wholesale and retail banks, insurance companies, charities and private-wealth managers. It employs almost 1,300 people in 20 locations around the world.

As at 31 December 2008, Aviva Investors manages £236 billion of assets across a range of equity, fixed-income, real-estate, money-market and alternative funds, invested in markets around the world.

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

Fund managers

Record Currency Management



Background

Record Currency Management is a leading currency overlay firm, managing £22 billion for pension fund and corporate clients in the UK, North America and Europe as at 31 March 2009. Record was founded in 1983 by Neil Record, a former Bank of England economist, to provide specialist currency management to institutions and corporations.

Record's earliest clients were European corporations who were gradually increasing their currency exposures as foreign exchange controls were being relaxed. In 1985, Record added its first pension fund client – the UK Water Authorities' Pension Funds. As at 31 March 2009, the company has 121 clients worldwide.

In December 2007, Record plc was listed on the London Stock Exchange. As at 31 March 2009, the staff and directors of Record still hold 61% of the equity.

Aim

On the currency hedging fund, the aim is to hedge 60% of the total fund's currency exposure. On the performance enhancing (active) fund, the aim is to produce an annualised return of 1.5% over continuous three-year periods after Record's fees have been deducted.

Benchmark

None

Type of investments

Currency forwards

Allocation of the fund

Record does not manage any underlying assets. The fund meets losses and takes profits as they fall due.

Appointed

October 2006

As well as the 11 funds mentioned previously, we also directly manage the cash holdings of the pension scheme and have a small interest in the South West Regional Venture Capital Fund, which is managed by Yorkshire Fund Managers Ltd. For a table showing the split of the assets by fund manager at the date of the net asset statement, see note 6 of the accounts on page 61.



Other experts

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

Custodian - BNY Mellon



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. BNY Mellon is a specialist provider of custody and related services to pension funds in the UK. Among the services offered are:

- safe custody;
- managing cash;
- measuring investment performance;
- investment accounting;
- securities lending;
- transition management; and
- foreign exchange facilities.

The Bank of New York Mellon Asset Servicing B.V. is a subsidiary owned entirely by the Bank of New York Mellon Corporation, which is listed on the New York Stock Exchange. The Bank of New York Mellon resulted from a merger in late 2007 between the Bank of New York and the Mellon Financial Corporation.

BNY Mellon has been the fund's custodian since February 2005.

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 an independent firm of actuaries and consultants, with the founding firm dating back 45 years. It is now a limited liability partnership owned entirely by the 44 partners, with over 400 employees, including 35 associates, in seven offices across the UK.

Pension services are the firm's main business. The services it provides include:

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

Barnett Waddingham has been providing actuarial advice to local authorities about funds set up under the Local Government Pension Scheme Regulations (and the regulations before them) for over 10 years.

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

Other experts

Auditors – Audit Commission



The role of the auditor is to test the accounts and confirm that they present fairly the fund's financial position.

The Audit Commission is the main auditor of local public services. It appoints auditors to provide assurance and promote value for taxpayers' money across local government, health, housing, community safety, fire and rescue and other public services. Auditors are appointed by the Audit Commission from its own staff and from professional audit firms, and are independent of the organisations they audit. Auditors' responsibilities are set out in the Audit Commission Act 1998.

The Audit Commission became the auditor for the fund in 2008.

Performance measurement – The WM Company



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

WM Performance Services is part of State Street Investment Analytics (SSIA), the worldwide performance division of State Street Bank and Trust.

SSIA provides customers with industry-leading performance, risk, compliance and consultancy services by using the wealth of experience and services from divisions in Europe, Australia, Asia and the US.

SSIA has over 30 years' experience of providing performance analysis services to institutional investors. SSIA currently analyses assets of more than \$5 trillion worldwide and has one of the largest databases of actual fund information.

SSIA employs around 430 performance professionals, with regional headquarters in Boston, Edinburgh and Sydney and offices in Alameda (California), Amsterdam, Frankfurt, Hong Kong, Paris, Toronto, New York and Zurich.

WM Performance Services currently measures about 90% of UK local-authority pension funds, with a combined value of more than £97 billion as at 31 March 2009. As well as producing the Local Authority Universe and CIPFA Statistics, SSIA is also responsible for working out the returns for the annual Local Government Conference Awards.

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

Other experts

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 over 700 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 unique joint tender involving a number of other local-authority pension funds in the southwest of England.

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 fund uses the information and PIRC's recommendations to help us decide how to vote.

Founded by local-authority pension funds in 1986 as a source of independent research, PIRC now provides services on corporate governance and corporate social responsibility to over 35% of the local-authority pension fund market. PIRC also provides research and shareholder engagement services to the Local Authority Pension Fund Forum.

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 an association of (currently) 49 local-authority pension funds, which together have assets of £75 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.

Contribution, benefits and membership

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

As an administering authority, we must maintain a pension fund for all our relevant employees (other than firefighters and 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 foundation (formerly grant-maintained) schools. Employees of certain other organisations (town councils, for example) have a right to be included. We have agreed to admit a number of other organisations, including several housing associations.

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

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

lot of early retirements, the contribution rate is increased immediately.

Contributions

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

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' contributions.

A full actuarial valuation of the fund was carried out as at 31 March 2007 and this showed a funding level of 95%. Although the valuation showed an improvement in the funding level, the employers' contribution rates did not reduce. This is because strong investment returns are offset by changes in the assumptions the actuary makes to value the liabilities and the cost of future pension benefits. A further valuation of the fund will be carried out as at 31 March 2010. 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 laws and we cannot change this.

Employees' contributions as a percentage pay

Salary Range	Contribution Rate
£0 to £12,000	5.50%
£12,001 to £14,000	5.80%
£14,001 to £18,000	5.90%
£18,001 to £30,000	6.50%
£30,001 to £40,000	6.80%
£40,001 to £75,000	7.20%
More than £75,000	7.50%

Contribution, benefits and membership

Major benefits

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

Other benefits

- Scheme members can 'top up' their pension benefits by paying additional contributions. This facility has become more popular – both through the in-house

scheme 'added years' facility and the in-house additional voluntary contributions (AVCs) plan. Prudential are now the fund's AVC provider, although a few members continue with their existing arrangements with Equitable Life.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. As a result, pensions increased by 5% from April 2009.

The fund continues to grow with over 20,000 active members. The media coverage of pensions issues has made sure that pensions have a much higher profile and this has helped our pensions staff to recruit more new scheme members.

Communication continues to play an increasingly important role. We issue regular newsletters and have produced annual benefit statements for all members of the scheme, including deferred members. We continue to provide information and guidance on the whole range of pension services available to both scheme members and employers. Also, the fund has held seminars for the benefit of the scheme's employer organisations during the year.

Employers' contributions as a percentage of employees' pay

	2007/2008	2008/2009	2009/2010	2010/2011
Somerset County Council	14.1%	14.3%	14.6%	15.1%
Mendip District Council	15.9%	16.4%	17.0%	17.6%
Sedgemoor District Council	13.8%	14.2%	14.8%	15.4%
South Somerset District Council	14.1%	14.5%	15.0%	15.5%
Taunton Deane Borough Council	14.7%	14.9%	14.9%	15.0%
West Somerset District Council	14.4%	14.9%	15.2%	15.4%
Avon and Somerset Police Authority	13.5%	13.5%	13.5%	13.5%
Avon and Somerset Probation Committee	13.5%	13.5%	13.5%	13.5%
Further education colleges	14.1%	14.1%	14.1%	14.1%
Foundation & voluntary aided schools	14.1%	14.3%	14.6%	15.1%
Small scheduled bodies	16.8%	17.0%	17.4%	17.7%
Admitted bodies	12.9% to 20.7%	12.9% to 19.6%	12.9% to 19.6%	12.9% to 19.6%

Statement of investment principles

Principles and policies

The statements, policies and principles listed below are those that were in place during the 2008-2009 financial year. They are versions of the fund's actual statements, policies and principles that have been approved by Plain English Campaign and given their Crystal Mark for clarity. For a copy of the actual statements or current versions of the statements, policies and principles, please contact the Funds and Investments Manager (contact details are on the back page).

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 pension schemes (for example, schemes for teachers, police officers and firefighters).
- c There are other public-sector employers in the county whose staff are entitled to belong to the pension fund (for example, further-education colleges). Certain other organisations can apply to be included in the pension fund.
- d Because it is not a trust-based scheme, there is no group of trustees. In effect, Somerset County Council is 'the trustee'.

- e The responsibility for the fund is passed to the pensions committee. The committee is made up of:
 - four Somerset County Council members;
 - a district councillor representing the five district councils;
 - a representative of Avon and Somerset Police Authority;
 - a representative of all other employers who take part in the scheme;
 - a staff representative;
 - an officer; and
 - an independent advisor.

Only members who are elected officials can vote at meetings.

The Head of Finance 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 We wrote the funding strategy statement after consulting all of the employers within the fund. It contains broad guidance on the fund's investment strategy.
- h The committee has adopted this statement of investment principles.

