Democratic Services
Guildhall, High Street, Bath BA1 5AW
Telephone: (01225) 477000 *main switchboard*
Direct Lines - Tel: 01225 395090
Web-site - http://www.bathnes.gov.uk

18 September 2015
Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers, Cherry Beath and Shaun McGall

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Ann Berresford (Independent Member) and Shirley Marsh (Independent Member)

Co-opted Non-voting Members: Cheryl Kirby (Parish and Town Councils), Steve Paines (Trade Unions) and Wendy Weston (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 25th September, 2015

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 25th September, 2015** at **2.00 pm** in the **Council Chamber - Guildhall, Bath.**

The agenda is set out overleaf.

A training session for Members will be held in the Council Chamber before the meeting from 11am to 1.30pm, and a buffet lunch will be served for Members at 1.15pm.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

Public Access points - Reception: Civic Centre - Keynsham,- Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

7. **Emergency Evacuation Procedure**

   When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

   Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Friday, 25th September, 2015

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 26 JUNE 2015 (Pages 7 - 20)

8. AUDITED STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE REPORT & ANNUAL REPORT - 2014/15 (Pages 21 - 24)

9. ANNUAL RESPONSIBLE INVESTMENT REPORT (Pages 25 - 110)

10. LGPS UPDATE - POOLING OF INVESTMENTS (Pages 111 - 114)

11. REVIEW OF RESPONSIBLE INVESTING POLICY - SCOPE (Pages 115 - 120)

12. THE PENSIONS REGULATOR - ADMINISTRATION - COMPLIANCE REPORTING (Pages 121 - 152)

13. REPORT ON INVESTMENT PANEL ACTIVIITY (Pages 153 - 160)

14. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2015 (Pages 161 - 218)

15. PENSION FUND ADMINISTRATION (Pages 219 - 262)

16. CONSULTATION RESPONSES (Pages 263 - 272)

17. WORKPLANS (Pages 273 - 284)

18. TIMING OF FUTURE COMMITTEE MEETINGS AND TRAINING SESSIONS - VERBAL REPORT

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations

- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 26th June, 2015, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Paul Myers, Christopher Pearce and Shaun McGall

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Cllr John Goddard (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions) and Wendy Weston (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and Steve Turner (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Geoff Cleak (Pensions Benefits Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Cherry Beath, Cllr Mike Drew, Cllr Steve Pearce and Clive Fricker. Cllr John Goddard substituted for Cllr Mike Drew.

3 DECLARATIONS OF INTEREST

There were none.

4 ELECTION OF VICE-CHAIR

Councillor Christopher Pearce was elected Vice-Chair of the Committee for the Municipal Year.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

It was announced that Clive Fricker had resigned from the Committee.

6 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS,

PETITIONS OR QUESTIONS

Members of Fossil Free Bristol (Richard Lawrence, Holly Templer, Freddie Collins and Hannah Sneyd) presented a statement to the Committee. A copy of the statement is attached as an appendix to these minutes.

The Committee noted the statement.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES: 27 MARCH 2015

The public and exempt minutes of the 27 March 2015 were approved as a correct record and signed by the Chair.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investments Manager presented the report. She invited Members to approve the Governance Compliance Statement, which was unchanged apart from the addition of a statement about the Pension Board. There had been no official guidance about what should be said about the Pension Board, so the Statement only included the basic facts about it. She also invited nominations for the non-BANES members of the Investment Panel and for delegates to the Local Authority Pensions Fund Forum. The current delegate, Cllr Mike Drew, wished to continue in that role, but it was possible to have an additional delegate. She drew attention to paragraph 4.7 of the report, which encouraged Members to undertake training and drew attention to The Pensions Code of Practice requirements in respect of Members' training.

RESOLVED

1. To note:

    a. the roles and responsibilities of the members, advisors and officers;

    b. terms of reference of the Committee and Investment Panel;

    c. the requirement to establish a local Pension Board.

2. To approve the Governance Compliance Statement.

3. To note that Bath and North East Somerset Council has appointed Cllr Christopher Pearce as Chair of the Investment Panel and Cllr David Veale and Cllr Cherry Beath as members of the Investment Panel, and to appoint Ann Berresford, Cllr Mary Blatchford and Shirley Marsh as the remaining members of the Panel.

4. To agree that Mike Drew and Richard Orton will represent the Fund on the Local Authority Pension Fund Forum.

10 APPROVAL OF DRAFT ACCOUNTS 2013/14 PRIOR TO FORMAL APPROVAL BY S151 OFFICER

An updated version of the draft accounts was circulated to Members.

The Head of Business, Finance and Pensions presented the report. He said there were two main changes from the earlier draft of the accounts: an additional commitment of $US300m for the pooled infrastructure fund, referred to in note 22, and an actuarial adjustment of £16k found during reconciliation which had not been entered into the accounts. Next year the accounts had to be submitted by 31st May. The value of the assets was now £3.8bn and had increased by £0.5bn over the year. The unusually high level of transfers in referred to in paragraph 4.2(f) of the report was the result of the merger of several colleges in the area.

A Member expressed concern about investment costs. He noted that the majority of the Fund's income came in the form of employer and employee contributions, yet it had spent £17.5m on investment costs plus £2m in transaction costs. It seemed therefore that the Fund had spent about £20m to earn an investment income of £28m. The Head of Business, Finance and Pensions suggested that the investment costs might seem to be good value when compared with the £0.5bn increase in the value of its assets that the Fund had achieved over the year. The Member asked how was it possible to be sure that this was the result of the activity of the Fund's investment managers rather than of a general rise in asset values; manager's fees rose in line with the value of the assets and not as a result of any work they had done. He noted that manager's performance fees had actually dropped from £4.9m to £1.8m, which he presumed was because they had not performed as well this year as the previous year. The Head of Business, Finance and Pensions referred to the table at the foot of page 23 of the accounts, which set out the market sensitivity for the various asset classes and said that managers were paid not only to increase returns but also to protect the assets of the Fund. The Member accepted that the expenditure on investment fees would be good value, if there was no alternative means of achieving the same result. He suggested that the Investment Panel should examine investment fees. The Investment Manager said that the performance fees for 2013/14 included performance fees from previous years that had not been disclosed, so overall there had been an increase in transparency.

A Member observed Note 2 to the accounts reported an increase of 21 in pensioners of the Fund, yet the accounts showed an increase in £7m in pension benefits. The Investment Manager said she would report back about this.

A Member asked what was being to trace out-of-touch members who might have a claim on the Fund. The Pension Benefits Manager said that there was an ongoing project to update membership records which had incomplete data. A tracing agency was used to try to trace these members, who were entitled to a refund of contributions. 2100 were outstanding in 2011 when the project started; this had been reduced to about 900. The target completion date for the project was 2016, though staff resources were very tight.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2015 for audit.

11 TREASURY MANAGEMENT POLICY

The Investment Manager presented the report. She said that the Treasury Management Policy was reviewed every March at the same time as the Council reviewed its policy. The previous policy allowed only UK institutions as counterparties. The policy put before the Committee in March 2015 had proposed to allow European counterparties, but the Committee had declined to approve the policy, because of concerns about the use of counterparties in the Eurozone. The policy now proposed restricted the use of counterparties to those outside the Eurozone. The policy had been amended in response to the withdrawal by Barclays of its Platinum Call Account. To use an equivalent account without increasing limits, it was necessary to use a bank outside the UK.

A Member suggested that it should be clarified in documentation that there was a difference between the Fund's policy and the Council's policy in relation to the use of Eurozone counterparties.

A Member asked whether the Committee was being asked to approve the specific list of counterparties or the principles by which they were selected. The Investment Manager said that she would need to report back on this. The Member also suggested that the credit rating in itself was not sufficient as a basis for comparing institutions in different countries.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1.

12 MANAGEMENT OF LIABILITY RISKS

The Investment Manager presented the report. She said that it was proposed to delegate the review to the Investment Panel, which would make recommendations to the Committee. The aim was to devise a framework to manage more effectively the mismatch between the way the liabilities behave and the way the investment portfolio behaves, and thus the level of contributions required to be paid into the Fund. There were operational, investment and funding implications that needed to be considered.

A Member suggested that the scope should include scenario planning, because there were many possible variations in relation to cash flows and pension freedom, for example.

A Member suggested that liabilities should be considered by sector, e.g. academies, universities etc. He also suggested that other Members of the Committee should be invited to attend workshops held by the Panel as part of this review.

RESOLVED to agree;

1. the scope of the review set out in 5.1, subject to the inclusion of scenario planning, a review of liabilities by sector, and the timing set out in 5.2;

2. the delegation to the Panel set out in 5.3.

13 APPLICATION FOR ADMISSION TO THE FUND

The Investments Manager presented the report. She said that the applicant was offering a bond in line with the Fund's policy.

A Member noted that the letter in Annex 1 of the report referred to a pension deficit of £119,000 and asked how often their bond would be re-assessed. The Investments Manager replied that this would be done every three years as part of the Fund valuation.

A Member asked whether the Committee had ever refused an application recommended by officers. The Investments Manager replied that it had not, because if the admission did not comply with the Fund's policy, it would not be submitted to the Committee. Since 2007 the Fund's policy had been that all bodies seeking to join the Fund must have either a guarantee or a bond.

RESOLVED that Writhlington Trust is allowed admission to the Avon Pension Fund as a Community Admission Body subject to a bond being in place to protect the Fund and subject to the completion of an Admission Agreement.

14 COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investment Manager presented the report. She said that the report would be presented to the Council on 29th July.

A Member pointed out that in the first bullet point in paragraph (b) on agenda page 103 the second sentence should begin "fallen back to 78% from 85%", not 84%, and that the last figure in the third sentence should be £633m, not £636m.

A Member suggested that the change of the Fund's investment advisor should be reported under Advisory Contracts on page 107, and that pensions freedom and what it meant for the Fund should be mentioned in section 5 "Future Business".

RESOLVED to approve the 2015 Annual Report to Council, subject to amendments proposed by the Committee.

15 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said the only issue to note this time was the clarification meeting on the Fund of Hedge Funds mandate tender, reported in Exempt Appendix 1. A Member wished to ask a question about this, so it was **RESOLVED** that

> the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of section 100(A)4 of the Local Government Act 1972, the public shall be excluded from the meeting for the discussion of Exempt Appendix 1 of the report of this item, because of the likely disclosure of exempt

information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Committee returned to public session.

RESOLVED to note the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

16 REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2015

The Assistant Investments Manager presented the report. He said that the funding level had fallen 7% over the year from 85% to 78%, largely because of a fall in real gilt yields, which are used to value the liabilities. This had only been partly offset by lower inflation and better than expected investment returns.

Mr Turner commented on the Mercer investment report. He said that there were clear benefits from the changes to investment strategy that the Fund had implemented. The markets seemed to have taken the Greek crisis in their stride. There was a question about when US interest rates would begin to rise. Bond volatility had increased a great deal; it would benefit the Fund if bond prices fell, as this would reduce the liabilities. Gilt yields had risen by about 0.5% since the beginning of the quarter, which was very good for the Fund.

A Member asked about the impact of pension transfers. The Investments Manager said that there had been no applications yet to transfer out of the Fund, but such transfers could impact on cash flow, among other things, and it was an issue that needed to be monitored carefully.

RESOLVED

1. To note the information as set out in the report.
2. To note the LAPFF Quarterly Engagement Report at Appendix 4.
3. To agree minor updates to the Statement of Investment Principles (SIP) as explained in Section 11, and approve the revised SIP in Appendix 5.
4. To note the assessment on the potential impact of the 2014 budget flexibilities on the Fund’s cash flow and liabilities in Appendix 6.

17 PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2014/15, PERFORMANCE INDICATORS FOR PERIOD ENDING 30 APRIL 2015 AND RISK REGISTER ACTION PLAN

The Investments Manager presented the budget report. Directly-controlled expenditure was £226,000 below budget because of staff secondments. Increased use of electronic communications had resulted in lower communication costs. The investment budget is not directly-controlled, but is risk-based. There was a forecast overspend of £230,000 on this budget because of increased costs from the re-tendering of the DGF mandate, and managers’ fees had been higher than forecast because of strong market performance. She drew attention to the cash flow forecast in Appendix 2 and explained that cash flow was forecast on a monthly basis.

The Pensions Benefits Manager presented the performance report. He said that all reporting areas were within the targets set under the previous pensions' administration strategy, which had effect until 31st May 2015, with the exception of electronic service delivery to members, which would be given special attention under the Fund's IT strategy. The new pensions' administration strategy, approved by the Committee at the meeting of 27 March 2015, had come into effect on 1st June following consultation with employers. There had been an increase in cases, mainly generated by the end-of-year data-cleansing exercise and a rise in the number of estimate requests from members. The programme of work for full digitalisation of administration and communication had already commenced, including redevelopment of internal work flow and reporting modules across Pensions' Benefits and Payroll. Reports and plans had been put in place to achieve compliance with the requirements of The Pensions Regulator and with the work of the Pensions Board.

A Member asked about performance for transfers out. The Pensions Benefits Manager replied that an extra step had been put into the process to provide protection against pension scams. A new suite of reports was being developed and this area should probably have been given an "amber" rather than a "green" rating.

In reply to a question from a Member the Pensions Benefits Manager said that providing estimates could be very time-consuming. On one occasion a member had requested a total of sixteen estimates, reflecting the projection of different hours of work until retirement. At present staff felt they were obliged to provide estimates to members who requested them, but it was felt that the administration strategy needed to be amended so that staff who were within five years of the statutory retirement age were entitled to an estimate, but younger staff would have to use the self-service facility on the web site.

RESOLVED to note:

1. Administration and management expenditure incurred for 12 months to 31 March 2015.

2. Performance Indicators & Customer Satisfaction feedback for 3 months to 31 March 2015.

3. Summary Performance Report for period from 1 April 2011 to 31 March 2015.

4. The Risk Register.

18 WORKPLANS

The Investments Manager presented the report. She said that the training workshop and first meeting for the Investment Panel were now scheduled for 11 September. All Members were welcome to attend the workshop. It was hoped to confirm future Panel dates and dates for the training programme shortly.

A Member suggested that Socially Responsible Investment should be added to the Panel workplan.

A Member suggested that pensions' flexibility should be added to the workplan. The Investments Manager said that this would be considered as part of the interim valuation.

RESOLVED to note the workplans.

19 DATES OF FUTURE MEETINGS

RESOLVED to note the dates of future meetings.

The meeting ended at 3.23 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Introductions of those attending and statement of whether they are members of the Avon Pension Fund or Fossil Free Bristol.

It's a widely held view that climate change poses a significant financial risk to the investment system and UK pension fund portfolios. However, at the beginning of 2014, the Avon Pension Fund had more than £17.4million invested in fossil fuel industries.

We are here to highlight the risks facing the Avon Pension Fund due to its continued investment in fossil fuel companies. We urge the pension fund committee to divest from fossil fuel interests in favour of supporting the transition to a low carbon economy.

*Investing in fossil fuels is **environmentally** unsustainable*

The facts

The international consensus on the science of global warming states - if we exceed a 2 degree rise then climate change becomes unpredictable and 'dangerous' ([i]).

The top 200 fossil fuel companies have known reserves equivalent to almost five times more than can be emitted if we are to have an 80% chance of preventing warming from exceeding the critical two degree threshold.

Corporations continue to pump billions of shareholder dollars into the quest for more fossil fuel supplies. Deutsche Bank estimates that in 2014, the oil industry spent $650bn on exploration and the development of new reserves[ii].

*Investing in fossil fuels is **economically** unsustainable*

The facts

The fossil fuel industry is based on an unsustainable business model. This throws into question their long term investment potential.

If an international agreement on climate change is reached, many of the fossil fuel assets currently listed on the world's stock market could become 'stranded'.

The Bank of England is undertaking an enquiry into the risk of fossil fuel companies causing a major economic crash if their fossil fuel assets become worthless[iii].

350.org's international Fossil Free campaign is putting pressure on organisations all over the world to shun unsustainable fossil fuel investments.

Many institutions in the UK and around the world have already committed to divestment.