2 The pensions committee's responsibilities

- a The terms of reference for the committee, which form part of the governance policy for the fund, say that it is responsible for:

Statement of investment principles

- deciding the aims of the investment policy;
- making arrangements for managing the fund's investments;
- regularly monitoring investment performance;
- making arrangements to publish the fund's annual report and accounts;
- consulting stakeholders, including publishing the funding strategy statement and statement of investment principles;
- ordering actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations;
- considering requests from organisations who want to join the fund as admitted organisations; and
- making 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 once every three months 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

- a In line with the fund's funding strategy statement, the committee has set a target for the fund to be at or above a 100% funding level 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 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.

d When we invest pension-fund money, we take account of:

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

e While most investments will be in listed stocks and shares, we may decide to:

- invest in futures and options;
- use money to invest with the county council, within legal limits;
- enter into stock-lending arrangements;
- invest in unlisted collective investment schemes such as unit trusts and open-ended investment companies (OEICs);
- invest in unlisted shares; and
- make direct investments in property.

f 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 September 2003 and introduced on 1 July 2004.

g Longer-term performance is measured against the assumptions made by the actuary as part of the three-yearly actuarial valuation process.

h To reduce the risk of the fund underperforming, 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.

Statement of investment principles

i Most of the investments are quoted on major stock markets and may be sold quickly if necessary. When judging whether new investment classes are suitable, the committee considers 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.

4 Investment managers' performance

- a Investment performance is measured independently from the managers of the funds.
- b This measurement is compared with specific relevant indexes every three months.
- c Each manager has a specific target to outperform their relevant index. The targets are over a three-year period.
- d If a manager fails to achieve performance equal to their benchmark index in four three-month periods in a row, or in six three-month periods in any eight three-month periods in a row, their strategy and choice of stocks will be formally reviewed.

5 Accounts and audit

- a The investments of the pension fund are audited by our own auditors and independent auditors from outside the council.
- b As soon as possible after the end of the financial year, and after the independent audit of the pension fund has been finished, we send each organisation an annual report which includes:
- the revenue account and balance sheet of the pension fund; and
 - any report by the auditor.
- c We hold a meeting each year, and invite representatives of employers and employees to take part. We formally present the annual report, and

those present can question the committee, the committee's managers and its advisors.

6 Security of investments

- a To make investments as secure as they can be, investments are, if possible, maintained under the control of a safe custodian.
- b Only cash holdings and a small number of unit trusts stay under the control of the Head of Finance.
- c Stock certificates and cash holdings are never under the control of a third-party fund manager.

7 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 if this is practical; 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 a business's well-being 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

Statement of investment principles

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 shareholders' 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 its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance among the companies it invests in.

8 **Social, environmental and ethically responsible investment**

a The executive board and committee have considered the implications of Local Agenda 21 and the possibility of investing on a defined ethical basis.

b Evidence on performance and the spread of investment has led the committee to decide not to allocate funds on a specific ethical basis. The committee will regularly review the performance of ethical investments.

c The most effective way of understanding and influencing the social, environmental and ethical policies of those companies is by holding reasonable discussions with the companies the fund invests in, through a third party, while at the same time achieving financial returns that match the fund's longer-term financial aims.

d The corporate performance of companies, and their value as investments, is 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 laws and work to anticipate future changes to the law.
- 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.
- Actively and openly discuss the social, environmental and ethical effects of their business.

9 **Working in line with Myners**

a Following the Myners Report into institutional investment in the UK, the Government, after consultation, said that it would take forward all of the report's recommendations and identified 10 investment principles to apply to pension schemes.

b These principles cover the arrangements for:

- effective investment management and decision-making;
- setting and monitoring clear investment aims;
- focusing on asset allocation;
- arrangements to receive appropriate expert advice;

Statement of investment principles

- manager mandates;
- shareholder engagement;
- using appropriate investment benchmarks;
- measuring performance;
- openness in investment-management arrangements; and
- regular reporting.

c The committee supports the principles, works in line with them and regularly compares the fund's performance against them.

**Pensions committee
Somerset County Council
May 2006**



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 pass 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), and formally agreed the governance arrangements set out in this policy statement on 25 May 2005, after consulting all employers whose employees are members of 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 passed its responsibility for managing the Somerset County Council Pension Fund to a specific committee known as the Somerset County Council pensions committee.

The approved terms of reference for the pensions committee are set out in annex 1.

Membership of the pensions committee

The membership of the pension committee allows for wider representation from all stakeholders, while keeping overall numbers to a manageable level to recognise the significant commitment, specialist knowledge and training that committee members need to develop.

The constitution for the pensions committee is set out in annex 2, including details of the members' voting rights.

In considering the members' voting rights, the county council recognises that the legal position of non-elected members is not clear so all non-elected members of the committee will not be able to vote until there is further legal clarification.

Meetings of the pensions committee

The pensions committee will normally meet formally every February, May, September and November. These meetings will be open to members of the public.

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

Pensions committee members will also receive a range of specific training and development to help them carry out 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. These are 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

The pensions committee will regularly review this policy statement. If it is necessary to make any significant changes, we will consult all of the employers whose employees are members of the fund and publish the amended policy.

Pensions committee
Somerset County Council
February 2006

Annex 1

Terms of reference

- 1 These terms of reference set out the pensions committee's main responsibilities in taking on the functions of Somerset County Council in its role as administering authority of the Somerset County Council Pension Fund (the fund).
- 2 Main responsibilities
 - 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 and statement of investment principles.
 - 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 organisations.
 - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- 3 In line with the Myners' investment principles, members must consider their training and development needs. They should make sure they have enough support staff in place and have developed a forward business plan.

Annex 2

Constitution of the pensions committee

As approved, the pensions committee should be made up as follows.

- Four county council elected members
- One elected member representing all of the district councils
- One representative for Avon and Somerset Police Authority (could be elected or non-elected)
- One representative of the admitted organisations and remaining smaller scheduled organisations (could be elected or non-elected)

The committee will also include:

- an officer representative;
- a specialist advisor; and
- a nominated employee representative.

These three committee members will not have voting rights.

The total number of members on the committee will be 10.

In line with regulations, any member of the committee who is an elected member of an employer whose employees are members of the fund will be granted formal voting rights for decision-making purposes. Any non-elected members of the committee will not be able to vote.

Governance compliance statement

Introduction

Under regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), an administering authority must, after consulting everyone it considers appropriate, prepare, publish and maintain a governance compliance statement.

This statement must set out the following.

- Whether the administering authority delegates responsibilities (or some of its responsibilities) for maintaining a pension fund to a committee, a subcommittee or an officer of the administering authority.

If it does, it must set out:

- the terms of reference, structure and procedures the committee, subcommittee or officer will work to;

- how often any committee or subcommittee meetings will take place; and
- whether the committee or subcommittee includes representatives of employing authorities (including admitted organisations) or members, and, if so, whether those representatives have voting rights.

- How far the committee, subcommittee or officer has kept to the guidance the Secretary of State has given and, if they have not, the reasons why.

The administering authority must revise and publish the statement if there are any changes to their policies in relation to any of the matters referred to above.

The Somerset County Council pensions committee made and approved this statement on 30 May 2008.



Governance compliance statement

Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
1 – Structure		
1a – The main committee, set up by the appointing council, must clearly be responsible for managing benefits and the fund’s assets.	Yes	Somerset County Council has set up the Somerset County Council Pensions Committee for this purpose. The specific terms of reference for the committee are set out in annex 1.
1b – Representatives of LGPS employers, admitted bodies and scheme members (including pensioner scheme members and deferred members) must be members of either the main committee or a secondary committee set up to support the main committee’s work.	Partly	<p>The pensions committee includes representatives from all the employers taking part in the fund.</p> <p>Scheme members are represented through a UNISON-nominated representative on the pensions committee.</p> <p>Where we have not kept to the guidance Pensioner scheme members and deferred members are not directly represented on the pensions committee. We plan to review this as part of our governance review, scheduled for early 2009 as part of our current forward business plan for the pensions committee.</p>
1c – If a secondary committee or panel has been set up, it must be able to communicate effectively with the main committee (and vice versa).	Does not apply	There are no secondary committees or panels in place.
1d – If a secondary committee or panel has been set up, at least one of its members must have a seat on the main committee.	Does not apply	There are no secondary committees or panels in place.

Governance compliance statement

Governance compliance statement

pension fund annual report 08/09
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Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
2 – Representation		
2a – All key stakeholders must have the opportunity to be represented on the main or secondary committee. These key stakeholders include the following.		
2a1 – Employing authorities (including admitted organisations).	Yes	The pensions committee includes representatives from all the scheme employers, including the county council, district councils, the police authority and the admitted organisations.
2a2 – Scheme members (including deferred members and pensioner scheme members).	Partly	<p>Scheme members are represented through a UNISON-nominated representative on the pensions committee.</p> <p>Where we have not kept to the guidance Pensioner scheme members and deferred members are not directly represented on the pensions committee. We plan to review this as part of our governance review, scheduled for early 2009 as part of our current forward business plan for the pensions committee.</p>
2a3 – Independent professional observers.	Yes	The independent investment advisor is a member of the pensions committee.
2a4 – Expert advisors when necessary.	Yes	<p>Our in-house officer expert advisors – including the Chief Financial Officer, investments manager and fund administration manager – attend all pension committee meetings.</p> <p>The appointed actuary, independent auditors and performance advisors also attend when necessary, but at least once a year.</p>
2b – If members of the public sit on a main or secondary committee, they must have equal access to papers, meetings and training and be able to contribute to the decision-making process (whether or not they have the right to vote).	Yes	All members of the pensions committee have equal access to papers and training, and have equal rights to speak when matters are considered and discussed as part of the decision-making processes. Only elected members are currently able to vote.

Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
3 – Role of members		
3a – Committee or panel members must be fully aware of the role they have a duty to perform on either a main or secondary committee.	Yes	<p>All new members regularly receive specific training, and have access to training and seminars provided by other organisations.</p> <p>When appointed to the committee, members will have an induction by officers that includes details about members’ responsibilities. The background to the fund will also be explained to them. They will also be able to get copies of relevant committee reports and annual reports.</p> <p>There are specific terms of reference for the pensions committee (see annex 1) and the county council monitoring officer has provided the committee with specific legal guidance about members’ roles.</p> <p>All committee members also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any conflicts of interest. If appropriate, they must also exclude themselves when that item is discussed during the meeting.</p> <p>Areas to be reviewed further As part of our governance review, scheduled for early 2009, we will consider ways of improving how we provide information and guidance to members.</p>

Governance compliance statement

Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
4 – Voting		
4a – The policy on individual administering authorities' voting rights must be clear and open, and must include reasons why voting rights have not been extended to each body or group represented on the main LGPS committees.	Yes	<p>As administering authority, the county council's approved policy in terms of voting rights applies to the pensions committee.</p> <p>Areas to be reviewed further We will consider extending voting rights to all representatives on the pensions committee as part of our governance review, scheduled for early 2009 as part of our current forward business plan for the pensions committee</p>
5 – Training, facility time and expenses		
5a – There must be a clear policy on training, facility time and refunding expenses for members who are involved in the decision-making process.	Yes	<p>The committee forward work plan provides for two specific training days each year. It also gives members access to training and seminars provided by other organisations.</p> <p>We encourage all members to take part in regular training and attend the two specific training days.</p> <p>The pension fund covers all costs in relation to training, including expenses.</p>
5b – The policy must apply equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.	Yes	<p>All pensions committee members have equal access and rights to training and related support.</p> <p>Areas to be reviewed further As part of our governance review, scheduled for early 2009, we will consider providing a formal training policy.</p>

Governance compliance statement

Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
6 – Meetings		
6a – An administering authority's main committee or committees must meet at least once every three months.	Yes	The pensions committee meets every three months and the dates are agreed at least 12 months beforehand. A forward meeting plan is also in place.
6b – An administering authority's secondary committee or panel must meet at least twice a year, on the same dates as the main committee.	Does not apply	There are no secondary committees or panels in place.
6c – Administering authorities who do not include members of the public in their formal governance arrangements must provide other ways for key stakeholders to be represented.	Partly	<p>The pensions committee does include members of the public although, as mentioned above, this does not extend to all potential stakeholders.</p> <p>Where we have not kept to the guidance Pensioner scheme members and deferred members are not directly represented on the pensions committee. We plan to review this as part of our governance review, scheduled for early 2009 as part of our current forward business plan for the pensions committee.</p>
7 – Access		
7a – Depending on any rules in the council's constitution, all members of main and secondary committees or panels must have equal access to the papers and documents that will be considered at the main committee's meetings.	Yes	All members of the pensions committee receive the same agenda and papers for each meeting, and can put questions to the professional advisors who attend.

Governance standards and principles	Do we keep to the guidance?	Evidence of keeping to the guidance or reasons for not doing so
8 – Wider issues relating to the scheme		
8a – Administering authorities must take steps to include the wider issues relating to the scheme in their governance arrangements.	Yes	<p>Each meeting of the pensions committee receives a report on the performance of our pension fund, our progress against the forward business plan, and important issues relating to how we manage benefits.</p> <p>The committee also receives regular reports and updates on approved policies, including the communications policy statements.</p> <p>There are also annual reports from the appointed actuary, independent auditor and performance advisors.</p> <p>The pensions committee has also recently agreed that it will receive a report twice a year on the fund’s voting and engagement activity.</p>
9 – Publicity	Partly	<p>The governance arrangements of the pensions committee are formally reviewed every four years as part of the forward business plan.</p> <p>The last review in 2005 included consulting all existing stakeholders, and copies of the formal report to the county council in May 2005 were made available to the public in line with normal arrangements (including making the document available on the county council website).</p> <p>There is an agreed procedure in place for UNISON to nominate a new employee representative to our pensions committee when a vacancy arises.</p> <p>Where we have not kept to the guidance We will consider stakeholder representation and publicity as part of our governance review, scheduled for early 2009 as part of our current forward business plan for the pensions committee.</p>

Terms of reference

- 1 These terms of reference set out the pensions committee’s main responsibilities in taking on the functions of Somerset County Council in its role as administering authority of the Somerset County Council Pension Fund (the fund).
- 2 Main responsibilities
 - 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 and statement of investment principles.
 - 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 organisations.
 - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- 3 In line with the Myners’ investment principles, members must consider their training and development needs. They should make sure they have enough support staff in place and have developed a forward business plan.



Introduction

This statement has been prepared in line with regulation 35 of the Local Government Pension Scheme (Administration) Regulations (the LGPS regulations). The statement describes Somerset County Council's strategy as administering authority for the Somerset County Council Pension Fund (the fund).

Under regulation 35(3a), this statement has considered guidance published by CIPFA in March 2004.

Consultation

In line with regulation 35(3b), we have consulted all employers whose employees are members of the fund on the contents of this statement, and we have taken their views into account. However, the statement describes a single strategy for the fund as a whole.

The administering authority has also considered 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').

We have also consulted the fund actuary, Barnett Waddingham LLP, on the contents of this statement.

Purpose of this statement

The three main purposes of this funding strategy statement are to:

- set out a clear and open strategy, specific to the fund, which will identify the best way to meet employers' pension liabilities in the future;
- support the regulatory requirement to keep employers' contribution rates as constant as possible; and
- take a sensible longer-term view of funding the fund's liabilities.

The aims of the fund

The aims of the fund are as follows.

- 1 **To keep employers' contribution rates as constant as possible, and at reasonable cost to the scheduled organisations, admitted organisations and taxpayers.**

The administering authority recognises that the requirement to keep employer contribution rates as constant as possible can go against the following requirements.

- The regulatory requirement to avoid becoming insolvent.
- The requirement to keep costs at a reasonable level.
- The requirement to bring in the highest possible amount of income from investments, within reasonable restrictions (see 4 below).

Employers' contributions are set every three years after the actuarial valuation. In the long term, the most important factor that influences levels of employers' contributions will be the investment strategy. The investment strategy will also have an effect on levels of employers' contributions in the short term. However, the funding model used to set levels of employers' contributions will also play an important part. The model the fund uses aims to produce stable levels of employers' contributions by using smoothing mechanisms.

The administering authority recognises that it needs to find a balance between the investment policy it uses, the smoothing mechanisms used at valuations, and the smoothness of employers' contribution rates from one valuation period to the next.

The administering authority also recognises that the position could be more unpredictable for admitted organisations with short-term contracts where it could be less appropriate for them to use smoothing mechanisms.

- 2 **To make sure that enough resources are available to meet all liabilities as they become due.**

The administering authority recognises the need to make sure that the fund always has enough liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. The administering authority's policy is to first meet this spending using employers' and employees' contributions, as this avoids the costs involved in selling assets. The administering authority monitors the position each month to make sure that all cash requirements can be met.

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

The administering authority aims to make sure that all employers' liabilities are managed effectively. In relation to funding, it will achieve this by regularly taking advice from the fund's actuary – making sure that employers and committee members are properly informed – and regularly monitoring the funding position.

- 4 **To bring in the highest possible amount of income from investments, within reasonable risk restrictions.**

The administering authority recognises the need to bring in the highest possible amount of income, within reasonable risk restrictions. The administering authority looks for investment returns higher than those available on government bonds by investing in other asset classes such as equity stocks and property.

The administering authority makes sure that it only faces a reasonable level of risk by:

- restricting its investment to the levels allowed by the investment regulations;
- only investing in asset classes which are generally recognised as appropriate for UK pension funds; and
- working with the fund's actuary, investment advisors and fund managers to analyse the possible risks from those asset classes.

Purpose of the fund

The purpose of the fund is to:

- pay scheme benefits, transfer values, costs, charges and expenses;
- receive contributions, transfer values and investment income; and
- appropriately invest money which is not immediately needed to meet liabilities.

Responsibilities of the main parties involved

The administering authority, the individual employers and the scheme actuary have the most relevant responsibilities in relation to the fund. Their main responsibilities are as follows.

Administering authority

The administering authority's main responsibilities are as follows.

- 1 **To collect employers' and employees' contributions and make sure these contributions are paid by the due date.**

Individual employers must pay contributions in line with regulations 39 to 42 of the LGPS regulations. The administering authority will make sure that all employers are aware of these requirements, especially the requirement of the Pensions Act 1995 that says that members' contributions must be paid by the 19th of the month after the month that they are paid by the member. Employers who do not meet these requirements may be reported to the Pensions Regulator.

The administering authority will make sure that it takes action to recover assets from admitted organisations whose admission agreement has ended. It will do this by:

- asking the fund actuary to work out the funding position at the date the admission agreement ended; and

Funding strategy statement

- telling the admitted organisation that it must pay any amounts due once the agreement has ended.

In working out the funding position at the date the admission agreement has ended, the fund actuary will not consider future investment returns over and above those available from gilt-edged securities, unless another employer in the fund guarantees the liabilities left in the fund.

2 To invest surplus money in line with the regulations.

The administering authority will keep to regulation 9 of the investment regulations.

3 To make sure that cash is available to meet liabilities when they become due.

The administering authority recognises this duty and performs it as set out in the aims of the fund above.