Avon Pension Fund's position

We thank Liz Woodyard for her openness in recent correspondence regarding APF's approach to responsible investment in the face of climate change. From which we understand that:

- Existing APF policies do not appear to take into account the impact of its fossil fuel investments.
- APF is awaiting further understanding on the relationship between fossil fuels and climate change and on the approaches to managing those risks before responding to the climate change agenda
- APF has not established the carbon footprint of its investment portfolio
- Investment managers have not been asked to consider the feasibility of allocating capital away from fossil fuels

In correspondence with LAPFF, we understand that the preferred strategy for pension funds is to use their investments as a lever to influence the activities of fossil fuel companies rather than commit to divestment. In some cases pension fund shareholders have begun to challenge Exxon, Shell, and BP to show how their business model is compatible with two degree warming.

In this context, we call for APF to:

1. Tell us the results of their engagement with fossil fuel companies and, their escalation strategy should such engagement fail to deliver timely results

2. Consider the financial feasibility of divesting from fossil fuels with a view to:
    a. Immediately freezing any new investments in fossil fuels
    b. Divest immediately from pure-play coal companies
    c. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years

3. Take a proactive and strategic approach to supporting the transition to a low-carbon economy by:
    a. Assessing the fund's assets that are invested in transition industries
    b. Requiring asset managers to detail opportunities for low-carbon investment
    c. Setting a target for increased investment in the low-carbon economy

4. Contact the Environment Agency Pension Fund, a global leader in concurrently protecting financial returns and mitigating climate change

We also see APF's continued support of the fossil fuel industry as inappropriate given our region's desire to be at the forefront of sustainability and low carbon innovation. As European Green Capital, Bristol City Council has already committed to not having direct investments in fossil fuels.

As an investment project manager in Bristol City Council's Energy Service, I strongly agree with this campaign to divest the Avon Pension Fund away from fossil fuels. Not only is it questionable to continue to support the burning of fossil fuels according to APF's 'Social, Environmental and Ethical Considerations' investment principles, the financial viability of those investments is also uncertain.

Investing in the future of fossil fuels presents a long-term financial risk due to the persistent over-valuation of coal, gas and oil reserves that may be rendered worthless if international agreements on climate change are reached.

Earlier this year, as Bristol entered its reign as 2015 European Green Capital, our Mayor George Ferguson pledged to divest Bristol City Council investments out of the fossil fuel industry. I am pleased to say that the council's policy has now been amended to reflect this and that Bristol City Council currently has no direct investments in fossil fuel industries. I lend my full support to this campaign and am keen to work with APF and its other member organisations to freeze and withdraw the Fund's unsustainable fossil fuel investments

Finally we would welcome the opportunity to attend a specific meeting with members to discuss these issues in more details.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	25 September 2014	**AGENDA ITEM NUMBER**
TITLE:	**Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2014/15**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Audited Statement of Accounts 2014/15 TO FOLLOW

Appendix 2 – Annual Governance Report 2014/15 TO FOLLOW

Appendix 3 – Draft Avon Pension Fund Annual Report 2014/15 TO FOLLOW

THE AUDITED ACCOUNTS, GOVERNANCE REPORT AND ANNUAL REPORT HAVE YET TO BE FINALISED. THEY WILL BE CIRCULATED TO ALL MEMBERS ONCE THEY HAVE BEEN COMPLETED PRIOR TO THE MEETING.

1 THE ISSUE

1.1 The Audited Statement of Accounts and the Annual Governance Report are now presented to be noted.

1.2 The Annual Governance Report summarises the results of the Grant Thornton audit of the 2014/15 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – "Communication of audit matters with those charged with governance".

1.3 The Corporate Audit Committee will be recommended to approve the final audited Statement of Accounts for 2014/15 and note the issues raised in the Governance reports at its meeting on 28 September 2015.

1.4 The Fund's Annual Report 2014/15 is a statutory document which the Auditor reviews as part of the Fund's audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

2.1 Notes the final audited Statement of Accounts for 2014/15.

2.2 Notes the issues raised in the Annual Governance Report.

2.3 Approves the draft Avon Pension Fund Annual Report 2014/15.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2015 as £3,835 billion.

4 THE REPORT

4.1 The draft Statement of Accounts 2014/15 is in Appendix 1.

4.2 The Committee noted the draft Statement of Accounts 2014/15 at its meeting of 26 June 2015. The only significant change to the Statement of Accounts since the June Committee meeting is the addition of a creditor of £4,524k. This creditor relates to the refund of contributions overpaid by Bristol City Council. £2,188k of the overpayment was known to the Fund at 31 March 2015 but it was believed that the payment was to be retained by the Fund as a deficit contribution. The Fund was not informed of the remaining £2,336k until after the June Committee. The inclusion of this creditor reduced the stated net value of the Fund by £4,524k.

4.3 The Annual Governance report is in Appendix 2.

4.4 The draft Avon Pension Fund Annual Report is in Appendix 3. Under the Local Government Pension Scheme (Administration) Regulations 2008 the Fund is required to publish a report annually by 1st December. As this is before the next Committee meeting, the Committee are asked to approve the 2014/15 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1st December deadline. The report will be published on the Fund's website.

4.5 The external auditor has reviewed the annual report as part of the audit.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment and funding strategy that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The work in relation to this year's audit has not identified any new corporate risks or significant changes.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary

7 OTHER OPTIONS CONSIDERED

7.1 None as this report is a statutory requirement.

8 CONSULTATION

8.1 Consultation has been carried out with the Section 151 Finance Officer.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No decision as this is a statutory requirement.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Director of Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 26 June 2015: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 SEPTEMBER 2015**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL RESPONSIBLE INVESTMENT REPORT**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Responsible Investment Report: Policy and Activities 2014/15

Appendix 2 – Appendix to Responsible Investment Report: Monitoring Review of Shareholder Voting 2014

Appendix 3 – Statement of Compliance with Stewardship

1 THE ISSUE

1.1 The Fund publishes a Responsible Investment (RI) Report annually to explain the Fund's RI activities including voting and compliance with the FRC Stewardship Code.

1.2 Inherent in the Fund's RI policy is that transparency and disclosure of its RI policy and activities is an important element of being a responsible investor.

1.3 The Responsible Investment report for 2014/15 is at Appendix 1 along with the 2014 annual report on Voting Activity from Manifest (Appendix 2). The report will be published on the Fund's website once it has been approved by the Committee.

1.4 Manifest will present their report at the Committee meeting.

1.5 The Statement of Compliance with the Stewardship Code is included as Appendix 3 for information only.

2 RECOMMENDATION

The Committee:

2.1 Approves the annual Responsible Investment Report for 2014/15

3 FINANCIAL IMPLICATIONS

3.1 The budget includes the costs of the proxy voting monitoring provided by Manifest.

4 RESPONSIBLE INVESTMENT REPORT

4.1 This is the third annual report on responsible investment prepared by the. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The RI policy was agreed in June 2012. The Fund updated its compliance statement with the Stewardship Code following amendments in 2012 and this was agreed by Committee in June 2013.

4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account and the key ways in which the Fund sought to manage these risks during the year were as follows:

a) Embedded ESG criteria into the evaluation of the tenders for the Diversified Growth Fund mandate and Infrastructure mandate.

b) Monitored whether our investment managers implemented RI policies or approach in line with their stated policy and the Fund sought to influence where appropriate:

- Held managers to account and queried RI / ESG factors in investment process where appropriate
- Reviewed whether engagement activity of managers was in line with their policies
- Highlighted key voting resolutions to investment managers where the resolution related to long term strategic ESG risks (ie; BP and Shell shareholder resolutions on carbon management)

c) Actively participated in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activites are important tools to manage RI risks. Officers and committee members attended four business meetings during the year.

4.3 The trends in voting by investors undertaken by Manifest suggests that there is a gradual improvement in governance standards. In 2014 governance concerns were lower than for previous years, although in the emerging and Far Eastern markets the standards are still below those of UK/European markets. The introduction of the vote on Remuneration Policy in the UK has had a significant impact on this year's analysis. Many investors are waiting to see if this influences corporate behaviour over the next few years. As a result, all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors.

5 RISK MANAGEMENT

5.1 Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment Policy seeks to ensure the long term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor and shareholder.

6 EQUALITIES

6.1 For information only.

7 CONSULTATION

7.1 For information only.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 For Information only.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager, 01225 395420
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Responsible Investment Report: Policy and Activities 2014/15

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor.

The annual Responsible Investment report summarises the activities undertaken during the year by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The report comprises the following sections:

Section 1 and 3 of the report reaffirms the Fund's own Responsible Investment policy and the Fund's compliance with the Financial Reporting Council's Stewardship Code. The main focus of the report is Section 2 which details the RI activity of the Fund, the Fund's involvement with LAPFF (Local Authority Pension Fund Forum) and the activity of the Fund's investment managers. Manifest Information Services Ltd have undertaken analysis of shareholder voting at the Avon Pension Fund and their report seeks to put Avon's fund manager voting behaviour into a comparative and wider context, this report is included at the Appendix.

Executive Summary

As a responsible investor, the Fund sought to manage Responsible Investment risks through the following activity during the year:

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation of the tenders for the Diversified Growth Fund mandate.
- Promoted Responsible Investment / Environmental, Social and Governance by:
    - Following through with issues identified throughout the year by the Fund's Committee and Investment Panel.
    - Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
    - Reviewing whether engagement activity of managers was in line with their stated policies.
    - Publicly supported the shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.
- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and committee members attended four business meetings during the year.
- The trends in voting by investors undertaken by Manifest suggests that there is a gradual improvement in governance standards. In 2014 governance concerns were lower than for previous years, although in the emerging and Far Eastern markets the standards are lower. The introduction of the vote on Remuneration Policy in the UK has had a significant impact on this year's analysis. Many investors are waiting to see this influences corporate behaviour over the next few years. As a result, all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors.

Section 1 - Responsible Investment Policy

This policy was agreed by the Avon Pension Fund's Committee in June 2012. The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

The policy sets out how the Fund will implement these beliefs within its strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

- The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes. This is evidenced by evaluating the following as part of the strategic investment review process:
    - The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing
    - Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value.
    - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that exclude or positively select investments could be appropriate for particular mandates.
- The Fund requires its active investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles (SIP).
- When appointing external investment managers, the Fund:

- Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.
- Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
- Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.

- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets.
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role.
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible.
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives.
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles.
- The Fund encourages its external investment managers to become UNPRI signatories.
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.
- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

Section 2 - Responsible Investing Activity in 2014/15

The activity of the Fund is described across 4 main areas as follows:

- At the strategic level and how incorporate assessment of RI risks in strategic decisions
- Investment manager activity
- Voting analysis
- Engagement and collaboration

2.1 Investment Strategy and Change to Investment Mandates

In March 2013 the Fund adopted a new Investment Strategy. While there were no changes to the strategic allocation during the year the Fund did appoint a new Diversified Growth Fund (DGF) manager and Infrastructure manager. The Fund will also be appointing a new Fund of Hedge Fund (FoHF) manager next year. Within the existing 10% allocation to DGFs the Fund reallocated c.6.5% to Standard Life in February 2015. In addition the Fund is in the process of implementing the revised Hedge Fund Strategy which will be completed in 2015 and covered within next year's report.

The following tables summarises the Fund's evaluation of RI characteristics for the new Diversified Growth Fund Manager:

Asset Class	Can ESG Risks be Managed?	Notes
Diversified Growth Funds (DGF)	Limited	There is less scope to reflect the Fund's ESG policy through a DGF investment compared to equity mandates. DGF managers hold a variety of assets across different asset classes, so the extent to which ESG risks can be managed will be dependent on the types of assets held.
Infrastructure	Partially	An investment in infrastructure can support environmental and social projects, although whether a sufficient return is achievable for risks taken on needs to be carefully considered. The risks of disposal of assets that are no longer useful must be carefully considered, as must any environmental impact of building work, both of which could have financial implications for any investment.

In the DGF tender respondents were required to demonstrate how they incorporate ESG issues and risks into their investment decision making process which was evaluated as part of the assessment of each tender response. This enabled the Fund to understand each manager's approach to ESG risk, how it would be managed and the level of risks the Fund would be exposed to.

Although the scope for reflecting the Fund's ESG policy within the DGF search was limited, the tender questionnaire assessed the corporate approach to incorporating ESG into their investment process of each manager as follows:

- Do they have a team responsible for corporate governance and responsible investing?
- Is the organisation a signatory to UNPRI?
- To what extent are the principles of UNPRI reflected in the product offered?

2.2 Investment Managers Activity and Ongoing Monitoring

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed and to ensure they take ESG risks into account. In addition the Fund also seeks to influence investment managers where appropriate.

The Fund's investment managers provided a statement on how they take ESG factors into account in their investment decision making processes. These can be found in appendices to the SIP.

2.2.1 Investment Panel Monitoring Activity

The Panel's main focus for the year was the implementation of the new investment structure but they also met with 7 investment managers and raised the following specific RI issues.

- Schroder Equity (Global Equity mandate) – discussed the importance they place on 3 overarching global themes that informed their stock selection decisions which are climate change, demographics and super cycle.
- Jupiter (UK Equity mandate – which operates a Socially Responsible Investing approach). The Fund queried the change in the Environmental & Sustainability Strategy Team for which Jupiter responded to confirm the change had the following aims:
    - To enhance the central source of information and expertise for the benefit of the wider fund management team.
    - Designed to improve investor outcomes through knowledge and research capabilities.
    - Increased ease in sharing knowledge and insight.
    - Analysts will report to Head of Strategy.
    - The Governance research team to work in partnership with fund managers and assist them in researching, co-ordinating and conducting dialogue with companies.

  Jupiter also presented to the Panel on significant sustainability developments such as stranded assets, pharmaceutical marketing and food safety & provenance.

- TT (UK Equity mandate) – they presented their ESG framework as part of the investment process.

2.2.2 Manager Updates

Investment managers provided updates on their RI policy and activity which provides an overview of where they focused and engaged throughout the year. The key points are as follows:

- 7 of our Investment Managers were ranked within the 2015 Share Action survey. Jupiter were ranked particularly highly (3^{rd}). The survey is an independent assessment of the managers RI performance in the UK and seeks to identify whether these firms are behaving as responsible investors and addressing ESG issues with companies.
- All of the Fund's Investment Managers are now signatories to the Principles for Responsible Investment (PRI) with the exception of the Fund's Hedge Fund managers and TT International.
- BlackRock, Genesis, Jupiter, Partners, Royal London, Schroder, SSgA, Standard Life and Unigestion all submitted a 2014/15 RI Transparency Report to the PRI.
- BlackRock, Invesco, Jupiter, Royal London, Schroder, Standard Life and Unigestion all submitted to the NAPF stewardship disclosure framework.
- BlackRock, Invesco, Jupiter, Pyrford, Royal London, Schroder, SSgA, TT and Unigestion all responded to the Department for Communities and Local Government (DCLG) consultation on 'LGPS: Opportunities for collaboration, cost savings and efficiencies'. In addition Genesis, Gottex, Record, Signet and Stenham provided feedback to the Fund with their remarks on the consultation. In summary the consultation set out evidence for reforms to the LGPS and opportunities to deliver savings, it requested respondents views on the proposals set out and how if adopted they could be implemented.

In addition manager specific updates as follows:

<u>Blackrock:</u>

- Updated their Global corporate governance and engagement principles in June 2014 in which they placed a particular focus on board directors as they are crucial to company performance and company governance. BlackRock are supportive of boards in their oversight efforts but do also vote against and abstain as a signal that they are concerned that directors or management have not acted in best interests of shareholders or responded sufficiently to shareholder concerns.
- They engaged with external bodies such as the Dutch Authority for the Financial Markets (AFM) regarding the Shareholder Rights Directive and its implications for investors. They also provided recommendations to the European Commission regarding their proposal for a revised Shareholder Rights Directive. The proposed revisions seek to improve corporate governance shortcomings and make it easier for shareholders to use their existing rights over companies and improve engagement.

- The FRC published a consultation paper on proposed changes to the UK Corporate Governance Code to take into consideration recent discussions on changes to remuneration reporting, risk management & going concern, audit committees & audit tendering and the location of corporate governance disclosures. BlackRock provided a response to the proposed revisions on remuneration reporting and corporate governance reporting.
- Updated proxy voting guidelines ahead of 2015 voting season as part of the regular annual review of guidelines. In addition the team also published a new document regarding the Corporate Governance & Responsible Investment team's approach to global executive remuneration.
- They wrote to all Italian issuers where they held an investment to lay out their concerns with the multiple voting rights legislation and to invite them to engage on the topic. They also contacted French companies on the same topic and wrote a document discussing the debate on differential voting rights (see section 2.3.2 LAPFF activity for additional comments).