4 To manage the valuation process after consulting the fund actuary.

The administering authority will communicate effectively with the fund actuary to:

- agree timescales for providing information and valuation results;
- make sure this information is accurate;
- make sure that the fund actuary is clear about the funding strategy;
- make sure that employers who are taking part in the scheme receive appropriate information throughout the process; and
- make sure that reports are made available, in line with the relevant guidance and regulations.

5 To prepare and maintain a statement of investment principles and a funding strategy statement after consulting interested parties.

The administering authority will make sure that both documents are prepared and maintained as necessary.

6 To monitor all areas of the fund's performance and funding, and amend these two documents if necessary.

The administering authority monitors the funding position of the fund every three months, and the investment performance of the fund each month. The statement of investment principles and funding strategy statement will be formally reviewed every year, unless this needs to be carried out at an earlier date.

Individual employers

Individual employers will:

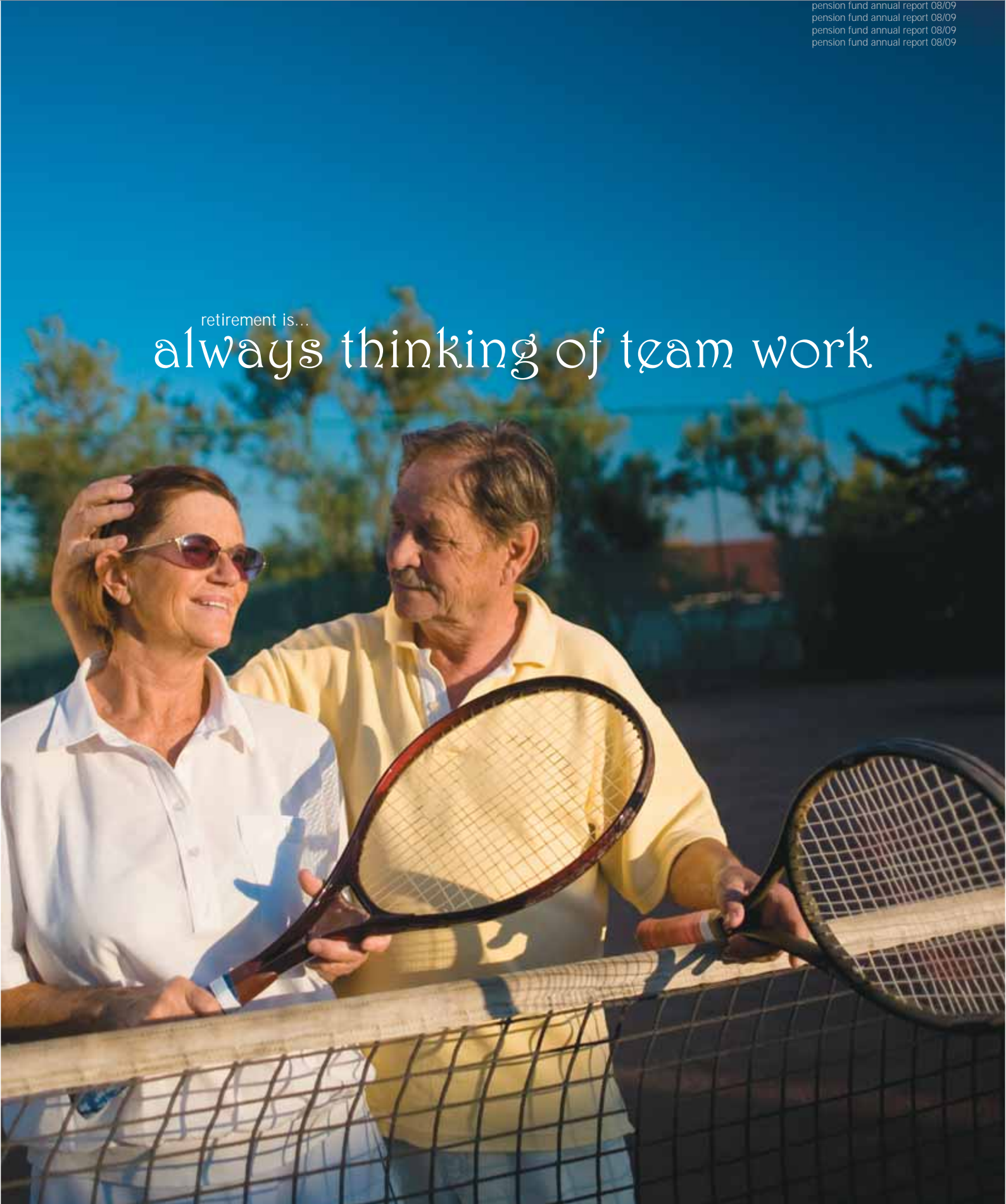
- deduct contributions from employees' pay;
- pay all contributions, including their employers' contribution as decided by the actuary, by the date they are due;
- exercise discretions within the regulatory framework;
- pay for added years in line with agreed arrangements; and
- tell the administering authority as soon as possible about all changes to their membership, or other changes which affect future funding.

The fund actuary

The fund actuary's main responsibilities are as follows.

1 To prepare valuations, including setting employers' contribution rates after agreeing assumptions with the administering authority and considering the funding strategy statement.

Valuations will also be prepared in line with generally accepted actuarial methods and reported on in line with guidance note 9 issued by the Board of Actuarial Standards as far as the guidance note is relevant to the LGPS.



retirement is...
always thinking of team work

Funding strategy statement

2 To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

This advice will take account of the funding position and strategy of the fund, along with other relevant matters.

Solvency

The administering authority will aim to make sure the fund is solvent. For this purpose, the administering authority defines ‘solvency’ as being 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 means using 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 consider 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 partly allow for the higher long-term returns that are expected on the assets the fund actually holds, and understands the risks of this approach if those extra returns fail to come about.

Consistent with the aim of keeping employers’ contribution rates as constant as possible, and after considering the risks in relation to this approach, the administering authority has also agreed with the fund actuary to use smoothing adjustments in making the solvency measurement. It is unlikely that all of these smoothing adjustments will be extended to employers who are only taking part in the fund for a fixed period (for example, an employer who has been admitted because they have been awarded a best-value outsourcing contract).

Funding strategy

If a valuation reveals that the fund has a surplus or shortfall of assets to meet its liabilities, employers’ contribution rates will be adjusted to target a return to the solvent position over a period of years (the recovery period). The administering authority will set the recovery period that applies for each employer after consulting the employer and the fund actuary, and will aim to balance the various funding requirements against the risks involved (for example, the financial strength of the employer and how it takes part in the fund).

The administering authority recognises that a large part 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 that employer’s membership. The administering authority recognises that this approach is consistent with the aim of keeping employers’ contribution rates as constant as possible. However, the administering authority also recognises the risk in relying on long recovery periods and has agreed a limit of 40 years with the fund actuary. The administering authority’s policy is to agree with each employer recovery periods which are as short as possible within this framework.

For employers who are taking part in the fund for a fixed period, it is unlikely that the administering authority and fund actuary would agree to a recovery period longer than the remaining period the employer will be taking part.

Consistent with the requirement to keep employers’ contribution rates as constant as possible, the administering authority allows some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates for smaller employers could be unpredictable due to the increased likelihood that changes to the circumstances of beneficiaries from what the actuary originally assumed would have a significant effect. The administering

Funding strategy statement

authority recognises that grouping can bring about the possibility of one employer subsidising another over time. The administering authority’s policy is to consider the position carefully at each valuation and to tell each employer who is grouped that this is the case, and which other employers they are grouped with. If the employer objects to this grouping, they will be offered their own contribution rate. For employers with significantly more than 50 contributing members, the administering authority would look for evidence of significant similarity between employers before considering how to group them. Employers who are taking part in the fund for a fixed period are unlikely to be allowed to be grouped.

Again, consistent with the requirement to keep employers’ contribution rates as constant as possible, the administering authority will consider, at each valuation, whether new contribution rates should be paid immediately, or reached by a series of steps over future years. The administering authority will discuss with the fund actuary the risks related to this approach, and will examine the financial effects and risks associated with each employer. The administering authority’s policy is normally to allow no more than three equal steps over three years. Further steps may be allowed in extreme cases, but the total is very unlikely to go beyond six steps.

Identifying risks and measures to limit them

The administering authority’s overall policy on risk is to identify all risks to the fund and to consider the position both in terms of the total risk and the individual risks. The administering authority will monitor the risks to the fund, and will take appropriate action to limit the effects of these both before, and after, they arise. The main risks to the fund are as follows.

Demographic risks

The main risks include changing retirement patterns and patterns of how long scheme members live. The administering authority will make sure that the fund actuary investigates these matters at each valuation (or

more often, if appropriate) and reports on developments. The administering authority will agree with the fund actuary any changes which are necessary to the assumptions that support the measure of solvency to allow for changes in actual or expected future observations.

If significant demographic changes are identified between valuations, the administering authority will tell all employers who are taking part in the fund about how the changes affect the costs for the next valuation and will review the bonds that are in place for admitted organisations that are transferring in or out of the fund.

Regulatory risks

The risks relate to changes to regulations, national pension requirements or HM Revenue & Customs rules. The administering authority will keep up to date with 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 how any changes could affect costs. If the costs are likely to be significant, the administering authority will tell employers and give them information on when the changes will take place.

Governance risks

This covers the risk of unexpected changes in the fund membership (for example, if an employer no longer makes the fund available to new employees, or if a large number of staff retire or withdraw from the fund), and the related risk of the administering authority not being made aware of these changes as soon as possible.

The administering authority’s policy is to regularly communicate with employers, and review items such as bond arrangements, funding levels and the financial standing of employers who do not collect tax.