Invesco Perpetual:

- Invesco participated in regular ESG surveys such as with the Sustainable Business Institute (SBI).
- Invesco Perpetual's engagement is carried out by EIRIS whom have increased their engagement service and now offers more in-depth engagement strategies in the areas of Bribery, Human Rights and Supply Chain Labour Standards.

Jupiter:

- Created the role of Head of Governance which underlines their approach to engagement and emphasises the close cooperation of stewardship and investment activities.
- Jupiter's Vice-Chairman; Edward Bonham Carter joined the Board of the Investor Forum which was formed in 2014 with the objective of making the case for long-term investment approaches, and creating an effective model for collective engagement with UK companies.
- Responded to the FRC UK Corporate Governance Code consultation, updated their Corporate Governance Policy and published their approach to the UK Stewardship Code. In addition Jupiter continued to obtain independent assurance on their stewardship code statement.

Pyrford:

- Pyrford became a UNPRI signatory in June 2014 through its parent company BMO Global Asset Management.
- Pyrford commissioned Sustainalytics to provide specialist ESG research to them.

Royal London:

- Royal London published its 2015 Responsible Investment policy and produced quarterly responsible investment bulletins.
- Participated in the 2015 Share action survey.
- Royal London responded to the FRC's Corporate Governance Code consultation.

Schroders:

- Schroder increased the resources of the ESG team and updated their ESG policy during the year.
- They participated in the UK Sustainable Investment and Finance Associations latest Analyst Committee meeting, which Schroders is now chairing. The Committee seeks to identify research and tools to add value to responsible investment analysts in the UK.
- Produced various thematic reports which Schroder believe play an important part in integrating ESG into the investment process. Such reports covered the banking sector, the environmental impact of green shipping and corporate tax avoidance.

SSgA:

- Updated their proxy voting policy which now also includes a conflicts policy.
- Participated in UNPRI, Share Action and Tower Watson ESG surveys.
- Identified their 2015 RI priorities as; targeting underperforming companies, focusing on the global pharmaceutical & fast-moving consumer goods sectors, a thematic focus on board refreshment & diversity, cybersecurity risk, climate change and proxy access in the US.

2.2.3 Trends identified by our investment managers and recent market developments

This section identifies what areas our investment managers noted during the year and their awareness of the RI/ESG risks or benefits of these trends and developments.

Best Practice:

- The Financial Reporting Council published best practice guidance in respect of the preparation of the strategic report. Although not mandatory it aims to promote clear and concise corporate reporting and encourages companies to focus on ensuring clarity of communication and disclosures that are material.
- The Financial Reporting Council updated their UK Corporate Governance Code in September 2014 following a consultation period.

Remuneration:

- The EU introduced a number of regulatory changes covering executive pay. Banks within the EU are now required to ask their shareholders to set the remuneration ratio between fixed and variable pay for risk-takers (ie; those identified whose professional activities have a material impact on the companies risk profile) to a maximum of 1-to-2.
- This year was the first in which a number of UK issuers have had to submit two remuneration-related proposals; the first being an advisory vote on the remuneration report and secondly a binding vote on future policy. This was highlighted in last year's report.

Voting Rights:

- One manager noted a potentially concerning trend across European markets where countries are introducing or re-enforcing the existing rules on multiple voting rights (see Italian example in LAPFF activity section 2.4.2).

Board Diversity:

- The European Parliament adopted the Directive on the disclosure of non-financial and diversity information which requires large companies to provide information on their policies and practices on the diversity of their boards of directors.
- The 30% Club which has the aim of achieving a 30% female board representation by the end of 2015 launched in the UK in 2010.This year it announced its official launch in the United States and seeks to improve the representation of women across all levels of US organisations; with a short-term goal of increasing female representation in senior leadership.
- Female board directors at FTSE 100 companies represented 23.5% of all directors; up from 12.5% in 2010.
- All FTSE 100 companies now have female representation on the board

Audit Reform:

- The EU audit reform came into force in 2014. The new rules require audit reports to be more detailed and informative as well as requiring companies to retender for their auditor every 10 years and change their auditor at least every 20 years.

2.3 Voting Analysis

The Fund seeks to analyse the proxy voting activity of the Fund's investment managers to understand how managers are utilising their voting rights in conjunction with their engagement activity.

Analysis of the proxy voting activity carried out by investment managers on the Fund's behalf was undertaken by Manifest Information Services. The objective of the analysis is to provide greater understanding of:

- Voting activity undertaken on behalf of the Fund
- Wide voting issues
- Governance standards at companies
- How the Fund's investment managers use voting rights

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio.

Manifest's report is included in the Appendix. The key points from the 2014 report were as follows:

- It is the 4th annual report from Manifest (3rd year where a full year of data was available for analysis).
- Overall the Fund's managers voted in line with management marginally more than general shareholders, opposing management on 3.56% of resolutions.

- Investment managers opposed management on fewer occasions than compared to 2013 which may imply a general improvement in governance standards or increased ongoing engagement practices.
- Of the 21,880 resolutions analysed in 2014; 7,609 were resolutions where the Voting Template (best practice) highlighted potential governance concerns and where fund managers supported management. This may seem like a relatively high proportion but it should be noted that not all concerns merit a vote against management, especially where managers use engagement to voice concerns and bring about change.
- The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 20% of all instances where management was opposed, compared to 10% in 2013) would suggest that investment managers are increasingly not afraid to apply their own judgement on these issues.
- The extent to which voting disagrees with management (a measure of how ‘active’ a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, Jupiter incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore it should be expected that there is less reason to vote against management.
- Board balance and remuneration issues remain the most frequent concerns identified. This is in part due to the substantial number of board resolutions voted upon such as numerous director elections.
    - Committee independence related concerns were again prominent issues; although there are signs that companies in general are addressing these concerns, for example improvements in board diversity such as greater female representation on company boards.
- Remuneration related resolutions remain the most contentious resolutions proposed by management in 2014 and continue to have the lowest level of alignment with governance best practice analysis.
    - The specific concern over the absence of arrangements for the claw-back of bonuses was a key theme in 2012 and has again come back to prominence in 2014.
- Some regulatory developments in 2014 give a potential hint as to what issues may be of significance next year. These include votes on remuneration policy, gender diversity and shareholder voting rights where there is a majority owner.

2.3.1 Voting Alerts

The Fund uses LAPFF’s voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 12 companies for which LAPFF issued a voting alert during the year; the table is split across 10 issue categories. Note that some companies appear across multiple categories.

Election of Chair / CEO / Directors	Approve / receive annual report / accounts	Approve remuneration report / compensation / LTIP	Greenhouse gas emissions	Eliminate dual share class structure
Barclays = ×	Trinity Mirror = ×	Barclays = ×	Exxon Mobil (SH) = ✓	News Corporation (SH) = ✓
Glencore = ×	Travis Perkins = =	Afren = =		
Betfair = ×	Betfair = ×	WPP = ×		
News Corporation = ×		Sports Direct = ×		
Twenty-First Century Fox = ×		Betfair = ×		
Twenty-First Century Fox * = ✓		News Corporation = ×		

Human capital strategy	Auditor appointment	Approve dividend	Approve share repurchases	Reduce share capital
National Express (SH) = ✓	Betfair = ×	Betfair = =	Betfair = ×	Betfair = =

Colour and symbol denotes LAPFF voting recommendation

Oppose = ×

Abstain = =

For = ✓

SH denotes Shareholder resolution

* Supportive of 2 directors for independent oversight

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions.

The below table shows as an example votes cast from 4 of the Fund's equity managers:

	Resolution	LAPFF	Management Recommendation	Manager 1	Manager 2	Manager 3	Manager 4
Barclays	Approve remuneration report	OPPOSE = ×	FOR = ✓	FOR = ✓	OPPOSE = ×	OPPOSE = ×	
National Express	To develop robust and transparent oversight of human capital strategy *(shareholder proposal)*	FOR = ✓	OPPOSE = ×	OPPOSE = ×	OPPOSE = ×		
Glencore Xstrata	Re-elect Anthony Hayward, Chair and Chair of Nomination Committee	OPPOSE = ×	FOR = ✓	FOR = ✓		FOR = ✓	
ExxonMobil	Adopt quantitative greenhouse gas reduction goals *(shareholder proposal)*	FOR = ✓	OPPOSE = ×	OPPOSE = ×			FOR = ✓
WPP	Approve remuneration policy	OPPOSE = ×	FOR = ✓	FOR = ✓		OPPOSE = ×	
Sports Direct	Approve 2015 bonus share scheme	OPPOSE = ×	FOR = ✓	FOR = ✓		FOR = ✓	

Colour and symbol denotes LAPFF voting recommendation

Oppose = ×

For = ✓

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

Barclays:

- Manager 1 outsourced voting on this issuer to an independent fiduciary as per their conflicts management policy.
- Manager 2 commented that despite numerous engagements with Barclays to date they still consider that further progress needs to be evidenced to align

group-wide compensation with shareholder interests. They highlighted the increase in net incentive pools and compensation ratio for the year is out of line with short term performance.

- Manager 3 believed that a greater proportion of the metrics used in the remuneration calculations should be the share price of Barclays. Highlighting the need for more metrics to be added to the calculation and some of the existing ones are not stringent enough.

National Express (shareholder resolution):

- Manager 1 thought there was insufficient justification/rationale for the resolution to be approved with a number of unanswered questions. They also felt that the explanation of the implementation process was weak.
- Manager 2 commented that the split of responsibilities between the board and the safety & environmental committee is in line with general UK practice. They highlighted insufficient publicly available evidence to suggest that the company's current policies and practices have systematically hindered the company's business prospects. This Manager met with both the filers of the resolution and the company before voting and informed the company that they expect the board to outline its strategy to resolve these matters.

Glencore Xstrata:

- Manager 1 highlighted that the company had heavily engaged with investors about candidates for the chair appointment of the nomination committee. The manager thought that Tony Hayward's skills and experience was the most directly relevant to the company and the industry. Given the health & safety issues faced by the company they felt having a chair that has a strong focus on this aspect of the company's operations was also highly relevant.
- Manager 3 commented that while supporting efforts for board diversification that voting against this resolution was not in the best interests. The company stated that they were actively searching for a female non-executive director, this subsequently resulted in the appointment of Patrice Merrin. The Manager stated that they will continue to monitor the situation.

ExxonMobil (shareholder resolution):

- Manager 1 noted that in the company's corporate citizenship report that the company provides quantitative Greenhouse Gas (GHG) emission metrics and the company also has an energy efficiency improvement target. The company is committed to utilising its technical and management capabilities to meet growing global demand for energy efficiency and pursuing technical solutions to address GHG emissions and the risks of climate change. They therefore did not think that setting an arbitrary target on GHG emissions would be in the best interests of shareholders at this time and the decision should be left to management and the board. The company already has a number of initiatives and policies in place for their efforts to reduce GHG emissions.
- In contrast Manager 4 supported this shareholder resolution as creating and disclosing metrics and goals for GHG reduction would allow shareholders to better assess the company's related performance and management of these emissions.

WPP:

- Manager 1 highlighted that their focus is on the link between pay and performance. The company has performed very well and returns to shareholders over the recent years have been very good. However some aspects of poor disclosure were identified as an issue for further engagement with the company.
- However Manager 3 believed the remuneration for Martin Sorrell was excessive despite strong company performance and therefore voted against.

SportsDirect:

- Manager 1 highlighted that they have had a number of consultations with the company on Mike Ashley's pay. The original proposal was not supported by this Manager and under pressure from investors, the company decided not to go ahead with the proposed share award. The 2nd proposal was refined to reflect shareholders concerns and this Manager voted in favour. Mike Ashley later decided not to take the payment even after the 2nd proposal was approved by shareholders.
- Manager 3 debated this resolution at length and subsequently decided that if the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) figures were achieved it would benefit shareholders. In the end Mike Ashley pulled out the scheme.

2.3.2 Overall Voting

The Fund's overall voting across all investment managers can be seen within the below table.

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	10,550	98.6%	97.1%	69.0%
State Street	4,140	94.7%	96.4%	64.6%
Invesco	3,314	91.7%	94.7%	42.6%
Jupiter	1,234	98.2%	96.9%	69.2%
TT International	1,194	99.6%	96.4%	65.4%
Schroder	706	92.5%	95.1%	41.5%
Pyrford	457	95.2%	95.9%	72.2%
Genesis	285	86.3%	96.0%	49.8%
Total	**21,880**	**96.4%**	**96.4%**	**62.9%**

The above table highlights the following:

- In terms of overall patterns of voting behaviour, Avon's Fund managers voted with management a high proportion of the time (96.44%), marginally ahead of General Shareholders (96.36%). Both Avon's Fund managers and General Shareholders supported management less so in 2013 at 94.83% and 95.03% respectively.
- As expected the 'Template For Management' (as a proxy for compliance with corporate governance best practice expectations) identified potential governance issues on a far higher proportion of resolutions than the fund managers chose to oppose. The companies in the Pyrford, Jupiter, State Street, and TT portfolios display a comparatively higher level of compliance with governance best practice.
- Jupiter's high support for management (higher than the average of Avon's managers) and relatively high 'Template For Management' data suggests as would be expected Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making as a Socially Responsible Investment mandate. Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with. In addition, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.
- State Street, Schroders, Genesis and Invesco's support for management is all notably lower than general shareholder support. As overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer.

2.3.3 Voting Themes and Conclusion

The Manifest voting analysis also identifies some common themes:

- Although the volume (in absolute terms) of the most common governance concerns that Manifest identified is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board related considerations.
- The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners.
    - 6 of the top 8 concerns identified (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees. This is identical to the pattern of 2013.
- The second most common group of issues identified relate to remuneration.
- The introduction of the vote on Remuneration Policy in the UK has had a large effect on this year's analysis. With a lot of investors adopting a "wait and see" approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received

respectable levels of support. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors.

- Both director elections and remuneration concerns remain as prevalent today as they did 5 years ago.

The following conclusions and outlook can be drawn from the Manifest analysis:

- By and large corporate governance risk-related issues change over the long term, rather than due to short term pressures.
- We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may ‘lapse’ and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.
- What is more important is to understand how the fund’s managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this.
- The three year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.
- The report shows evidence that governance concerns at portfolio companies during 2014 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control.
- It is anticipated that incentive performance measures, proxy access, the role and rights of shareholders and the theme of “one-share, one-vote” may prove to be prominent themes in commentary in 2015.
- In the context of the new Remuneration Policy votes in the UK, Manifest correctly anticipated in last year’s report that claw back may once again be a prominent theme for 2014, now that remuneration policy has an explicit vote of its own. Going forward it is anticipated that companies may start to set out how they intend to engage with investors in the event of significant dissent on remuneration issues.

2.4 Engagement and Collaboration

Engagement and collaboration activity is undertaken by the Fund’s external investment managers (described in section 2.2) on the Fund’s behalf and directly by the Fund through its membership of LAPFF.

2.4.1 Investment Manager Engagement

The extent to which managers undertake engagement with companies depends largely upon their investment approach. The Panel and Officers focus on gaining assurance that managers are undertaking engagement activity in line with their policy and test this at meetings through specific questioning on voting and engagement.

TT and Genesis do not have specific RI engagement programmes but as active investors who put a lot of value in quality of management, they are meeting management continually and where RI issues are impacting performance these are raised with management as part of the investment process.

The Fund encourages managers to actively participate in industry collaborative bodies where appropriate.

Manager activity is described in greater detail in section 2.2.2.

2.4.2 LAPFF Engagement Activity

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Committee members and Officers attended all four LAPFF business meetings in 2014/15. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report. LAPFF groups its engagement activities within the following categories and highlights this year are discussed below.

<u>Leadership on key campaigns:</u>

- Board Diversity (LAPFF continues to engage with companies on this issue):
    - Glencore was the sole FTSE 100 Company with an all-male board. LAPFF had written to the company and engaged with a board member at an investor meeting but progress seemed to stall and LAPFF issued a voting alert. ***Outcome:*** First female board director appointed in June 2014.
    - Voting alert also issued to Travis Perkins who only has 1 female board member and does not disclose any targets for further appointments.
- Cluster Munitions:
    - LAPFF contacted a total of 9 companies in the aerospace and defence sectors to clarify their awareness and adherence to the Oslo convention.
- Other:
    - Met with the Chair of Trinity Mirror to discuss media standards and ethics. LAPFF remained sufficiently concerned over the potential extent of claims in relation to phone hacking and issued a voting alert.
    - LAPFF co-signed an international investor statement in a letter sent to the Italian Government to express concerns about their proposal that double voting rights should be granted to shareholders who have owned their shares for over 2 years. Although the measure was intended to prevent short-termism it raised concerns that certain shareholders would receive preferential treatment over the expense of others as has been seen in France already. ***Outcome:*** The Italian Government later decided not to extend a legal provision allowing listed companies to grant double voting rights.

<u>Promoting good governance:</u>

- Reliable Accounts:
    - Met with the new Chief Executive of RSA Insurance Group over concerns about accounting irregularities and reliable accounts linked to a rights issue; also discussed the change of company auditors.
    - LAPFF issued a voting alert in response to Betfair stating in its annual report that it paid illegal dividends and share buyback distributions in 2011, 2012 and 2013. LAPFF recommended abstaining on the resolution to approve further dividend payments for the year as it was still unclear whether accounting problems rectified.
    - LAPFF sent a letter to the Financial Reporting Council regarding Afren and expressed concerns about the failure to disclose certain transactions in their accounts in 2012 and 2013. LAPFF were concerned that Afren's practices did not comply with the Listing Rules or part of the Companies Act 2006 and the implications of these defects. LAPFF asked the FRC to address this issue.
- Executive Pay (LAPFF has taken an increasingly public approach to tackling the complexity of pay and high pay):
    - LAPFF issued a voting alert for Barclays due to concerns over the level of executive pay and staff bonuses. Subsequently attended the AGM and welcomed the appointment of a new Chair of the Remuneration Committee.
    - LAPFF issued a voting alert for the 2nd year in row for WPP. Attended the AGM and asked if the company would commit to simplifying its variable remuneration packages as well as increasing transparency around the numerous schemes in operation. The Board acknowledged that variable pay packages were complicated but stated it had adopted the existing arrangements in response to shareholder requests.
    - At the G4S AGM LAPFF questioned the use of adjusted metrics for Long Term Incentive Plans and had a follow up meeting. ***Outcome:*** G4S engaged with major shareholders and acknowledged some elements of the EPS adjustments were confusing and would be removed.
    - LAPFF contacted Hays and Centrica to request feedback on its 'Expectations on Executive Pay' document.

<u>Managing environment risk:</u>

- Palm Oil:
    - LAPFF participated in collaborative engagement with a number of US companies on sustainable Palm Oil. ***Outcome (i):*** General Mills joined the growing number of companies that have pledged to only source from suppliers that provide fully traceable, deforestation-free Palm Oil. ***Outcome (ii):*** A group of Palm Oil growers released a sustainable Palm Oil manifesto directed at ensuring future Palm Oil developments are subject to high standards of environmental protection and limit deforestation. LAPFF welcomed the change but highlighted it still fell short of strong standards set by major industry leaders. LAPFF continues to work with the PRI Investor Group and is participating in collective

engagement over remaining concerns. ***Outcome (iii):*** Wilmar who operates in the Palm Oil industry revealed that it has fully mapped its supply chain and made public all of its 800 suppliers in Indonesia and Malaysia. Other companies have also made improvements such as; beginning to use the industry standard definition of High Carbon Stock forests and applying its Sustainable Palm Oil Policy to its subsidiaries and trading partners.

- Energy and Environmental Risk:
  - LAPFF attended the BP AGM and collaborative meetings and raised points around the company's approach to carbon asset risk, low carbon technology development, climate policy debates and business sustainability/plans to diversify into low carbon energy sources.
  - Following on from previous meetings LAPFF attended the AGM of Rio Tinto and asked about the potential for thermal coal to become a stranded asset. ***Outcome:*** Rio Tinto believe there is a place for thermal coal in the future.
  - Attended the Shell AGM and questioned the Board over future energy policy and pricing in response to Shell's detailed response to investor concerns over carbon asset management.
  - Climate risk questions were asked of the chair of National Grid at the AGM, specifically regarding the measurement and reporting of scope 3 emissions. This continues LAPFF's participation in the 'Aiming for A' engagement which encourages company progress within the Carbon Disclosure Project's Climate Performance Index. The Chair noted that LAPFF were the first investor group to raise the issue of progress on monitoring scope 3 emissions.
  - LAPFF met with the Chairman of both Shell & BP to discuss planned shareholder resolutions to encourage these companies to provide more focused disclosure on their longer-term carbon management plans. ***Outcome:*** Both Shell & BP announced their advice to shareholders to support 'strategic resilience' resolutions filed by LAPFF members as part of the Aiming for A coalition. This is unprecedented in the UK.

<u>Targeting social issues:</u>

- Employment Standards:
  - LAPFF have engaged with National Express since 2012 regarding their approach to health & safety concerns and unionisation issues in the US. At the most recent meeting in 2014 it was identified that the company had not implemented previous commitments. LAPFF supported a shareholder resolution at the AGM requesting that the company implements a mechanism to ensure appropriate board oversight and develop a policy based on the ILO declaration on fundamental principles and rights to work. ***Outcome:*** The resolution achieved strong support from independent shareholders.
- Social and Reputational Risks:

- Over a number of years LAPFF has voiced concerns about the level of control the Murdoch family holds over News Corp, BskyB and 21st Century Fox Boards. LAPFF issued voting alerts for these companies in order to call for greater independence on the Boards. Concerns also raised with News Corp and Trinity Mirror over phone hacking.

In addition:

- LAPFF also engaged with policy-makers regarding some companies proposing to delist from premium listings in order that they have less stringent requirements on governance compliance. A collaborative meeting was held with the UK listing authority to highlight concerns that minority shareholders were perhaps being forced into accepting a given offer for a potentially less liquid stock following the delisting.
- LAPFF responded to the FRC consultation on changes to the Corporate Governance Code. LAPFF focused on aspects which impacted shareholder rights and the going concern statements which LAPFF view as a weakness of International Financial Reporting Standards. Weaknesses were also highlighted in proposed revisions on certain remuneration concerns.
- LAPFF submitted a report to the LGA Leadership Board describing the activities and outcomes of LAPFF during the year. The introduction of National Advisory Boards was highlighted in last year's report.
- LAPFF engaged with a total of 61 companies in 2014/15 through various methods which include attending meetings, attending AGM's, sending letters to and having a dialogue with the company.

2.4.3 Avon Pension Fund Activity

The Fund participated in a variety of activities during the year as follows:

- The Fund responded to a number of share action email campaigns on the following topics:
    - Concern for climate change and encouraging the formation of a low carbon economy (ie; increasing renewable energy, water & energy efficiency, forestry, waste management and recycling).
    - Ensuring employees and contractors are earning atleast the UK living wage. Also seeking that Directors pay should be controlled through shareholder voting.
    - Concern for Shell's plan to drill for oil in the arctic ocean and the impact on the environment. Also the negative effect that new fossil fuel projects have on the efforts to tackle climate change.
- The 'Aiming for A' coalition which includes LAPFF prepared a shareholder resolution in preparation for the BP AGM in April 2015 and Royal Dutch Shell in May 2015. The Fund was supportive of LAPFF's backing to the coalition. The resolution was publicly supported by the Fund and covered 5 areas:
    - Ongoing operational emissions management
    - Asset portfolio resilience to post-2035 scenarios

    - Low carbon energy R&D and investment strategies
    - Strategic KPIs and executive incentives
    - Public policy interventions
    - ***Outcome:*** BP resolution received 98.28% support and Royal Dutch Shell 98.91% support.

- The Fund responded in July 2014 to the DCLG consultation on ‘LGPS: Opportunities for collaboration, cost savings and efficiencies’. In addition to our investment managers responding to the consultation both JLT Employee Benefits and Mercer Limited also responded. The objective of the consultation was noted within the Manager Updates section above. With regards in particular to RI and ESG the Fund’s response highlighted the following points:
    - The consultation did not detail how responsible, sustainable or long term investing approaches as put forward by the Kay Review would be incorporated in these proposals.
    - Requiring Fund’s to invest passively would require even more rigorous corporate governance, environmental and social risk oversight and engagement.
    - There was no consideration of responsible investing approaches and corporate governance activities. The issue of responsible investing has significant relevance for passive portfolios as the investors have no option but to invest in potentially poorly governed companies.
- The Fund forwarded all LAPFF voting alerts to the relevant investment managers, monitored the voting outcomes and questioned the investment managers where they did not vote in line with the LAPFF voting recommendation.
- The Fund continued to engage with its investment managers on a number of topics throughout the year which the Fund’s committee and Investment Panel had identified as particular areas to address. Through this on-going communication and questioning the Fund’s managers are reminded of the importance that the Fund places on the engagement activities undertaken by them.
- The Fund continued to participate in share action claims through a portfolio monitoring program operated by Robbins Gellar Rudman & Dowd LLP. Such claims arise when the court has ruled that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took part in filing and the receipt of recoveries for 11 new claims. Although most monetary claims are small, this activity is important as it supports the principle of holding companies and management to account.
- The Fund continues to participate in a share action group against Royal Bank of Scotland in relation to the rights issue launched in April 2008 in which it is contended that the information in the prospectus did not reflect a fair view of the financial strength of the bank.
- There is significant public pressure for pension funds, especially those in the public sector, to divest from socially or environmentally damaging investments, such as tobacco and fossil fuels. To assist the LGPS funds respond to requests

to divest, the LGPS Shadow Advisory Board obtained Counsel's opinion on the fiduciary duties of the LGPS funds.

- Specifically the Board asked for advice on whether an LGPS administering authority owe a fiduciary duty and if so, to whom it is owed; and how should the wider functions, aims or objectives of the administering authority influence the discharge of its LGPS investment duties.
- The opinion concluded that in managing an LGPS fund the administering authority has fiduciary duties both to the scheme employers and to the scheme members. In addition the administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way). However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund.
- This opinion supports the Fund's policy, that environmental, social and governance considerations should be taken into account in investment decisions as long as it does not pose a material financial risk to the Fund's ability to achieve its investment objective.

Section 3: Statement of Compliance with Stewardship Code

The Fund's statement of compliance with the Stewardship Code remains unchanged since June 2013 following the small amendments made to the Code in 2012

The Fund's statement of compliance can be found at:
http://www.avonpensionfund.org.uk/financeandinvestments/corporategovpolicy.htm

Appendix: Monitoring Review of Shareholder Voting 2014

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Bath & North East Somerset Council

Monitoring Review of Shareholder Voting 2014

Avon Pension Fund

Prepared by:

manifest

June 2015

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the fourth year (third full year of analysis) for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund (APF), putting Avon's fund manager voting behaviour into a comparative and wider context. The aim of the report is to provide further understanding of:

- voting activity taken on behalf of the Fund
- wider voting issues
- governance standards at companies
- how the Fund's investment managers use voting rights

As an on-going annual report, the report assesses progress in terms of company's governance standards versus best practice, as well as Avon's fund managers' use of votes in putting their investment governance preferences across to companies. Throughout the report, where there are comparisons to be made to the previous year's data, the previous year's data is shown in brackets (thus).

Importantly, this report looks at the full picture of how Avon's fund managers are making use of the Fund's voting rights and will therefore enable Avon to better understand and challenge fund managers about the role their voting activity plays in ownership strategy. The report enables Avon to fulfil the objectives of the Stewardship Code in constructively challenging external fund managers in their stewardship activities.

1.2 Voting in Context

Avon's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require managers to follow Manifests' best practice template. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for best practice company behaviour.

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management. It should therefore be noted that investment managers may be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st January 2014 to the 31st December 2014. It represents a full years' voting.

Manifest analyses the issues at hand to provide a 'Template Guidance' for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a Voting Template framed upon corporate governance best practice policy developed by Manifest for Avon.

Members should consider the Voting Template as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of voting decisions by investors and therefore not a benchmark target for Avon's managers.

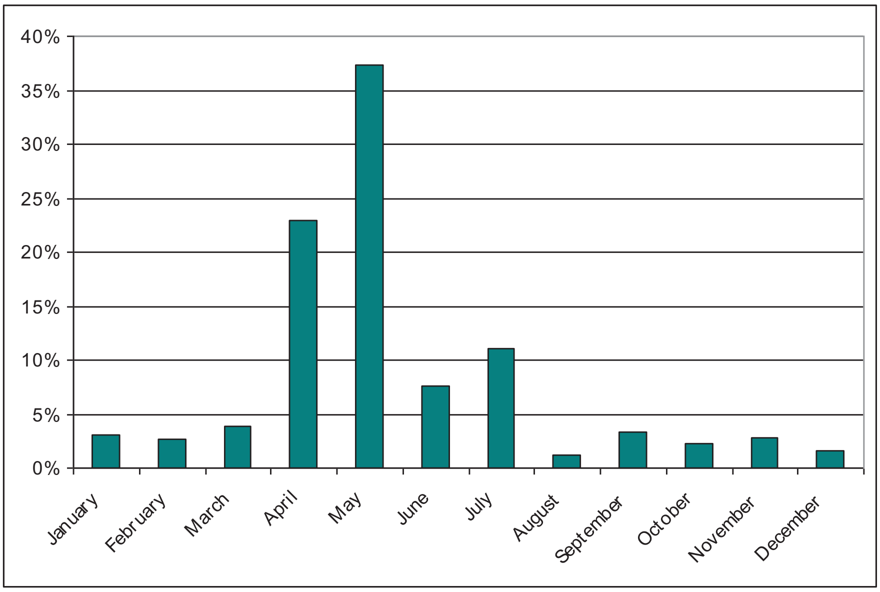
The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, Members should bear in mind that the fact the Voting Template identifies an issue of concern (i.e. suggests there may be a reason to not support management or requiring further fund manager review) in relation to a resolution, is more significant than whether the template suggests an 'Abstain', 'Against' or 'Case by Case' consideration. It is in this light that we have analysed and compared fund manager voting against issues of potential concern, with the emphasis on 'potential'.

1.4 Peak workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, there is a resultant surge in the number of annual meetings relating to that year end during quarter 2 of the calendar year, especially in April and May. Figure 1: Percentage of Total Annual Resolutions Voted Per Month below shows the percentage of total annual resolutions voted by Avon's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year, with 60% of the voting occurring during those two months, and a further 19% during June and July.

Asset owners like the Avon Pension Fund should be aware that such a high concentration of work inevitably leads to the commoditisation of voting decisions and especially the likelihood of outsourcing voting decision-making responsibility to outside consultants. This dynamic is becoming the focus of regulatory scrutiny in the UK, France, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions.

Figure 1: Percentage of Total Annual Resolutions Voted Per Month



1.5 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2014.

2 Executive Summary

Section 3 ("Explanation of Voting Activity & Monitoring Approach") explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It also sets out the number of meetings voted by Avon's fund managers in 2014, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 1,166 meetings, comprising a total of 17,711 resolutions. Taking into account occurrences of more than one fund manager voting on the same resolution, a total of 21,880 resolution analyses have been undertaken. Of these:

- 10,550 were voted by BlackRock, again representing the largest proportion of the report data;
- 7,609 were resolutions where the Voting Template highlighted potential governance concerns and fund managers supported management; and
- 746 were voted against management.

Whilst the number of resolutions where concerns were identified but the funds managers supported management seems relatively high, this is ultimately evidence to support the significance of the word 'potential'. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights. Conversely, the report also shows evidence where investors have opposed management even where no governance concerns were highlighted, which suggests an organic, active use of voting rights to enhance the wider ownership process.

Section 4 ("Common Policy Issues at Investee Companies") examines the range of governance issues and considerations which lie behind the resolutions on which Avon's fund managers were asked to vote, and detailing those which Manifest identified most frequently among the companies at whose meetings the fund managers voted.

Board balance and remuneration issues remain the most frequently identified concerns, partly because they are the substantial issues of the most frequently voted resolutions. The most common specific best practice governance criteria against which Manifest found Avon's portfolio companies to fall short were:

- Committee independence;
- Lack of performance measures relating to ESG issues in incentive pay;
- Individual director independence concerns;
- Bonus as a percentage of salary;
- Board size;
- Lack of performance conditions for incentive pay; and
- Overall Board independence.