Funding strategy statement

Statistical and financial risks

This covers items such as the performance of markets, fund investment managers, investing assets in highly changeable markets, pay or price inflation varying from expected levels, or the effects of possible increases in employers' contribution rates on fund employers and our ability to provide services. The administering authority's policy will be to regularly assess these items to make sure that all the assumptions it uses are still valid.

Solvency measure

The administering authority recognises that allowing for future investment returns of more than those available on government bonds introduces an element of risk, in that those extra returns may not come about. The administering authority's policy will be to monitor the position and to make sure that the funding target continues to be realistic if the extra returns are not achieved.

Smoothing

The administering authority recognises that using smoothing techniques as part of the measurement of solvency 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 effects of the smoothing techniques at each valuation to make sure that the solvency position worked out using those techniques is within an acceptable limit of the market-based position.

Recovery period

The administering authority recognises that allowing surpluses or shortfalls to be reduced to zero over a recovery period, rather than immediately, introduces a risk that action to restore solvency is not enough between measurements. The administering authority's

policy is to discuss with the fund actuary the risks that apply in each situation and to limit the allowed length of the recovery period to no longer than 40 years.

Stepping

The administering authority recognises that allowing contribution rates to be changed in yearly steps, rather than immediately, introduces a risk that action to restore solvency is not enough in the early years of the process. The administering authority's policy is to discuss with the fund actuary the risks that apply in each situation and to limit the number of allowed steps to three yearly steps or, in exceptional circumstances, to six yearly steps.

Statement of investment principles

The administering authority has produced this funding strategy statement after considering an overall view of the level of risk 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 each year in the fund's annual report and accounts.

The administering authority will continue to review both documents to make sure that the overall risk profile continues to be appropriate.

Future monitoring

The administering authority plans to formally review this statement as part of the valuation process every three years, unless this needs to be carried out at an earlier date.

The administering authority will monitor the funding position of the fund regularly between valuations, and will discuss with the actuary whether there have been any significant changes which need to be dealt with.

Somerset County Council Pension Fund
May 2008

retirement is...
having to sit in front of that screen



Introduction

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

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

Scheme members

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

- The fund will send new members appropriate scheme documents 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 that pension rights have been transferred.
- The fund will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.
- The fund will send newsletters to current scheme members and pensioners once a year.
- The fund will send pensioners advice slips every month.

- The fund will arrange pre-retirement seminars for members who are approaching retirement.
- The fund will arrange pensions presentations for groups of members, and will consider regular ‘roadshows’ for the future.

It is also important to recognise that not all individuals who are eligible to join the scheme will be aware of the benefits of being a member. The fund will contact people who are not members to remind them of the benefits of the scheme and give them information on how to join.

Scheme employers

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

Communication provided will include:

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

Elected members

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

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

General

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

- The fund will issue an annual report and accounts to employing authorities, elected members and other interested stakeholders.

- The fund will review and maintain a funding strategy statement after consulting employing authorities.
- The fund will review and maintain the statement of investments principles after consulting employing authorities.
- The fund will develop a website providing up-to-date scheme information with help from the Local Government Pensions Committee.

Arrangements for reviewing this policy

The pensions committee will regularly review this policy statement. 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.

Pensions committee
Somerset County Council
February 2006



Myners' investment principles

Background

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 which we have compared ourselves against below. The Government is planning to produce a set of principles specifically for LGPS schemes which we will be asked to compare our performance against in the future.

The text of the Myners' principles below has not been approved by Plain English Campaign and the Crystal Mark does not apply to them.

Principle 1 – Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Our fund fully follows this principle. The pensions committee delegates much of the day-to-day running and monitoring of the fund to officers who have many years of experience and relevant professional qualifications. Whether a third-party provider to the fund is suitable is thoroughly assessed as part of the tendering process for awarding contracts.

To make sure that it has enough expertise, the pensions committee has adopted a training policy.

Principle 2 – Clear objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Our fund fully follows this principle. The fund's overall investment aims are clearly set out in the fund's statement of investment principles. Investment managers are given clear aims in the agreements we have with them and these are summarised on pages 11 to 15.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Our fund fully follows this principle. The three-yearly actuarial valuation process allows us to monitor our liabilities and review whether our investments are suitable. As a government scheme, the strength of the sponsor is only relevant to admitted organisations, where guarantee bonds are needed to protect the fund. The actuary monitors longevity risk and reviews it, as appropriate, in each formal actuarial valuation.

Principle 4 – Performance assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

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

Myners' investment principles

Our fund fully follows this principle. Investment managers' performance is measured by an independent expert, WM Company. The pensions committee reports on its activity to Somerset County Council every year.

Principle 5 – Responsible ownership

Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Our fund partly follows this principle. The fund has not formally adopted the Shareholders' Committee Statement of Principles. The fund's policy on responsible ownership is set out in the statement of investment principles and the fund's voting activity is reported to the pensions committee twice a year. As with all committee reports, this report is published on the Somerset County Council website.

Principle 6 – Transparency and reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Our fund partly follows this principle. All of the pensions committee reports are publicly available through the Somerset County Council website and all meetings are open to the public.

retirement is...

having to
work in a
busy office



Investment activity

For most of the 2008-2009 financial year, the planned asset allocation of the fund has not changed. During September 2008, Standard Life Investments was permanently appointed to manage the fund's bonds following a competitive tendering process. However, as they had already been carrying out this task temporarily after F&C were removed on 1 February 2008, there was no further change.

During the year, we carried out a competitive tendering process to choose a manager for emerging-market equity. The manager we appointed was Pioneer Investments and the first £5 million of investment was made on 23 March 2009.

We have been inviting tenders for a manager for private equity, which we hope to start investing in during 2009.

At its November 2009 meeting, the pensions committee decided that UBS should have the Japan element of their fund removed from them and that we would invite tenders for a new manager for this part of the fund. The assets were removed from UBS's control on 30 March 2009 and are currently being managed by the in-house team on a passive basis until the tender to recruit a new manager is completed.

From 1 April 2009 (just after the end of the financial year), we changed the benchmarks for all of our equity managers following a review by the pensions committee. We also altered the size of most of the funds as we adjusted to accommodate the new emerging-market equity fund and the planned private-equity fund.

Investment market background

Interest rates

At the start of the year, UK interest rates were 5.25% and dropped to 5% on 10 April. The Bank of England maintained interest rates at this level until early October, when from this point on rates were rapidly lowered as the seriousness of the 'credit crunch' became clear. Rates were dropped to 0.5% in early March where they stayed until the end of the year.

Investment returns

Returns on most investment markets for the year were very poor, with equity markets typically losing between 30% and 40%. Losses were particularly steep in September and October as banks either failed or were bailed out by governments. Following on from this initial shock to markets, losses continued as it became clear that the global economy was heading for a recession.

Key market indicators

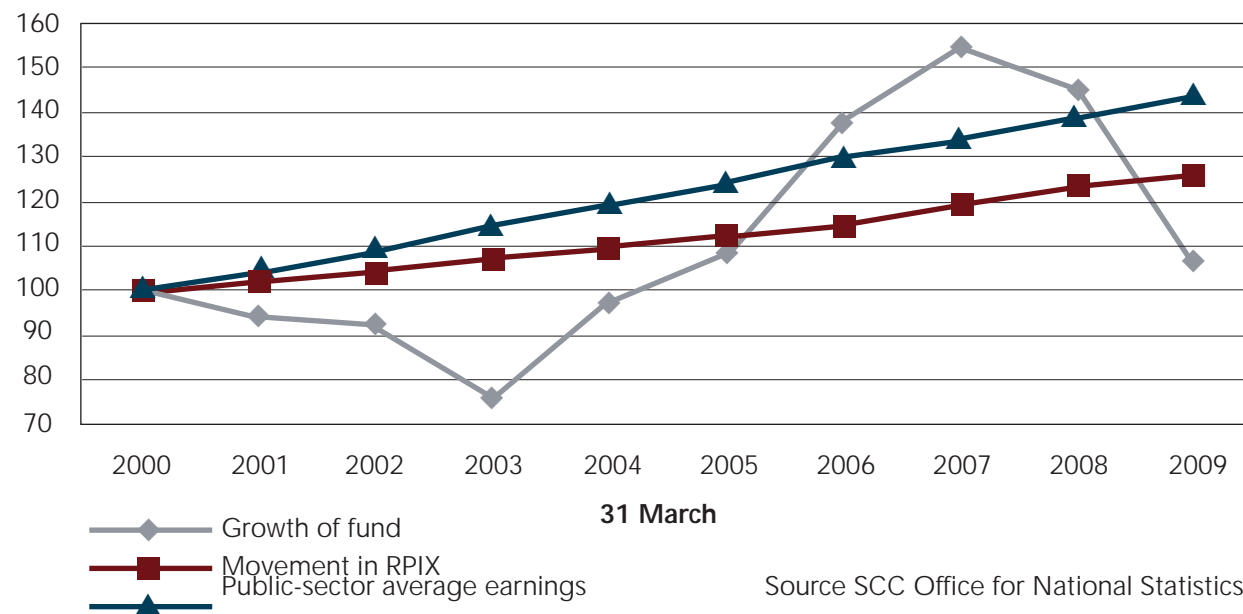
	Start of year	End of year	Percentage change for the year	
Base rate	5.25%	0.50%		
Strength of sterling against US dollars	1.98	1.43	-28%	
Euro	1.26	1.08	-14%	
Yen	197.76	141.73	-28%	
Stock markets (quoted in local currency)				
FTSE 100 (UK)	5,702	3,926	-31%	
FTSE All Share (UK)	2,927	1,984	-32%	
Dow Jones (USA)	12,263	7,609	-38%	
S&P 500 (USA)	1,323	798	-40%	
FTSE Eurofirst 300 ex UK (Europe)	1,445	832	-42%	
Nikkei 225 (Japan)	12,526	8,110	-35%	

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 increase in public-sector earnings and the rate of inflation.