These are the substantial issues on which investors should focus, rather than whether specific resolutions were opposed or otherwise. Many of these are issues which have been consistently identified in this analysis every year. New company law regulations have come into force in the UK which have had an effect upon the way in which remuneration issues are taken into account and voted upon, with the introduction of a new separate binding vote on remuneration policy.

In the case of board considerations, this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far and away the most numerous resolution type). It should be noted that there may be multiple concerns highlighted in terms of board structure or director elections and that generally there are therefore much fewer actual resolutions to vote on than identified concerns.

By comparison with previous years, the concern of gender diversity on the board has diminished in prominence, which mirrors progress being made on the issue by companies (for example, there are now very few or no FTSE100 companies with no women on their board, a fact publicised in March 2015 by the Cranfield University School of Management’s annual benchmarking report, which also identified 41 FTSE100 and 65 FTSE250 companies now had hit Lord Davies target of 25%).

The next step of the analysis is to study patterns of voting behaviour, both in terms of Avon’s fund managers as well as shareholders in general (Section 5 “Aggregate Voting Behaviour”). We also examine which types of resolution have been the most contentious (Section 6 “Voting Behaviour by Resolution Category”). In terms of overall patterns of voting behaviour, with the marginal exception of TT International, none of Avon’s fund managers voted with management noticeably more than shareholders in general, although BlackRock did support management marginally more than shareholders in general during 2014. Invesco and Genesis supported management noticeably less.

As has continued to be the case, remuneration related resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management as well as the lowest level of alignment with the governance best practice analysis. Common issues were absence of claw back and/or malus provisions in incentive pay, absence of ESG considerations in setting incentive pay, and over-generous caps on annual and long term incentive pay plans. The absence of claw-back provisions (one of the features of remuneration concerns two years ago) was again high up the list of concerns this year.

Overall, Avon’s managers in 2014 were marginally less active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2014 stood at 3.64% on average (compared to just short of 5% in 2013), Avon’s fund managers opposed management on 3.56% of resolutions (down from 5.17% in 2012). This is the first year in which this has been the case, but is against a backdrop where shareholders in general have (on average) voted against management less, and where fewer issues of concern have been identified in the Manifest research. This suggests that the level of governance risk in the Avon portfolio is at its lowest point since this monitoring began.

In terms of specific themes, one prominent concern from 2012 related to absence of arrangements for claw-back of bonus, which last years research showed has receded in prominence, has now regained prominence. In this 2014 report, committee independence related concerns are comparatively greater in prominence, although there are also signs that companies in general are addressing board-wide independence concerns. With the recent focus on board diversity, we may be seeing board composition improvement at the same time.

In general terms this research has in the past suggested that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may come and go in line with contemporary concerns and developments. This year's report very much supports this hypothesis, with comparatively lower levels of concerns and dissent both from Avon's fund managers and shareholders in general, but many of the identified themes still very familiar.

A summary of the major developments and debates in global (and especially domestic) corporate governance and voting follows in the Hot Governance Topics, featuring amendments to the UK Corporate Governance Code, impact of the new Directors' Remuneration Report Regulations in the UK one year on, changes to the UK Pre-Emption Group Guidelines, progress on the EU Shareholders Rights Directive Part II, a fund manager monitoring initiative and a new Japanese Stewardship Code.

3 Explanation of Voting Activity & Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Avon's fund managers in 2014, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Like investment decisions, the consideration of shareholder voting decisions often takes into account multiple questions, including company disclosures, company practices, shareholder preferences and wider engagement strategy undertaken by fund managers.

This is especially true on the report and accounts resolution. A vote against a particular resolution such as the report and accounts may be explained by any number of various potential factors.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio. This may mean that, despite the presence of some potentially significant issues, investors may agree to support management in the short term with their votes in return for the company in question addressing concerns in the longer term.

This report will analyse voting resolutions and look at the Fund's investment managers' approach to voting in more detail in a subsequent section of the report.

Meeting Types

Manifest's experience is that companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings (AGMs), at which there is legally defined, mandatory business (Meeting Business) which must be put to the shareholders. These items will vary from market to market and are a function of local company law.

Mandatory business typically includes:

- Receiving of the annual report and accounts;
- Director (re)elections;
- Director remuneration;
- Approval of annual dividend; and
- Reappointment and remuneration of auditors.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (for example in the UK this is usually one third of current Issued Share Capital (ISC)), along with an accompanying request for the dis-application of pre-emption rights which is usually used for the payment of share-based remuneration schemes for employees. This is why, as noted above, AGMs have a significantly larger number of resolutions on average than do other types of meetings.

This pattern continued to become more marked this year due to the introduction in the UK of two remuneration report votes – one on policy and the other on practice (refer to appendix for definition). Recently, UK and European companies in particular have begun to change the legal terminology for non-Annual General Meetings. As a consequence, some meetings during the period under review were reported as an EGM (Extra-ordinary General Meeting), whilst other meetings identical in nature were reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting (SGM) is what some companies might use to refer to an EGM, where a Special Resolution is the substance of a meeting (i.e. a resolution which requires a special (higher) level of support or turnout).

Other types of meetings include Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management, and Class Meetings where only shareholders of a specified class of share may vote.

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,377 meetings in the full monitoring sample Avon Fund Managers voted at, 85.80% were AGMs (88.04% in 2013), with the majority of the rest constituting GMs 7.64% (6.29% in 2012) and EGMs 4.28% (3.2%). The remaining were nearly all Court Meetings 1.36% (0.31%) or Special General Meetings 0.79% (compared to 1.75%) and Class meetings 0.14% (0.31% during 2013), with no Ordinary General Meetings (2 in 2013).

This is broken down per manager as follows. The total number of meetings voted by managers (1,401) exceeds the total number voted at for the fund (1,011) because of instances where more than one fund manager voted at the same meeting:

Table 1: Meeting types by fund manager

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	Grand Total
BlackRock	618	609	86	33	2	1	12	743
Invesco	213	213		6	4			223
State Street	192	190	1	17	3	1		212
Jupiter	59	59	10	1			4	74
TT International	55	53	7	1			1	62
Schroders	45	42	2		2		1	47
Pyrford	22	22	1				1	24
Genesis	14	14		2				16
Total	**1,011***	**1,202**	**107**	**60**	**11**	**2**	**19**	**1,401**

* Represents the total number of unique companies, not the sum total of companies or capital types voted by each manager.

Although we would expect there to be a 1:1 ratio between the number of companies voted and the number of AGMs voted (on the basis that all companies should have an AGM during the year), the small differences are likely to be explained by portfolio turnover. For example, if a fund manager sells a position in a company in June whose AGM is normally in September, replacing it with stock in a company whose AGM is in March, the fund manager will have owned two companies but had no AGMs to vote in either. However, where non-AGMs have taken place, these are still counted and therefore explain why the number of companies voted may exceed the number of AGMs voted. This is not as unlikely as it may seem – often when a company de-lists, a shareholder meeting is required, making it quite plausible that a company may have an EGM but no AGM during the year.

The very small number of meetings voted by Genesis in this sample of 'full' monitored meetings means that full detailed analysis is not meaningful. This is due to the investment universe of their mandate.

3.2 Monitoring Approach

The Manifest Voting Template (Voting Template) analyses and considers best practice governance expectations in the context of company meeting business (i.e. what can be voted at a shareholder meeting). Where there are local variations to best practice questions (for example, the length of time after which an independent director may no longer be deemed independent), Manifest applies the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the Voting Template will naturally suggest supporting management.

Manifest monitors companies using this Voting Template in order to:

- Consistently identify company-specific governance policy issues, and
- Monitor and benchmark the actual voting behaviour of investment managers compared to
    - ⇒ the average shareholder (based on meeting outcomes) and
    - ⇒ the best practice governance standards (based on regulatory and public policy standard).

The Voting Template is not a prescriptive list of mandatory voting requirements. It is understood that investment managers actual voting behaviour will differ from the Voting Template. This is due to variances in views on governance and voting issues, investment strategy and the role of voting within on-going engagement and stewardship strategy. As such it offers the Fund a "sense check" of the stewardship approach managers are taking.

4 Common Policy Issues at Investee Companies

This section develops the themes identified in the previous chapter by examining the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for. This can be considered as a measure for governance standards at companies.

By comparison with previous years, fewer concerns have been identified at portfolio companies.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive management of the company and its owners. Without appropriate levels of independence, accountability, remuneration, experience and oversight, corporate governance would offer shareholders little protection from the risk that their investee company is badly managed.

Analysis of the Voting Template settings allows for an in-depth study of the specific governance issues which have been identified by Manifest's research and analysis process. We have selected the most common issues which have been triggered by the Voting Template, to illustrate the most common 'issues' with resolutions voted by the Avon fund managers according to the preferences set out in the Voting Template used by Manifest for monitoring fund manager voting.

There were 8,138 resolution analyses where one or more concerns were identified by Manifest during 2014.

When considering the most common policy issues Manifest identified at the meetings researched in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2014. This is explained in part by there being a slightly smaller number of resolutions in the data set. However, changes in the patterns of frequency also suggest some inferences.

We have compared the relative positions of each of the most common concerns identified within the list between this year and last year.

Of those which have moved up the list, or are new to it altogether, many relate to board and committee structures, with some cross-over with remuneration. Whilst the highest of them strictly speaking relates to governance, the fact that some remuneration issues continue to be prominent in relative frequency underlines the importance of governance as a management issue. In this case, as in last year's report the inference is that there is a relationship between the effectiveness of remuneration committee and the level of control over incentive pay.

The substance of the remuneration-related concerns which have moved up the list includes consideration of ESG issues in setting performance targets for incentive remuneration, the level of the upper bonus cap expressed as a percentage of salary for executive directors and a lack of disclosure of performance measures used for the exercise of options or vesting of awards.

Table 2: Most Common Policy Issues

Table Position	2014	2013	Position Change	Description
1	1,713	3,320	↑ (2)	Less than 50-100% of the Nomination Committee are independent of management
2	786	1,055	↑ (8)	Nominee is not considered to be independent by the Board
3	737	3,229	=	Less than 50-100% of the Audit Committee are independent of management
4	725	1,049	↑ (9)	Nominee has served for more than 84-144 months on the board
5	724	1,124	↑ (7)	There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration
6	553	786	↑ (10)	The upper bonus cap for any of the executive directors as a percentage of salary exceeds 100-150% of salary
7	553	626	↑ (12)	The (Supervisory) Board will exceed 15-21 members following the meeting
8	478	642	↑ (11)	Nominee is a non-independent member of the remuneration committee and less than 50-100% of the remuneration committee are independent
9	426	549	↑ (17)	Nominee represents a major shareholder
10	375		NEW	The Board does not recommend a vote For the proposal
11	361	550	↑ (16)	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%
12	343	564	↑ (14)	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100-250% of salary (on a market value basis, based on maximum possible vesting)
13	337		NEW	There is no independent verification of the Company's ESG reporting
14	315	2,940	↓ (4)	Less than 50-100% of the remuneration committee are independent directors
15	279		NEW	A Nomination Committee does not exist (or its membership is not disclosed)
16	249		NEW	The percentage of the Board comprised of independent directors is less than 25%-100%
17	226		NEW	The roles of Chairman and CEO are Combined

Overall, Manifest flagged 17,715 policy issues across the 21,880 resolution analyses undertaken for this report. This includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution. Some resolutions were subject to multiple issues. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the operation of best practice governance analysis

Readers should note that the Manifest voting guidance system allows for an individual governance issue to be applied to multiple resolutions. This is because, for the most part, there is not a one to one match between a policy issue and a specific resolution. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – board resolutions, and specifically, director elections.

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted). Manifest reflects board accountability in its research by placing the analysis of the relevant board committee in the context of analysis of the governance matters for which they are responsible.

4.2 Conclusions on common policy issues

Taken as a whole, this analysis shows just how many different considerations there are that go into assessing the governance of a typical company.

Although the volume (in absolute terms) of the most common governance concerns Manifest identifies is heavily affected by the high number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board-related considerations (director election).

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account. Therefore, 6 of the top 8 concerns (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees. Of the top 8, the only exceptions to this are the questions of integration of Environmental, Social and Governance (ESG) issues into incentive remuneration setting and the level of annual bonus available to executive directors.

The second most common group of issues identified relate to remuneration. This is again in part due to some of their association with director elections (executive director elections demand consideration of whether the proposed remuneration and incentive structure for the individual being proposed for (re)-election is appropriate. The remuneration related issues most commonly flagged continue to relate to the level at which the potential for excessive incentive pay might be capped (both short and long term incentive pay), the lack of linkage to ESG issues as well as the governance of remuneration policy itself.

These two general themes, taken together, raise questions about the significance with which many companies view the quality of board input, as well as their approach and attitude towards pay for performance. These questions are on-going general concerns which are as prevalent today as they were 5 years ago (although commentators would argue that they are higher profile now than then).

4.3 Audit & Reporting

Annual report resolutions are frequently those on which concerns about general board structures and practices may be concentrated, in addition to issues relating to the verification and reporting of information.

4.3.1 Audit committee independence

We assess the independence of the audit committee, in terms of whether there is a sufficient number and/or proportion of directors deemed independent (by reference to the local best practice standards).

It is a consideration for the approval of financial and non-financial reporting, because it relates to judging the independence of the audit process which underpins company reporting and therefore has been flagged on Report & Accounts resolutions.

4.3.2 No independent verification of ESG reporting

The growth in importance of ESG considerations in investment heightens the profile of ESG information provided by companies and hence increases the need for its veracity. As more investors use ESG information in their investment decisions, it follows that such information should be subject to levels of verification equivalent to those of more traditional disclosures such as financial updates and governance reports.

4.3.3 No evidence to suggest ESG performance targets are used for incentive pay

Similar to the point above, the growth in importance of ESG matters for investors leads to a desire to see ESG factors feature among the targets used for determining incentive pay – a part of making executives incentivised to promote better ESG standards through the businesses they manage.

4.3.4 The number of meetings held by the non-executives without the executives present.

We identify where there has been no meeting of Non-executives without Executives present disclosed by the company.

It is important for the Non-executives to meet without the Executives present in order to be able to have a free and open discussion about matters which may be more difficult to discuss with the presence of those who are running the business day to day.

4.3.5 The roles of Chairman and Chief Executive Officer are combined

We identify where the roles of Chair and Chief Executive Officer (CEO) and are performed by the same person.

The over-concentration of power in one single office or person is a key potential risk factor in any organisation. Despite the fact that some markets (notably France and the US) have much more relaxed standards on this question than most others, investors increasingly expect companies to separate the roles of CEO and Chair. It is associated with the Audit & Reporting category because it is applied to consideration of the report and accounts.

4.3.6 Audit tenure

We analyse how long the audit company has retained its mandate with the company without change.

Recent legislation – including in the UK - has tightened rules relating to the length of time a company may retain the same auditor without re-tendering. The notion is that the longer an audit company (and an auditor) serves the company, the more they may have aligned interests which could affect the objectivity of the audit work they are responsible for. These regulatory developments have had the effect of establishing greater expectation on this question by investors globally, irrespective of local market traditions.

4.3.7 Auditor pay for non-audit work

We analyse the relationship between non-audit fees and audit fees both on an annual basis and separately on an aggregate three year basis.

The value of non-audit related consultancy work is naturally a consideration for the approval of auditor elections and remuneration, given the potential for conflicts of interest and the importance of audit independence, and therefore has been flagged on Auditor resolutions.

4.4 Board

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 49% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Nomination Committee Independence

We identify where the Nomination Committee does not have a sufficient number of or proportion of independent directors by reference to the local standards within which the company operates.

Globally it is acknowledged that the Nomination Committee should consist of at least a majority of independent directors. Independence and objectivity of input are the best conditions for the nomination of suitably independent and diverse candidates for future board positions.

4.4.2 Individual is non-independent member of a committee which is not suitably independent

Where an individual is partly or solely the reason why a committee is not deemed sufficiently independent, the re-election of that individual to the board may be called into question.

The committee independence criterion may vary across markets and company size.

4.4.3 Board considers the nominee is not independent

Most frequently the board will acknowledge that the nominee fails one or more of the independence criteria that apply to non-executive directors, and that the individual's independence may be compromised. This code therefore is nearly always flagged alongside one of the other independence criteria.