For 2008/2009, the fund reduced in size and, as a result, did not grow at a rate that was above the rate of increase in either prices or earnings. Looking back over the period since March 2000, we can see from the graph below that the fund has not grown as strongly as these other measures due to the particularly poor performance of the last year.



Investment performance

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 84th out of 87 funds for 2008/2009, compared with being 86th out of 88 in 2006/2007.

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 66th out of 70 local-authority funds. Over the 10-year period, we are placed 57th out of 63 funds. Over 20 years, we are 44th out of 51 funds.

Annualised time-weighted return (TWR)				
	One year	Five years	10 years	20 years
	%	%	%	%
Best	1.3	6.9	4.9	8.1
Upper 25%	-17.6	3.7	2.5	7.2
Weighted average	-19.9	3.1	2.0	7.2
Lower 25%	-23.0	1.9	1.2	6.7
Worst	-35.1	-1.7	-0.8	6.0
Somerset	-27.6	0.3	0.6	6.5
Position out of 100	96	94	90	86
Ranked	84	66	57	44
Out of	87	70	63	51
Source: WM Company				

Overall fund performance

Like most pension funds, the fund’s total return was very poor for the financial year at a loss of 27.6%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers and is worked out for us by the WM Company. The return on our scheme-specific benchmark was –27.5% and the fund underperformed against this by 0.1%. The performance of each of the fund managers is shown in the table opposite.

Investment performance

Manager	Asset class	Fund	1 Year Benchmark	3 Year (annualised) Fund	3 Year (annualised) Benchmark
Somerset County Council	Global equity passive	-16.4%	-16.6%	-4.4%	-4.5%
Standard Life	UK equity	-41.2%	-40.7%	-17.5%	-18.0%
JP Morgan	US equity	-19.2%	-18.1%	-11.4%	-11.2%
Jupiter	European equity	-37.1%	-34.8%	-8.8%	-7.9%
Somerset County Council	Japanese equity	Initial investment March 2009		Initial investment February 2008	
UBS	Far East equity	-11.2%	-12.9%	-5.7%	-6.1%
Pioneer	Emerging Market equity	Initial investment March 2009		Initial investment October 2006	
Standard Life	Bonds	-4.4%	-4.8%	-9.9%	-9.0%
Aviva	Property	-30.7%	-27.1%	Initial investment October 2006	
Record Currency Management	Active currency	-1.5%	0.0%	Initial investment October 2006	
	Passive currency	-13.4%	-14.2%		
Yorkshire Fund Managers	Venture capital	0.0%	3.6%	0.0%	4.8%
Somerset County Council	Cash	5.0%	3.6%	5.8%	4.8%
Whole Fund		-27.6%	-27.5%	-9.5%	-9.8%
Source: WM Company					

Our responsibilities

As the trustee of the fund, we must:

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

Responsibilities of the Corporate Director – Resources

The Corporate Director – Resources 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 present fairly the financial position of the pension fund at the accounting date and its income and spending for the year ended 31 March 2009.

In preparing this statement of accounts, the Corporate Director – Resources has:

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

The Corporate Director – Resources 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 fund receives contributions and investment income to meet pension benefits and other liabilities related to a large number of the county council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Children,

Schools and Families) or firefighters, who have their own scheme. The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police Authority (police officers have a separate scheme) and employees of other member organisations. For a full list of employers who take part in the fund, see the next page.

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

All employers' contribution rates are decided by the fund's actuary every three years as part of his valuation of the fund. The last valuation of the fund was made as at 31 March 2007. For Somerset County Council, for example, the employer's rate for the three years covered by this valuation was 14.3% in 2008/2009, is 14.6% in 2009/2010 and will be 15.1% in 2010/2011. 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 is 14.7% at the 2007 valuation (11.3% at the 2004 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 14.7% is made up of a rate of 13.5% for new service and 1.2% for deficit funding. At the valuation, the actuary estimated that the fund's assets covered 95% of the fund's liabilities.

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

Administering authority

Somerset County Council

Member organisations

Major scheduled organisations

County council - Somerset

Police authority -

Avon and Somerset (civilian staff)

District councils -

Mendip
Sedgemoor
South Somerset
Taunton Deane
West Somerset

Other scheduled organisations with contributors

Parish and town councils, and so on -

Axbridge Town Council
Burnham and Highbridge Town Council and Burial Board
Chard Town Council
Crewkerne Town Council and Burial Board
Frome Town Council
Glastonbury Town Council
Ilminster Town Council
Langport Town Council
Lower Brue Drainage Board
Minehead Town Council
North Petherton Town Council
Shepton Mallet Town Council
Somerton Town Council
Street Parish Council
Wells Burial Board and Parish Council
Williton Parish Council
Wincanton Town Council
Yeovil Town Council

Further-education colleges

Bridgwater College
Richard Huish Sixth Form College
Somerset College of Art and Technology
Strode College
Yeovil College

Foundation and voluntary-aided schools

Bruton Primary School
Bruton Sexeys School
Brymore School
Charlton Horethorne Primary School
Enmore Primary School
Wellington St John's Primary School

Other bodies

Avon and Somerset Local Probation Board
Exmoor National Park

Admitted organisations with contributors

Connexions Somerset Ltd (Careers)
ECT Recycling Ltd
Homes in Sedgemoor
Learning and Skills Network
Learning South West
Magna West Somerset Housing Association
Mendip Housing Ltd
National Autistic Society
SHAL Housing Ltd
Society of Local Council Clerks
Somerset Care Ltd
Somerset Redstone Trust
Somerset Rural Youth Project
South West Regional Assembly Board
Tone Leisure Ltd
Wessex Group Valuation Tribunal
Yarlington Housing Group (formally South Somerset Homes Ltd)

Other scheduled organisations without contributors (pensioners only)

Long Ashton Parish Council
North Somerset Drainage Board
Martock Parish Council

Admitted organisations without contributors (pensioners only)

Ammerdown College
Signpost Housing Association
Vaughan Lee House

Financial statements

Fund account

2007/2008 £ (millions)	£(millions)	£ (millions)	2008/2009 £(millions)	Notes
Contributions and other income				
18.487			20.772	7
0.418			0.501	7
44.261			46.500	7
1.621			1.616	7
1.795			2.429	7
8.663			8.864	
75.245			80.682	
Less benefits and other payments				
-38.079			-41.048	7
-8.103			-12.379	7
-0.811			-1.363	7
-8.776			-4.523	
-0.007			-0.028	9
-0.897			-0.910	10
-56.673			-60.251	
	18.572	Contributions after payments	20.431	
Investment Income				
33.708			34.351	8
5.134			4.770	8
-3.940			-3.459	11
-1.660			-1.443	
0.006			0.011	
33.248			34.230	
Change in market value of investments				
7.147			-178.666	
-127.778			-148.996	
-120.631			-327.662	
	-87.383	Net return on investments	-293.432	
	-68.811	Net decrease in the fund during the year	-273.001	
1,104.061		Add opening net assets	1,035.250	
1,035.250		Net assets at end of year	762.249	

Financial statements

Net asset statement

On 31 March 2008 £(millions)		On 31 March 2009 £(millions)	Notes
Investment assets and liabilities			
2,357.216	Investment assets	1,402.407	4
-1,328.752	Investment liabilities	-654.954	4
3.938	Other investment balances	13.050	12
Current assets			
1.474	Contributions due from employers	1.540	
2.295	Other debtors	1.325	
Current Liabilities			
0.000	Unpaid benefits	0.000	
-0.921	Other creditors	-1.119	
1,035.250	Net assets at end of year	762.249	

The accounts reflect the assets that are available to the trustee, and the current liabilities. Longer-term liabilities for future pension benefits are not reflected in the accounts. Future contributions are matched to future liabilities through an actuarial valuation.

Accounting policies

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 their market value.
- Most listed investments are shown 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.
- The value of fixed-interest securities shown does not include accrued income.
- Pooled investment vehicles are shown at bid price for funds with bid/offer spreads, or single price (usually the 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 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 is accrued if we do not receive it by the end of the financial year.
- Interest on investments is accrued if we do not receive it 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 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 Statement of Recommended Practice which applied fully from 1 April 1998. 21 transfers into the scheme totalling £1 million were agreed but not settled on 31 March 2009. At the end of the financial year, there were two transfers out of the scheme left to take place, totalling £0.014 million. None of these appear in these accounts.
- 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 overseas investments we have bought or sold, are normally converted into sterling at or around the date of each transaction and are accounted for using the actual exchange rate received. If the transaction is not linked to a foreign-exchange transaction to convert to sterling, we have used the exchange rate on the day of the transaction to convert the transaction into sterling for accounting purposes.
- We have prepared the pension fund financial statements in line with the conditions of Chapter 2 – ‘Recommended Accounting Practice’ of the Pension Statement of Recommended Practice 2007.