4.4.4 Independence criterion: Tenure

This consideration is applied to the re-election of non-executive directors, and the 'trigger' varies between 7 and 12 years depending on the market. The UK (and most common) standard is 9 years.

Whilst tenure is frequently one of the independence criteria set out in the governance codes, it is perhaps the least critical of the criteria in terms of strict application. The Financial Reporting Council (FRC) is the guardian of the UK Corporate Governance Code and research they have commissioned Manifest to do has witnessed a visible relaxation of investors' attitudes towards holding companies responsible to the letter on this specific issue.

Because of this, companies are, in turn, less worried about putting forward for election directors who may have been at the company for a little (but not much) over nine years, on the basis that their character of independence is not suddenly compromised materially and that their expertise is of more value to the board. Investors should expect to see some degree of succession management, however.

4.4.5 Board size

Many jurisdictions have soft or hard law provisions which determine a maximum size for the board. We therefore highlight where company boards are too large in the context of director election resolutions.

A board which is too large may be unwieldy in its decision-making, and could suffer from a lack of focus in arriving at decisions about strategic direction and in performing its oversight function effectively.

4.4.6 Independence criterion: represents a major shareholder

An individual's ability to serve all shareholders as an independent non-executive may be compromised where they represent a major shareholder on the board. Some markets establish an explicit threshold for establishing a majority shareholder for the purposes of this consideration (10% in Belgium, for example), whereas most do not.

4.4.7 A nomination committee does not exist (or its membership is not disclosed).

Without a clear nomination committee and process, the provenance of director election proposals is unclear. This is therefore a consideration which has flagged on director elections.

4.4.8 Percentage of female directors on the board

A number of Manifest customers ask us to track the issue of female representation on the board as a part of the wider debate on board diversity.

Whilst the issue of female directors on the board may not be a critical risk consideration on its own, the fact that director independence in general is so frequently flagged might point to a wider problem with adequate application of diversity considerations when making board appointments, of which female presence on the board is perhaps the most obvious measure.

4.4.9 Nominee is non-executive, non-independent and the board is not sufficiently independent

We monitor whether boards' composition meets the independence criteria of the market where they operate. Where it doesn't, and the individuals who are contributing to this concern are up for (re)election, we highlight board composition as a concern in the context of their (re)election proposal.

4.4.10 Member of an audit committee allowing high non-audit fees

The relationship between the fees paid to the auditor for audit work and that paid for non-audit work is a core consideration regarding the independence of the auditor and, correspondingly, the potential reliability of company reporting.

Directors who are responsible (through their membership of the audit committee) for the auditor being paid for additional non-audit-related work to an extent which may compromise the independence of the audit work (usually where non-audit fees exceed audit fees), may be held individually accountable through this consideration.

4.5 Remuneration

Remuneration related resolutions are most frequently to do with the proposal and approval of the Remuneration Report or the approval of new or amended incentive plans, and sometimes the approval of specific payments made to directors.

4.5.1 The upper bonus cap, where set and disclosed, exceeds (100-150)% of salary

This consideration was triggered by remuneration report resolutions. The market standard limit for the bonus cap, expressed as a percentage of salary, varies from market to market.

4.5.2 Consideration of ESG issues when setting performance targets

This consideration was flagged mainly on Remuneration Report resolutions but also significantly on financial reporting resolutions.

The growth of the importance of ESG or Sustainability considerations not just from the point of view of responsible investment but also the strategic importance of sustainable business means that investors often now look for the inclusion of ESG related targets within the framework of performance related pay.

4.5.3 Lack of claw back or malus/forfeiture on incentive pay

It has become increasingly important for investors to be able to hold executives to account for adjustments to the performance figures which previously triggered the defrayal of bonuses. We therefore highlight where remuneration policies and bonus schemes do not feature such mechanisms.

This underlines the importance of having all measures which are used for the determination of bonus payments – including ESG performance measures - to be externally verified.

4.5.4 The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded (100-250)% of salary (on a market value basis, maximum possible vesting).

This consideration was also triggered uniquely by remuneration report resolutions. Clearly, this relates to the structural quantum of incentive pay, by picking up on the 'worst case scenario' of full vesting of an award. As with upper bonus caps, the standard limit applied varies from market to market.

4.5.5 Remuneration committee independence

Independence of the remuneration committee is a criterion which is taken into consideration in a number of contexts, including the approval of the remuneration report and other remuneration-specific resolutions (remuneration reports, bonuses and long term incentive plans) and election of directors who are currently on the committee.

The importance of independent input from the remuneration committee needs little introduction in the current climate. Remuneration committees may sometimes contain the chief executive, because of the link between remuneration and company strategic implementation. This may often trigger an independence concern.

4.5.6 Length of the performance period used to measure attainment of long term targets

There has been some debate about what constitutes 'long term' when considering long term incentives. Local best practice codes often stipulate a minimum of three years, though some institutional investors are holding companies to a higher standard of 5 years.

4.6 Capital

4.6.1 The Authority sought exceeds 5-50% of issued share capital

Although it does not feature in

Table 2 above, the most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6.2 Dividends proposed to be paid to shareholders exceed profits

Also worthy of note in the context of capital related resolutions is the question of whether proposed dividends exceed profits. Companies may have a dividend policy which commits them to a certain level of dividend payment over the short to medium term. On occasion it is possible that where profits fall below the levels projected for that same time frame, the company is committed to paying a higher dividend than can be covered by profits attributable to the financial year in question. It is normal for the shortfall to be covered by reserves, but of course it is a question which deserves to be highlighted in the context of the long term financial sustainability of the company.

The other main means of returning capital to shareholders is via share buyback mechanisms.

4.7 Corporate Actions

The Corporate Actions category covers a narrow and specific set of considerations. As a result, none of the governance concerns typically associated with this category featured in our analysis of the most common concerns identified by the policy, simply because the issues to which they relate don’t come up on a typical corporate agenda very regularly.

However, of those times when they did come up, the two most common flags concerned were to identify that a proposal was about profit sharing agreements, acquisitions, related party transactions and schemes of arrangement. A scheme of arrangement (or a "scheme of reconstruction") is a court-approved agreement between a company and its shareholders or creditors (e.g. lenders or debenture holders). It may effect mergers and amalgamations and may alter shareholder or creditor rights.

4.8 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to resolutions which may affect the ability of shareholders to exercise some element of their rights (usually in a negative way by reducing ownership rights). It is therefore still a relatively rare resolution type to occur. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

4.9 Sustainability

4.9.1 Political donations

Under European jurisdictions, companies are required to seek approval for so-called political donations. These resolutions are not specifically for party political donations as the EU include expenditure towards the realisation of political aims such as political lobbying, trade association memberships etc.

4.9.2 The amount of the proposed authority exceeds £25,000

Whilst it may seem arbitrary to set an absolute figure on such a resolution, this is actually in line with investor preferences in the sense that it would not seem appropriate for shareholders to approve a figure expressed relative to company size or turnover as that would imply that political donations are an acceptable routine aspect of corporate life. Secondly, given that laws relating to disclosures require absolute amounts to be disclosed, an absolute limit is also a more transparent means of applying a preference.

5 Aggregate Voting Behaviour

Having discussed above the general themes of the most frequent contentious issues in each resolution category, the next step is to consider how Avon's fund managers voted. This section sets out and compares how Avon's fund managers voted, as compared to general shareholder voting patterns (as shown by the meeting results data collected by Manifest as a part of the monitoring service), in the context of different categories of resolution.

With the exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general (i.e. by more than a factor of 2%), it should also be noted that Jupiter and BlackRock voted with management more than shareholders in general but not to the same extend as TT. Invesco, Schroders and Genesis supported management noticeably less.

5.1 Fund Manager Voting Comparison

Table 3 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice Voting Template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In certain jurisdictions, provision of such information by companies is not guaranteed. However, of the 21,880 resolutions analysed in this report, Manifest obtained poll data for 19,318 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 3: Overall Voting Patterns

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	10,550	98.64%	97.06%	68.95%
State Street	4,140	94.71%	96.45%	64.61%
Invesco	3,314	91.70%	94.72%	42.58%
Jupiter	1,234	98.22%	96.93%	69.21%
TT International	1,194	99.58%	96.40%	65.41%
Schroder	706	92.49%	95.07%	41.50%
Pyrford	457	95.19%	95.90%	72.21%
Genesis	285	86.32%	95.98%	49.82%
Total	**21,880**	**96.44%**	**96.36%**	**62.89%**

Table 3 shows that fund managers vote with management a high proportion of the time, and that the best practice Voting Template identifies potential governance issues on a far higher proportion of resolutions than the fund managers choose to oppose.

Using the "Template For Management" data as a proxy for compliance with corporate governance best practice expectations, the companies in the Pyrford, Jupiter, State Street, and TT portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of Invesco, Genesis and Schroder's portfolios, which show lower levels of convergence with the voting policy template.

This continues to reflect Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making, whereas BlackRock, for example, as an index investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder, Invesco and Genesis portfolios are global and therefore are exposed to a much higher potential variance of general governance standards, in particular this may be more marked for Genesis who invest solely in Emerging Markets. Pyrford's active stock picking approach is perhaps also reflected by a similarly high level of compliance with governance best practice.

We can compare each fund manager's overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the voting results data (where made available by companies)). Table 3: Overall Voting Patterns shows that, as in previous years, Avon's fund managers oppose management to almost exactly the same degree as all shareholders in general do, however by comparison with other shareholders in general, Avon's fund managers' level of voting with management has consistently crept up over time to a point where in 2014, management was opposed by Avon's fund managers a little less than by shareholders in general. However, there are some variances between the respective fund managers.

As was the case in the 2012 and 2013 monitoring reports, TT have again supported management more than most shareholders, supporting management practically all the time. Conversely, Blackrock's levels of support for management are slightly higher than those of shareholders in general compared to the previous year, for the second report running, in the context of generally higher levels of support by comparison to the previous year. Jupiter's support of management is further in excess of other shareholders compared to the previous year, as was also the case in 2013, and remains notably higher than the general average. It is likely that Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.

Despite the highest level of compliance with the corporate governance standards of the Voting Template, Pyrford does not support management at their respective investee companies more than the other fund managers. However, Pyrford's level of support for management is almost exactly in line with shareholders in general.

State Street, Schroders, Genesis and Invesco's support for management is all notably lower than general shareholder support, though in Genesis' case especially, statistical insignificance is a concern. At an aggregate level it is difficult to make thematic observations about why State Street, and Invesco have supported management less than shareholders in general, other than to say that as overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

State Street, although supporting management to a lesser degree than shareholders in general, do so to a less marked extent than Schroders and Invesco. However, taking the "Template For Management" measure as a proxy, the degree to which portfolio companies display potential issues of concern is broadly comparable to those in the BlackRock portfolios, whereas the cases of Schroders and Invesco voting is notably less supportive of management, mirroring the fact that those portfolios also attract far more "Template Against Management".

In 2012 there was a discernible pattern from fund manager to fund manager in terms of general shareholder support for management and the degree to which the policy template identified potential concerns. However, during 2014 (as in 2013), this was again not the case, with average shareholder dissent within a very narrow band of between 94.7% and 97%.

Jupiter and TT International portfolio companies remained the highest both in terms of shareholder support and meeting the requirements of the policy template, this year joined by BlackRock. Invesco portfolio companies were notably at the other end of both spectrums. However, State Street companies were certainly comparable in their "compliance" with those in the TT portfolio, but received a notably lower level of support from shareholders and State Street themselves, compared to the average.

6 Voting Behaviour by Resolution Category

Table 4 and Table 5 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

Using the vote outcome data collected in respect of the significant majority of meetings at which Avon fund managers have voted, we have combined the meeting results with our classification of meeting business, so as to identify which were the most contentious resolutions and the reasons for them being contentious.

6.1.1 Dissent by resolution category

Where Manifest uses the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and 'For' plus 'Abstain' votes where Management recommended 'Against').

Where there was no clear recommendation from company management, we have not counted any votes cast on those resolutions as dissent.

In respect of shareholder proposed resolutions, dissent is measured by taking into account votes cast differently to the management recommendation (which may most commonly have been "Against").

Table 4: General Dissent By Resolution Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Board	10,722	9,304	2.80%
Capital	3,655	3,381	2.90%
Audit & Reporting	2,828	2,552	1.69%
Remuneration	2,607	2,397	7.62%
Shareholder Rights	1,342	1,062	6.73%
Corporate Actions	345	261	2.96%
Sustainability	299	293	10.56%
Other	82	68	12.80%
Grand Total	**21,880**	**19,318**	**3.64%**

* "Average Dissent" calculated from general shareholder voting results where available.

Table 4 above shows the most common categories of resolutions at meetings voted at by Avon's fund managers. When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions in 2014 was noticeably lower than in previous years (at 3.64%), whereas in 2013 it had been again up compared to the previous year 4.97% (4.35% in 2012). This represents an approval rating of greater than 96% overall.

Avon's fund managers in 2014 were, on average, slightly less active in expressing concerns through votes at shareholder meetings, voting against management on 779 occasions out of 21,880 resolutions, constituting an overall average opposition level of 3.56% (down from 5.17% in 2013, following 4.65% in 2012 and 4.22% in 2011). This shows that, in line with general shareholder dissent, Avon's fund managers also voted against management to a lesser extent compared to the prior year, for the first time since this analysis has been undertaken for the fund. Some more patterns within this are demonstrated and explored more fully below.

As was the case in all previous years, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. The following section analyses the above categories in more detail, by exploring patterns of opposition to the resolution sub-categories in each.

6.1.2 Dissent on shareholder proposed resolutions

Table 5: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Such Resolutions	Average Dissent
Shareholder Rights	108	8.05%	16.91%
Sustainability	84	28.09%	27.55%
Board	81	0.76%	21.55%
Remuneration	55	2.11%	13.48%
Other	44	53.66%	16.63%
Audit & Reporting	15	0.53%	11.32%
Capital	7	0.19%	1.40%
Grand Total	**394**	**1.83%**	**19.13%**

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

The largest single proportion of the resolutions relating to aspects of Shareholder Rights once again pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this. As was the case in 2013 these proposals proved relatively popular and management was defeated a number of times – evidence of shareholder action producing a positive outcome and the improvement of shareholder rights at portfolio companies.

Regarding Board-related resolutions, Board Composition (81 of the instances of shareholder proposed resolutions), Election Rules (24), Board Composition (19) and Director Elections (17) all feature prominently. The most common themes among the Board Election resolutions – all of which were in the USA - were the enhancement of shareholder rights through allowing shareholders to make board nominations, or proposals to provide for majority or cumulative vote standards for director elections. The most common themes among the Board Composition resolutions – again, all in the USA - were requests to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance.

In terms of Sustainability-related resolutions, as was the case in the previous two years the largest proportion (over half again as in 2013) were requesting disclosure of political donations, all in the US, where corporate political donations are a significant feature of the US system. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, most of which were in the extractive industries sector, again as was the case in 2013 and 2012.

The largest proportion of the remuneration related shareholder proposals again came in the US, many requesting some sort of limit remuneration in some way, especially with regard to the use of stock options as a form of remuneration. This apparent focus on the quantum of remuneration as well as the format is to be noted.

Avon's managers voted with Management on just 54% of all shareholder proposed resolutions (compared with 95% in 2013), with especial support shown for shareholder proposals on sustainability reporting issues and political donations (where shareholder proposals were supported over 75% of the time).

6.2 Board

Board related resolutions constitute nearly half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 6 below.

Table 6: Board Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall S/Holder Votes With Mgt
(Re-)Elect Directors	9,447	59.42%	96.86%	97.34%
Directors Discharge	969	88.54%	99.79%	97.94%
Board Committee	142	91.55%	95.77%	97.56%
Other	53	56.60%	79.25%	90.21%
Board Size & Structure	48	87.50%	100.00%	74.43%
Election Rules	30	16.67%	53.33%	76.43%
Board Composition	26	23.08%	61.54%	95.88%
Remove Directors	5	20.00%	100.00%	81.35%
Indemnification	2	0.00%	100.00%	97.24%
Grand Total	**10,722**	**62.35%**	**96.83%**	**97.20%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Consistent with the pattern of voting on resolutions overall, BlackRock, Jupiter and TT were the only Avon fund managers to support management more frequently than shareholders generally.