Notes to the accounts

Note 1 - Membership statistics						
As at 31 March	2004	2005	2006	2007	2008	2009
Active scheme members	17,808	18,174	18,463	19,071	19,886	20,022
Pensioners						
Current (in payment)	8,192	8,406	8,818	9,126	9,706	10,126
Deferred (future liability)	6,798	7,738	9,025	10,059	10,897	12,787
Total (active plus pensioners)	32,798	34,318	36,306	38,256	40,489	42,935
Contributors for each current pensioner	2.17	2.16	2.09	2.09	2.05	1.98

Note 2: Related parties

Pensions committee members Tim Carroll, Anthony Clark, Sam Crabb, Caroline Moore and Sarah Miller are members of the Somerset County Council Pension Scheme. David Gladding's wife is a member of the Somerset County Council Pension Scheme. Most of the officers involved in the day-to-day operations of the fund are members of the fund.

Pensions committee members Sarah Miller and Ian Dewey have 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 organisations have commercial dealings with. Decisions about whether companies are suitable for the fund to invest in are made by Standard Life, JP Morgan Asset Management, Jupiter Asset Management, UBS Global Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member organisations. Decisions about suitable investments for the in-house fund 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.

No other related-party transactions other than normal contributions, benefits and transfers took place during the year. In note 7, we analyse the total contributions we were due to receive and benefits we paid for scheduled and admitted organisations.

Note 3: Opening value of investment assets

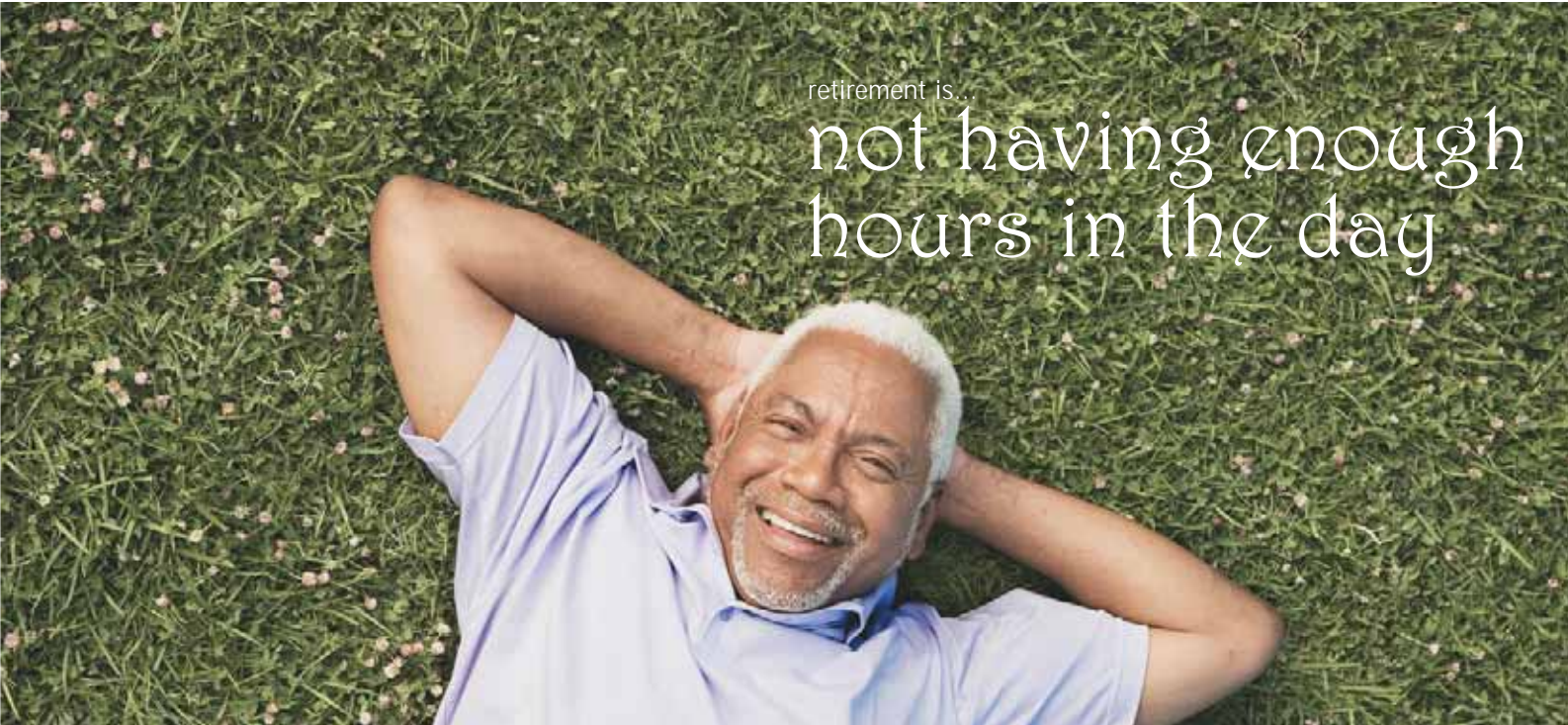
The 2008-2009 accounts are the first that need the investment assets to be valued at bid price rather than the historical practice of using a mid price. The opening value of the investment assets has not been recalculated to make the opening and closing assets consistent. The value of the net investment assets at 31 March 2008 on a bid basis was £1,026,326,000. This represents a reduction of £2,138,000 in the net investment assets of £1,028,464,000, as shown in the net asset statement.

Financial statements

Note 5 - Major Holdings

31 March 2008				31 March 2009	
Rank	£(millions)	Stock	Description	Rank	£(millions)
35	4.903	BP	UK oil company	1	16.023
27	5.495	Royal Dutch Shell	UK oil company	2	14.786
4	11.761	Exxon Mobil	US oil company	3	12.525
59	4.002	Vodafone	UK mobile phone compnay	4	11.406
34	4.917	HSBC	UK bank	5	10.066
91	2.964	Glaxosmithkline	UK drugs producer	6	8.536
97	2.789	BHP Billiton	UK mining company	7	7.170
17	7.016	Microsoft	US software producer	8	6.377
202	1.392	Astrazeneca	UK drugs producer	9	6.355
13	8.160	Aviva Pooled Pension PUT	Property unit trust	10	6.211
189	1.457	British American Tobacco	UK cigarette maker	11	5.975
66	3.628	Rio Tinto	UK mining company	12	5.720
64	3.634	Quercus	Property unit trust	13	5.672
139	1.975	BG Group	UK Gas company	14	5.614
12	8.184	Blackrock property fund	Property unit trust	15	5.347
6	10.118	Index Linked Treasury 2.5% 2016	UK government debt	16	5.227
26	5.699	Procter & Gamble	US household goods producer	17	5.209
25	5.731	Index Linked Treasury 2.5% 2020	UK government debt	18	5.065
18	6.963	Threadneedle strategic property fund	Property unit trust	19	5.001
-	0.000	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	20	4.979

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (BP) makes up 2.1% of the net investment assets. The 2008 figures in this note have been calculated on a mid basis and have not been restated to bid based values.



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Note 6 - Management Structure

31 March 2008		Manager	Asset class	31 March 2009	
£(million)	%			£(million)	%
331.985	32	Somerset County Council	Global equity passive	248.385	33
233.468	23	Standard Life	UK equity	154.875	21
49.145	5	JP Morgan	US equity	39.293	5
64.836	6	Jupiter	European equity	34.177	4
0.000	0	Somerset County Council	Japanese equity	20.798	3
43.779	4	UBS	Far East equity	15.865	2
0.000	0	Pioneer	Emerging Market equity	4.979	1
205.040	20	Standard Life	Bonds	155.810	21
91.900	9	Aviva	Property	58.813	8
-12.854	-1	Record Currency Management	Currency	-8.226	-1
0.800	0	Yorkshire Fund Managers	Venture capital	1.400	0
20.365	2	Somerset County Council	Cash	21.284	3
1,028.464	100		Total	747.453	100

Note 7 - Contributions and benefits

	Somerset County Council	Other scheduled organisations	Admitted organisations	Total
	£ (millions)	£ (millions)	£ (millions)	£ (millions)
Employees' contributions				
- Normal	10.416	8.811	1.545	20.772
- Additional	0.268	0.205	0.028	0.501
Total	10.684	9.016	1.573	21.273
Employers' contributions				
- Normal	22.391	18.385	3.147	43.923
- Deficit Funding	1.327	0.737	0.513	2.577
- Special	0.000	0.000	0.000	0.000
Total	23.718	19.122	3.660	46.500
Recurring pension & lump sum payments	-25.539	-25.036	-4.215	-54.790
Recoveries from member organisations	0.151	1.445	0.020	1.616
Employer payments for early retirements	0.610	1.396	0.423	2.429
Total	9.624	5.943	1.461	17.028

Financial statements

Note 8 - Investment income

2007/2008 £ (millions)		2008/2009 £ (millions)
9.265	Fixed interest	11.205
0.625	Index linked	1.259
13.493	UK equities	9.289
9.758	Foreign equities	11.457
3.306	Property unit trusts	3.674
2.204	Cash invested internally	2.060
0.000	Venture capital	0.000
0.006	Commission recapture	0.001
0.185	Stock lending	0.176
38.842	Total	39.121

Note 9 - Refunds

2007/2008 £ (millions)		2008/2009 £ (millions)
-0.015	Contributions refunded to people who leave with less than 3 months' service	-0.013
-0.002	Interest accumulated in historical cases	-0.001
-0.017		-0.014
0.002	Deductions from contributions equivalent premium	0.002
0.008	Less payments to DHSS contributions equivalent premium	-0.016
-0.007		-0.028

Note 10 - Administration expenses

2007/2008 £ (millions)		2008/2009 £ (millions)
0.779	Administration costs charged by Somerset County Council	0.800
0.055	Actuary's fees	0.022
0.009	Legal expenses	0.008
0.054	Other expenses	0.080
0.897		0.910

Financial statements

Note 11 - Investment expenses					
2007/2008			2008/2009		
£ (millions)	£ (millions)		£ (millions)	£ (millions)	
		Fund manager fees			
0.172		Aviva Investors	0.126		
0.300		F&C Management	0.000		
0.237		JP Morgan Asset Management	0.137		
0.250		Jupiter Asset Management	0.153		
1.076		Record Currency Management	1.065		
0.575		Standard Life Investments	0.833		
0.264		UBS Global Asset Management	0.122		
	2.874			2.436	
		Other expenses			
0.135		Professional services and subscriptions	0.134		
0.156		Specialist IT systems	0.146		
0.120		Custody fees	0.118		
0.017		Performance measurement fees	0.021		
0.638		Property unit trust managers' fees	0.604		
	1.066			1.023	
	3.940	Total		3.459	

Note 12 - Other Investment Balances		
31 March 2008		31 March 2009
£ (millions)		£ (millions)
	Assets	
4.074	- Accrued income	4.076
0.649	- Accrued Recoverable tax	0.611
0.000	- Payments due on investments sold	36.439
4.723		41.126
	Liabilities	
-0.785	- Payments not made on purchases and losses due on sales	-28.076
3.938	Total	13.050

Financial statements

Note 13 - Movement in investment assets									
Manager	Asset Class	Investment assets as at 1 April £(million)	Change in cash invested internally £(million)	Purchases £(million)	Sales Proceeds £(million)	Realised profit or loss £(million)	Unrealised Profit or loss £(million)	Investment assets as at 31 March £(million)	
2007/2008		1,097.674	-35.163	5,946.658	-5,860.074	7.147	-127.778	1,028.464	
Somerset County Council	Global equity	331.985	0.108	22.071	-43.724	-1.552	-60.503	248.385	
Standard Life	UK equity	233.468	0.000	241.018	-207.184	-89.935	-22.492	154.875	
JP Morgan	US equity	49.145	-0.003	56.478	-55.417	-12.734	1.824	39.293	
Jupiter	European equity	64.836	0.023	16.323	-24.209	-4.469	-18.327	34.177	
Somerset County Council	Japanese equity	0.000	0.000	26.173	0.000	0.000	-5.375	20.798	
UBS	Far East equity	43.779	0.353	21.942	-47.097	-2.550	-0.562	15.865	
Pioneer	Emerging Market equity	0.000	0.000	5.000	0.000	0.000	-0.021	4.979	
Standard Life	Bonds	205.040	-4.472	130.909	-158.709	-1.685	-15.273	155.810	
Aviva	Property	91.900	0.976	8.752	-10.002	0.082	-32.895	58.813	
Record	Currency	-12.854	0.000	1,885.327	-1,819.504	-65.823	4.628	-8.226	
Yorkshire	Venture capital	0.800	0.000	0.600	0.000	0.000	0.000	1.400	
Somerset County Council	Cash	20.365	0.919	0.000	0.000	0.000	0.000	21.284	
2008/2009	Total	1,028.464	-2.096	2,414.593	-2,365.846	-178.666	-148.996	747.453	

Transaction costs for the year amount to £1,795,000

Transaction costs for the year amount to £1,795,000

Note 14: Stock lending

The fund lent stock valued at £37,089,000 to other organisations under a stock-lending agreement on 31 March 2009. The fund held collateral of £39,079,000 for these loans. The form of collateral provided was as follows.

- 31.80% UK Government debt
- 54.64% debt that has been issued in US dollars
- 13.56% UK equities

Note 15: Derivatives

The only derivatives used by the fund during the year were forward foreign-exchange contracts. The fair value of these contracts at the end of the year is based on market foreign-exchange rates at that date.

The end-of-year value of forward foreign-exchange contracts is as follows.

31 March 2008 £ (millions) Net Value	Fund	Asset	31 March 2009 £ (millions) Liability	Net Value
0.000	Standard Life Fixed Interest	19.828	-20.235	-0.407
-4.815	Record Active Fund	392.936	-393.865	-0.929
-8.039	Record Passive Fund	233.557	-240.854	-7.297
-12.854		646.321	-654.954	-8.633

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

In the Record Active Fund, the aim is to use forward foreign-exchange contracts to make a profit. Record try to make a profit from the belief that, over time, currencies with a high interest rate tend to increase in value relative to currencies with a low interest rate. Because currency returns are not related to the returns on other asset classes, this investment should, over the long term, both reduce the overall ‘volatility’ of returns (that is, the likelihood of returns being more variable) and improve the fund’s overall return. The level of risk and the currencies that Record may invest in are controlled through a management agreement.

In the Record Passive Fund, the aim is to hedge 60% of the currency risk of the five major currencies we are exposed to in our equity holdings. The currencies hedged are US dollars, euros, Australian dollars, Swiss francs and Japanese yen. Managing these exchange risks should reduce the volatility of returns of the overall fund in the long term.

All forward foreign-exchange contracts are over-the-counter trades.

Note 16: Additional voluntary contributions

During the year, some members of the fund paid additional voluntary contributions (AVCs) to Equitable Life and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in line with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, do not include AVC transactions. The total AVC assets were valued at £802,000 in Equitable Life at 6 April 2009 and £3,143,000 in Prudential on 31 March 2009. During the year, employees contributed £478,000 in AVCs to Prudential and £4,000 to Equitable Life.

Note 17: Statement of investment principles

We have prepared a statement of investment principles, which explains the strategies and policies that we use to manage the pension fund investments. The full details of the statement are published in the pension fund annual report and financial statement.

Note 18: Contingent liabilities

There were no contingent liabilities as at 31 March 2009. (A ‘contingent liability’ is a possible liability which may arise when we learn the outcome of an unsettled claim made against us.)

Note 19: Post-balance-sheet events

There were no post-balance-sheet events as at 24 September 2009. (A ‘post-balance-sheet event’ is something that happened after we produced the balance sheet.)



Roger Kershaw, Corporate Director – Resources
September 2009

Actuary’s statement

Introduction

The last full valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2007.

2007 valuation

The 2007 valuation revealed a slight increase in the contribution rates employers paid to the fund from 1 April 2008. The county council has agreed to pay 14.3% of payroll in the year to 31 March 2009, 14.6% of payroll in the year to 31 March 2010, and 15.1% of payroll in the year to 31 March 2011.

Other employers whose pensions are provided by the fund will pay different rates of contribution to reflect their own particular circumstances and funding position within the fund.

Contribution rates

The contribution rates paid by each employer, on top of those paid by the members of the scheme, must be enough to meet:

- the liabilities that build up each year within the fund in relation to the benefits earned by each employer’s active members of the fund during the year; plus

- an amount to reflect each employer’s share of value of the fund’s assets compared with the liabilities that have already accrued at the valuation date.

The contribution rates were worked out using the projected unit method, taking account of market conditions at the valuation date.

Asset value and funding level

The fund’s smoothed market value as at 31 March 2007 represented around 94.5% of the fund’s accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Financial assumptions

To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as set by market levels at the valuation date. The key assumptions were as follows.

- | | |
|--|--------------|
| ● Rate of return on investments | 6.90% a year |
| ● Rate of increases in pay | 4.80% a year |
| ● Rate of increases to pensions in payment | 3.30% a year |

Actuary’s statement

Changes to the Local Government Pension Scheme

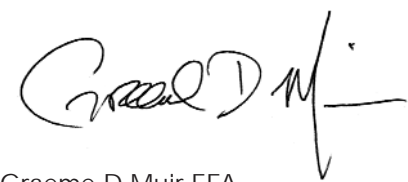
Regulations have also been made which explain the new benefit and contribution structure that will apply from 1 April 2008. Pensions will now accrue at 60ths with no separate lump sum accrual, although scheme members will be able to exchange some of their pension for lump-sum benefits. There is also a revised ill-health retirement scheme, better death benefits and banded levels of employees’ contributions, with scheme members paying between 5.5% and 7.5% depending on their earnings. The certified contribution rates take these changes into account.

Since March 2007, investment returns have been less than assumed at the 2007 valuation, although liabilities will have increased more slowly than assumed due to an increase in discount rates. The increase in discount rates also reduces the cost of the ongoing benefits that accrue.

In summary, we estimate that the funding level will have decreased since the 2007 valuation, and will increase the deficit contributions necessary as a result. However, this will have been offset by the reduction in ongoing costs.

The next valuation is due as at 31 March 2010 and any revised contribution rates will come into force from 1 April 2011. At this stage, and without any improvement in the overall financial position, it may be necessary to increase employers’ contribution rates from April 2011.

We will continue to monitor the position.



Graeme D Muir FFA
Fellow of the Faculty of Actuaries

6 August 2009

Independent auditor's report

Plain English Campaign's Crystal Mark does not apply to the independent auditor's report.

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

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Somerset County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Finance Officer and auditor

The Responsible Financial Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing this pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimating that were reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the report from the Corporate Director – Resources.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued

Independent auditor's report

by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

- In my opinion:
- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
 - the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Brian Bethell
District Auditor
Audit Commission
Exchange House
12-14 The Crescent
Taunton Somerset TA1 4EB

24 September 2009

retirement is...
happy days



Goodbye

retirement is...
saying it was all worth it!