Nearly all of the top governance issues listed on page 15 are considerations relevant to the re-election of a director, and therefore to a very large extent explain the relatively low levels of alignment (62.35%) between the governance best practice template and company management recommendations on director elections in Table 6.

Of those resolutions where the fund managers opposed management on Director Elections (297) (581 in 2013) resolutions – of which 65 were instances where no governance issues were highlighted) the most frequent governance issues Manifest identified were:

Table 7: Board-related governance issues

Issue	Instances
1 (6) ↑ Nominee is not considered to be independent by the Board	126
2 (8) ↑ Nominee represents a major shareholder	76
3 (4) ↑ Nomination Committee independence levels	59
4 (-) ↑ Overall board size	53
5 (5) = Remuneration Committee independence level	40
5 (7) ↑ Tenure	40
7 (-) ↑ No disclosure of Nomination Committee	28
8 (3) ↓ Audit Committee independence levels	24

On many occasions, there were multiple concerns with each resolution, and it is likely that the quantum of governance concerns, rather than the substance of each individual concern *per se*, is what makes the fund managers more likely to register opposition to their re-election.

The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 20% of all instances where management was opposed, compared to 10% last year) would suggest that fund managers are increasingly also not afraid to apply their own (investment) judgement on these issues.

6.3 Capital

Resolutions relating to the capital structure of a company frequently pertain to investment specific considerations. For that reason, governance best practice considerations are less frequently relevant, other than the extent to which proposals directly affect shareholders rights, where often the rules are well defined and relatively infrequently breached (such as the UK Pre-Emption Guidelines).

Therefore, many of the issues the policy template identifies are flagged as 'Case-by-Case' rather than as governance concerns *per se*, resulting in a much higher level of template support for management than Board related resolutions because 'Case-by-Case' is not counted as template being against management.

On the two largest resolution sub-categories, Avon's fund managers voted against management marginally more often than shareholders in general, in particular in the case of share issues and pre-emption rights.

Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business.

Furthermore, especially in the case of "income" stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed. Other means of returning capital to shareholders is through share buy-backs.

Table 8: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Issue of Shares & Pre-emption Rights	1,799	82.47%	98.17%	95.51%
Share Buybacks & Return of Capital	890	81.89%	98.99%	98.49%
Dividends	771	79.49%	99.74%	99.34%
Treasury Shares	109	83.44%	98.17%	96.38%
Authorised Share Capital	35	75.00%	100.00%	96.62%
Capital Structure	27	71.43%	100.00%	98.96%
Equity Fundraising	19	85.71%	100.00%	99.46%
Bonds & Debt	5		100.00%	98.58%
Grand Total	**3,655**	**81.63%**	**98.74%**	**97.10%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Nearly half of the resolutions in this category related to the issue of shares and pre-emption rights, which often form part of routine business at company AGMs, giving them the on-going permission to issue new shares up to a certain agreed level for the forthcoming year.

The three most frequent issues on capital related resolutions where there was a voting concern highlighted (as opposed to a 'Case by Case' flag) were the same as in 2013, but in all cases less numerous, as indicated by the arrows next to the figures for total instances observed in 2014:

1 New share issue authority exceeds 5-50% of existing share capital (220 ↓)
2 Ordinary dividends exceed profits (105 ↓)
3 Authority being sought is greater than 12-60 months (71 ↓)

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were again the least contentious resolution category of all. However, because it includes resolutions which pertain to questions which are routine AGM meeting business in many countries, it nevertheless merits some analysis.

Table 9: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Auditor Election	1,104	55.07%	99.73%	97.83%
Report & Accounts	1,024	21.88%	99.51%	99.11%
Auditor Remuneration	596	63.26%	99.83%	98.23%
Appropriate Profits	56	67.86%	100.00%	98.36%
Other A&R related	37	37.84%	94.59%	93.69%
Auditor Independence	10	90.00%	70.00%	89.86%
Auditor Discharge	1	100.00%	100.00%	98.89%
Grand Total	**2,828**	**44.94%**	**99.50%**	**98.31%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

1,422 resolutions had at least one concern highlighted (not including 135 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. The very high degree to which Avon's fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management with their votes.

Table 10: Common Concerns Identified On Audit & Reporting Resolutions

Issue	Instances (2013)
1 (-) - Less than 50-100% of the Audit Committee are independent of management	595 (980)
2 (2) - There is no independent verification of the Company's ESG reporting	337 (370)
3 (3) -There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration	269 (310)
4 (5) ↑ No meetings held by the non-executives without the executives present	159 (215)
5 (6) ↑ The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	137 (210)
6 (7) ↑ The roles of Chairman and CEO are combined	187 (220)
7 (4) ↑The auditors have provided statutory audit services to the Company for over 10 years	111 (281)
8 (8) - The aggregate non-audit fees exceed the aggregate audit fees	107 (157)
9 (5) ↓ Less than 25-66% of the Board is comprised of independent directors	98 (146)
10 (10) - Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	97 (136)

6.5 Remuneration

As noted above, Remuneration related resolutions continue to be the most contentious, attracting the highest average level of dissent of all of the resolution types routinely proposed by management as well as the lowest level of alignment with the governance best practice analysis.

Table 11: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Remuneration Report	1,055	27.68%	94.88%	91.89%
Remuneration Policy	640	90.78%	95.16%	93.04%
Long Term Incentives	365	68.49%	93.42%	92.54%
Non-executive Remuneration	136	63.24%	98.53%	95.66%
Remuneration - Other	130	55.38%	70.77%	86.06%
Total Aggregate Remuneration	115	94.78%	86.96%	91.73%
All Employee Share Plans	49	100.00%	100.00%	98.58%
Policy – Other Components	46	76.09%	91.30%	94.64%
Total Individual Remuneration	46	97.83%	91.30%	93.43%
Item Individual Remuneration	12	100.00%	75.00%	88.16%
Policy -Contracts	6	33.33%	50.00%	97.78%
Short Term Incentives	5	60.00%	100.00%	93.26%
Item Aggregate Remuneration	2	100.00%	100.00%	92.38%
Grand Total	**2,607**	**59.00%**	**93.17%**	**91.89%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

However, readers will note the marked contrast between the proportion of all resolutions where the governance best practice template analysis raised concerns, and the proportion of all resolutions where

Avon's managers (and shareholders in general) supported management. Although significantly lower than last year, the contrast is still marked.

The introduction of the vote on Remuneration Policy in the UK has certainly had an effect on this year's statistics. With a lot of investors adopting a "wait and see" approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it was often at a very high level, suggesting a more targeted approach on the part of investors.

Also, readers will note that "Remuneration – Other" (including termination payments and provisions) have attracted a much higher level of opposition from Avon's managers, one of the most controversial aspects of remuneration considerations, along with resolutions dealing with individual remuneration.

Table 12: Common Concerns On Remuneration Resolutions

Concern	Instances
1 (2) ↑ The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	486 (783)
2 (1) ↓ No indication of consideration of ESG issues in performance targets for incentive pay	455 (813)
3 (3) - The largest aggregate LTIP award during the year exceeded 100-250% of salary of the director (on a market value basis, based on maximum possible vesting)	343 (562)
4 (8) ↑ No evidence of claw back measures in place in respect of the short-term incentives.	194 (391)
5 (7) ↑ No evidence of claw back measures in place in respect of the long-term incentives.	188 (432)
6 (6) - Less than 50-100% of the remuneration committee are independent directors	161 (451)
7 (5) ↓ The minimum performance measurement or options/share awards holding period is less than 2-3 years	151 (511)
8 (4) ↓ The exercise of options/ vesting of awards is not subject to performance conditions	126 (552)
9 (9) - The maximum potential severance payment exceeds 12 months' salary	103 (320)

Table 12 shows the most common governance best practice concerns associated with remuneration-related resolutions by Manifest over the year. Many of these issues have been prevalent on a consistent basis over time.

The quantum of bonus and long term incentive payments is possibly the most widely debated contentious issue in the corporate governance of public listed companies. Not far behind (indeed, as a part of the same debate) is the question of whether bonus and incentive pay should be clawed back, in the event that performance for which bonuses have previously been paid turns out not to have been actually realised.

Frequently, such considerations are all associated with the Remuneration Report resolutions, which showed the highest divergence between the governance best practice policy and fund manager voting.

The absence of performance conditions for the exercise of awards or options is also noteworthy, especially alongside accelerated vesting of awards in the event of a change of control in the company. Both of these concerns suggest an element of payment of incentive pay without setting down substantive performance targets in order to obtain it.

A separate, binding forward-looking policy vote was introduced for UK companies for 2014, which had a bearing on how investors voted. This came into force in respect of AGMs applying to financial years starting on or after the 1st October 2013, thereby affecting the 2014 AGM season. The main challenge for all concerned was having the sufficient resources to manage the workload of increased engagement between companies and investors.

6.6 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

They are important because they essentially relate to the extent to which investors are able to mitigate themselves against the risk of third parties making decisions which affect their investment in the company.

Table 13: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
General Meeting Procedures	523	95.41%	98.09%	92.60%
Other Articles of Association	438	82.19%	94.06%	95.65%
Meeting Formalities	288	86.81%	99.31%	92.97%
Shareholder Rights	52	17.31%	50.00%	98.70%
Corporate Governance	19	0.00%	94.74%	92.97%
Takeover Governance	15	13.33%	66.67%	65.13%
Anti-takeover Provision	7	14.29%	71.43%	74.08%
Grand Total	**1,342**	**83.53%**	**94.63%**	**93.27%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Frequently, many of the issues in this category are relatively straight forward and many of the resolutions where there is complexity it is down to the proposal being made by shareholders, therefore inevitably likely to introduce some question that is comparatively out of the ordinary.

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 days' notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it. Avon's fund managers have voted "For" management to a much greater extent than shareholders in general simply because foreign shareholders are more frequently opposing 14 day notice period permissions, simply because their voting mechanisms are not efficient enough to be able to vote a meeting called with less than 21 days' notice.

The vast majority of the issues that Manifest research identified were to do with the nature of the resolution, rather than the substance - for example that the resolution is proposed by shareholders, or that the board does not make a recommendation on the resolution (common in US 'Say on Pay' frequency resolutions).

Some concerns related to the technicalities of shareholders rights were identified on a small number of resolutions, including instances where not all shareholders are given access to electronic voting, or where the company has made use of the right to call a meeting at 14 days' notice in the preceding year (a valid consideration when deciding whether to approve permission to retain the right to call meetings at 14 days' notice in future).

Of the 72 (73) resolutions where fund managers opposed management on Shareholder Rights related considerations, 69 (32) were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Avon's managers are very well motivated to protect their interests and those of their clients, and much better so by comparison with the previous year.

6.7 Corporate Actions

Whilst far less numerous, some statistical significance can be attributed to some of the Resolution Sub-Categories pertaining to Corporate Actions, which can be put to effect to explore why they number among the most contentious resolution sub-categories for Avon's fund managers.

Table 14: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Other Corporate Action	156	30.13%	99.36%	99.14%
Significant Transactions	85	2.35%	97.65%	96.79%
Related Party Transactions	74	59.46%	83.78%	94.62%
Transactions - Other	13	7.69%	92.31%	93.20%
Change of Name	9	100.00%	100.00%	99.15%
Company Purpose & Strategy	6	83.33%	100.00%	92.42%
Investment Trusts & Funds	2	100.00%	100.00%	99.89%
Grand Total	345	31.88%	95.36%	97.04%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The majority of Corporate Actions resolutions trigger 'Case by Case' assessments, because of the nature of the issue at hand often being investment or company-specific, such as related party transactions, schemes of arrangement, disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions or perspectives in this context becomes decidedly subjective, as do comparisons of fund manager voting with management recommendations.

What can be observed is that Avon's fund managers are consistently much more likely to oppose approvals of related party transactions (commercial transactions between the company and related parties such as other companies for whom officers or directors of the company work). This is because related party and especially significant transactions may well entail significant potential conflicts of interest.

6.8 Sustainability

With the exception of political activity, charitable engagement and sustainability reports, once again virtually all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, meaningful routine categorisation of these issues is very challenging, because the specific content of proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself.

Table 15: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Political Activity	256	11.33%	84.77%	90.34%
Other ESG	13	7.69%	30.77%	87.56%
Sustainability Report	9	22.22%	33.33%	75.75%
Environmental Practices	7	0.00%	14.29%	83.16%
Ethical business Practices	6	0.00%	66.67%	78.99%
Charitable Engagement	3	66.67%	100.00%	75.38%
Human Rights & Equality	3	0.00%	100.00%	91.11%
Animal Welfare	2	0.00%	100.00%	76.08%
Grand Total	299	11.37%	79.26%	89.44%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Under European jurisdictions, companies are required to seek approval for "political donations", which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying. It is notable that although there is a significant gap between the low proportion of political activity resolutions the policy template implies support for and the actual (higher) proportion of resolutions where the portfolio managers supported such proposals, Avon's fund managers have opposed far more resolutions of this type than before this year. For the first time in this analysis, Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.

7 Aggregate Analyses

Manifest has also assessed the aggregate voting patterns undertaken by the fund managers mainly in respect of voting in emerging or developing markets (including Far Eastern and African markets). Aggregate analysis does not drill down to identifying governance concerns on individual resolutions, but does look at the aggregate patterns of voting decisions taken by the fund managers. This is largely due to the fact the disclosure practices in these markets is traditionally not as high as we are used to in Europe and the US in particular, thereby hindering the statistical reliability of detailed analysis.

7.1 Genesis

Table 16 below shows the number of votable resolutions in each category type voted by Genesis, as well as their average support of management on each.

It shows overall a notably lower level of support for management than the fund managers in the detailed analysis above, which might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Genesis was voting.

This shows that Genesis has taken a progressively more active approach as often required in these markets, and continues to do so.

Table 16: Genesis Voting By Category

Category	Total Resolutions	Voted with Management 2014	Voted with Management 2013	Voted with Management 2012
Board	535	77.99%	77.24%	96.19%
Audit & Reporting	285	96.28%	98.01%	95.42%
Capital	206	84.08%	81.36%	87.40%
Remuneration	139	82.74%	95.97%	94.70%
Corporate Actions	90	91.84%	92.71%	71.67%
Shareholder Rights	55	79.71%	89.04%	87.94%
Other	5	55.56%	N/A	N/A
Sustainability	3	75.00%	50.00%	60.00%
Grand Total	**1,318**	**83.68%**	**85.02%**	**91.06%**

What is interesting is the breakdown of the average support of management by resolution category. Whilst Audit & Reporting resolutions are roughly in line with the patterns shown in section 6 above for all three years, the level of support on remuneration issues is much lower in 2014 than in previous years.

The emergence of better disclosure of remuneration issues in some of the markets in which Genesis votes may now demand a more discerning approach than was possible before.

Board related resolutions (including director elections) continue to show a significant drop compared to 2012. This is still largely explained by a high number of instances of "cumulative voting" resolutions (103). Cumulative voting is where a list of directors is presented to shareholders to vote, from which shareholders vote for their preferred candidate(s). As there is no management recommendation, any vote on these resolutions counts as "against" management recommendation. However, even allowing for these resolution types, Genesis supported management only 91.77% of the time on the remaining Board-related resolutions, which may reflect the specific issues arising (directors in particular for Emerging Market companies) notably regarding independence.

Genesis' vote reporting data didn't identify the country of each meeting this year.

7.2 Unigestion

Table 17: Unigestion Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management 2014
Hong Kong	256	83.98%
South Korea	120	95.00%
Poland	92	98.85%
Taiwan	87	92.39%
Brazil	62	88.71%
Thailand	47	100.00%
Mexico	41	97.50%
Turkey	40	78.72%
China	35	97.14%
South Africa	34	88.24%
Malaysia	32	90.63%
Philippines	28	96.43%
Russia	21	95.24%
Indonesia	16	87.50%
Czech Republic	11	90.91%
Grand Total	**922**	**90.67%**

Not dissimilar to Genesis, caution should be used regarding the statistical significance of this data when making inferences at the market level. By comparison with the data in the BlackRock section of the report, the dissent levels towards Hong Kong and South Korean companies are broadly similar.

Unigestion's overall support level stands at around 90%, which is lower than the average discussed in Section 6 above, but again, like Genesis, it is best explained by the fact that generally governance standards are lower in many of the markets where Unigestion are voting.

Table 18: Unigestion Voting By Category

Category	Total Resolutions	Voted with Management 2014
Board	391	90.54%
Audit & Reporting	173	97.11%
Capital	157	84.08%
Corporate Actions	101	96.04%
Remuneration	57	82.46%
Shareholder Rights	40	87.50%
Sustainability	3	100.00%
Grand Total	**922**	**90.67%**

Table 18: Unigestion Voting By Category above shows the number of votable resolutions in each category type voted by Unigestion, as well as their average support of management on each. Consistent with the analysis in Section 6.1.1 above, Unigestion opposes management more frequently on remuneration issues than any other, with Capital and Shareholder Rights issues being notable in their dissent levels too. This is explained largely because many of the resolutions in those two issues touch on the question of control (either dilution of ownership in the case of Capital and in the case of Shareholder Rights the voting rights associated with capital types or resolutions of a certain type).

Unigestion's voting was in line with the voting policy in use in all instances.

7.3 BlackRock

The aggregate analysis for the other fund managers includes those markets where no detailed meeting analysis was carried out. In the case of BlackRock, the total number of resolutions voted by market is shown in Table 19 below.

The majority of the resolutions in question related to Japanese meetings. What is particularly noteworthy is the much lower average level of voting with management in all of these markets (Panama, Curacao and Liberia constituted a very small number of resolutions, so should be discounted as a statistical pattern), especially in Hong Kong and South Korea, in comparison to BlackRock's average of 97% support for management in the detailed analysis. However, over the past three years, the general pattern of overall support for management by BlackRock has increased both in the detailed and aggregate analyses.

Table 19: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management 2014	Voted With Management 2013	Voted With Management 2012
Japan	5,601	91.72%	90.55%	88.51%
Hong Kong	788	76.40%	77.99%	76.59%
South Korea	779	87.16%	73.47%	78.78%
Singapore	480	94.58%	91.48%	93.49%
Panama	19	84.21%	100.00%	N/A
Curacao	14	100.00%	100.00%	N/A
Liberia	8	87.50%	83.33%	100.00%
Grand Total	**7,689**	**89.86%**	**87.79%**	**86.25%**

Table 20 shows the overall patterns of support for management shown by BlackRock broken down by resolution category across all of the resolutions in the aggregate analysis.

Noteworthy in the data set is the change in the level of support for management on Audit & Reporting resolutions. Lack of sufficient disclosure in order to be able to ascertain whether the financial statements could be approved was a significant problem in Singapore in 2013, though all such resolutions were supported in 2014.

Also noteworthy is the comparatively low level of support for resolutions pertaining to Shareholder Rights. This is again explained almost entirely by opposition to resolutions seeking approval of takeover defence plans (poison pills). Takeover defence mechanisms serve to artificially prevent hostile takeovers which may ultimately be in the interests of higher shareholder returns.

It is again notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form a much smaller percentage than the detailed analysis. This is strong evidence that a shareholder say on pay is much less well established in these markets, although readers will note an encouraging upward trend in these figures.

Also consistent with the detailed analysis is the high proportion of resolutions which are board related. This is again due to the very high proportion of resolutions which are director elections.

Table 20: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management 2014	Voted with Management 2013	Voted with Management 2012
Board	5,747	91.23%	90.44%	88.58%
Capital	747	83.13%	82.02%	83.67%
Remuneration	516	83.53%	83.33%	71.10%
Audit & Reporting	343	99.13%	69.32%	77.88%
Shareholder Rights	192	69.79%	12.24%	80.27%
Corporate Actions	90	95.56%	92.88%	93.80%
Sustainability	54	100.00%	100.00%	97.78%
Other	0	N/A	0.00%	10.00%
Grand Total	**7,689**	**89.86%**	**87.79%**	**86.25%**

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are largely proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally.

However, as was the case the previous years, a large proportion of the sustainability themed resolutions in 2014 were in Japan, which was subject to some very specific circumstances. With Japan relying so comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. These resolutions recurred again in 2014, as they had done in previous years since 2011.

This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

7.4 State Street

State Street's voting in the aggregate analysis markets is also relatively statistically significant, especially in Japan. Table 21 shows a higher level of support for management than BlackRock, but still slightly lower than the average level for Schroder voted events in the detailed analysis.

Table 21: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management 2014	Voted With Management 2013	Voted With Management 2012
Japan	2,746	95.74%	94.32%	95.18%
Hong Kong	469	76.97%	74.50%	82.10%
South Korea	383	95.04%	91.35%	90.51%
Singapore	273	94.14%	89.33%	94.67%
Grand Total	**3,871**	**93.28%**	**91.27%**	**92.56%**

Similar to BlackRock, and identically to previous reports, State Street's support for management at meetings of Hong Kong companies is noticeably lower than for Japan, Singapore or even South Korea.

Table 22: State Street Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management 2014	Voted with Management 2013	Voted with Management 2012
Board	2,843	95.71%	92.96%	95.47%
Capital	408	80.88%	81.40%	76.73%
Remuneration	240	89.58%	87.31%	94.58%
Audit & Reporting	174	98.85%	98.20%	97.76%
Corporate Actions	133	78.95%	81.25%	93.44%
Sustainability	35	94.29%	97.37%	93.62%
Shareholder Rights	32	90.63%	81.25%	78.26%
Other	6	100.00%	57.14%	50.00%
Grand Total	**3,871**	**93.28%**	**91.22%**	**92.56%**

As is the case throughout this and previous reports, the breakdown of the resolutions voted by State Street in the aggregate analysis by category in Table 22 shows that the majority of resolutions were board-related, due to the large number of director elections especially prevalent in Far East markets.

Of those with a sufficient number of examples to draw patterns from, resolutions pertaining to share Capital (issue or re-issue of equity in particular) is the resolution type where the fund manager is most likely to oppose management. Given the subject matter (questions related to the issue of new capital are likely to catch the eye of financial analysts), it is unsurprising that this area is characterised by higher dissent levels from the fund manager.

It is again noteworthy that the proportion of the resolutions where State Street have opposed management is higher by comparison to the two previous years, and comfortably above 90%, even when voting in markets which are characterised by higher levels of governance related risk (such as control for example) than many others.

7.5 Invesco, Jupiter, TT International & Schroder

Invesco, Jupiter and TT international did not have any events to vote in the markets for which the aggregate analysis is undertaken. Given the very small number of meetings in the Schroder voting portfolio, there was not much meaningful analysis that could be added to the detailed analysis section.

8 Conclusions

This is the 4th annual report Manifest has produced for the Avon Pension Fund (the third with full year analysis). Consistent with the report on 2013 voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. As is evidenced with the example of shareholder proposed resolutions in the US, specific themes can be and are raised with companies on a campaign / strategic basis on specific questions which, over time, contribute to positive progress (for example, proxy access and double voting rights).

We expect to see overall trends of gradual improvement in corporate governance standards continuing, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies. Additionally, developments in the governance risk profile across equity asset allocation caused by changes to investment mandates from year to year may also have an effect upon the overall picture. Consequently, although we expect trends to improve over the long term, positively identifying them year on year is much harder to do.

For this reason, readers should not expect to see a marked change in companies' governance standards from year to year. What is more important is to understand how the fund's managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this question. However, the three year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.

We anticipate that incentive performance measures, proxy access and the theme of "one-share, one-vote" may prove to be prominent themes in commentary about 2015, which will be characterised by regulatory developments in the role and rights of shareholders.

In the context of the new Remuneration Policy votes in the UK, we correctly anticipated in last year's report that claw back may once again be a prominent theme for 2014, now that remuneration policy has an explicit vote of its own. Given the direction of thinking at the FRC regarding issuer-investor engagement, we also anticipate companies may start to set out how they intend to engage with investors in the event of significant dissent on remuneration issues.

There are some key regulatory developments which come into play during 2014 that may have a bearing on next year's report. These include votes on remuneration policy, gender diversity, and shareholder voting rights where there is a majority owner. Further details on these developments may be found in the appendix, which covers:

- Impact of the new directors remuneration report regulations in the UK;
- Revisions to the UK Corporate Governance Code
- Progress on the EU Shareholder Rights Directive (part II)
- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)
- Pre-Emption Group revised guidance
- Japanese Stewardship Code
- UK's Investor Association Updates to Executive Pay Guidelines

In summary, this report shows evidence that governance concerns at portfolio companies during 2014 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control. Whilst governance change is a long term investment issue, signs of positive change in the short term are reason for cautious optimism that fund managers are having a constructive impact with their engagement strategy alongside use of ownership rights on behalf of the fund.

The results of the analysis show that fund managers are voting with management marginally more than shareholders in general, for the first time since this annual analysis has been undertaken.

Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, on-going monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

Prepared By:
Manifest Information Services Ltd | 9 Freebournes Court |
Newland Street | Witham | Essex | CM8 2BL | Tel: 01376 503500

9 Hot Governance Topics

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2013" which is available upon request.

9.1 Impact of the new Directors' Remuneration Report Regulations in the UK.

In July 2013, the UK government introduced revisions to the Companies Act 2006 relating to director's remuneration policy votes and reporting. In short, the previous arrangements for a single vote on a remuneration report which included review of pay in the financial year under review as well as proposals for future pay policy are being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review, and a second binding vote on proposed pay policy.

Quoted companies with year ends on or after the 30th September 2013 are required to put their proposed remuneration policy to a simple majority binding vote at the AGM. Thereafter, companies can only provide remuneration or loss of office payments that are consistent with the approved policy unless they obtain shareholder approval at a general meeting to a revised policy or to the specific payments. Once approved by shareholders, a company can retain the policy for up to three years before being required to hold another binding policy vote, unless the separate vote on the remuneration report (implementation) is lost in the intervening period in which case a fresh policy vote is required the following year.

In addition to the future looking policy vote, the main changes to the reporting of pay include:

- Requirement to show an illustration of the level of awards that could pay out for various levels of performance;
- Requirement for reporting pay in a single, cumulative figure, including methodology for calculation to ensure consistency in approach; and
- Improved disclosure on the performance conditions used to assess variable pay of directors.

The aim of the regulations is to encourage better shareholder engagement with companies regarding remuneration, It is intended to do this by giving shareholders more powers to hold companies to account at AGM's for their pay practices and policies, in particular with the introduction of the binding policy vote and the reporting of a "single figure" for the purposes of evaluating total remuneration paid.

Ex-Post analysis carried out for the Department for Business, Innovation and Skills by Manifest identified that, by and large, companies had responded well both to the letter and, in most cases, the spirit, of the Regulations. Some areas for further attention were identified, including the possibility of losing an element of meaningfulness in disclosures through the use of boiler plate text. Attention was also drawn to the quality of disclosure of issuer engagement with investors, in particular in cases where a small subsection of shareholders was referred to, or even simply "shareholder representatives" as the basis for canvassing opinion. A number of companies silently posted "clarifications" of policy after publication of their meeting documentation but before the meeting itself, as a way of heading off a potential "Against" vote. These clarifications were not formally circulated to all shareholders and thus ran the risk of creating information imbalances between those who were party to the need for the clarification, and those to whom it was not announced. We also identified that it may be helpful for companies to consider positive confirmation of not having made termination payments or payments to past directors, rather than assuming a silence on the issue confirms no such payments have been made.

9.2 UK Revises Governance Code

The Financial Reporting Council (FRC) published its revised UK Corporate Governance Code which takes effect to UK listed companies for reporting years beginning on or after 1 October 2014. We summarise the main changes in the table below. As with most regulatory changes which seek to serve a broad constituency, the changes are a mix of positive and not so positive amendments.

A minimum threshold for **EGM notice periods** is welcome; many companies have sought to take advantage of a 14 calendar day minimum notice period despite the absence of any authority related to capital raising (the original premise for allowing an abbreviated period).

The changes on **going concern** follow the conclusions of the Sharman Review. The 2012 Code required boards to state if a company "is" a going concern. Investors' second line of defence then came from the auditors opinion. Under the relevant accounting standards Auditors needed to make a decision about whether a board's going concern assumption was "appropriate". This was in fact the position leading up to the 2008 financial crisis - neither proved to be a defence in the context of the failure of financial institutions in 2008 and it is not surprising that changes have been made. The use of the term "appropriate" to define the boards responsibility in coming to a decision on applying accounting standards may lead to confusion given the pre-existing auditor responsibilities.

UK Governance Code – Changes at a Glance

Issue	2012 Code	2014 Revised Code
Going Concern **Principle C.1.3**	Directors had to state if the company was a going concern.	Directors no longer need state if the company **is** a going concern. Companies should state whether they consider it appropriate to adopt going concern and identify any material uncertainties. The decision on whether the assumption of going concern accounts is *appropriate* was solely the auditors' responsibility.
Risk and Internal Control reporting **Principles C.2 and C.2.1**	Board was previously required to report on its review of effectiveness of risk management systems.	Reporting now specific to annual report (discretion allowed as to which section) No longer solely focussed on process. Companies should robustly assess their principal risks and explain how they are being managed or mitigated. Companies should monitor risk management and internal control systems and, at least annually, carry out a review of and report on their effectiveness.
Remuneration policy **Principle D1**	Sufficient to attract retain and motivate directors and a significant proportion was required to be performance linked.	Attract, retain and motivate has gone. There is no steer now towards a preferred performance pay ratio. Greater emphasis be placed on ensuring that remuneration policies are designed with the long-term success of the company in mind, and that the lead responsibility for doing so rests with the remuneration committee.
Clawback and Malus **Principle D1.1**	Companies only required to "give consideration" to the use of clawback provisions.	Companies "should" include clawback and malus provisions in performance pay arrangements. Companies should put in place arrangements that will enable them to recover or withhold variable pay when appropriate to do so, and should consider appropriate vesting and holding periods for deferred remuneration.

Issue	2012 Code	2014 Revised Code
Post dissent engagement **Principle E 2.2**	Company had to publish results but the Code did not explicitly require further action.	No definition of "significant" however boards can no longer fail to take action if there is a significant level of voting dissent. Companies should explain how they intend to engage with shareholders when a significant percentage of them have voted against any resolution.
Notice of Meeting **Principle E.2.4**	Code previously failed to state a threshold for producing EGM NoM .	Now companies required to provide an EGM notice 14 working days ahead of the meeting.

The loss of "**attract, retain and motivate**" as a pay policy will not be mourned. The routine practice of buying unvested awards from a prior employer on recruitment undermined any retentive effect promised by such statements.

Finally, the FRC's consultation feedback statements reveal some near misses which would have been potentially negative for shareholders. It appears that companies and audit firms lobbied for moving corporate governance disclosures online. The consequential loss of assurance that corporate governance disclosures are relevant to the latest published full year accounts has for the time being at least been avoided.

9.3 The EU Shareholders Rights Directive Part II

During 2014 the European Commission commenced the process of revising and updating the Shareholders Rights Directive, which came into force in 2007. The proposed Directive is approaching the final stage of negotiation – between the Parliament and the Council of Ministers.

Most significant in the context of this report is the fact that the Commission proposed measures designed to encourage better engagement with companies by institutional investors, because of a perception that the problem of short-term investment decisions is facilitating excessive risk-taking by companies. This implies disclosure of aspects of investment mandates which encourage:

- strategic alignment with the liabilities and duration of the investor;
- how the asset manager takes decisions based on the long term performance of a company;
- how the asset manager's performance is evaluated; and
- information on portfolio turnover.

During the negotiations, the question of enhanced voting or dividend rights for long term shareholders has been proposed as a solution to the problem of short-termism. However, this brings more pressure to bear on the need for better ability to identify shareholders, in order to facilitate more efficient transmission of information, the exercise of shareholders rights, and now the allocation of loyalty votes or dividends. It is also likely that the Directive may require all listed companies incorporated in the EU to have a "Say on Pay Policy" vote.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It initially proposed requiring shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals. However, companies across Europe have been successful in watering down many of the requirements.

The Directive is also likely seeking to address perceived concerns with what they call "proxy advisors" (i.e. companies like Manifest who provide research or voting guidance to institutional investors), relating to the transparency of methodologies used for producing voting guidance for clients and potential conflicts of interest.

9.4 Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)

A separate but relevant development related to the provisions about fund manager performance evaluation in the Shareholder's Rights Directive has been the launch of the "Red Lines Voting Initiative" by the Association of Member Nominated Trustees. The aim of this initiative is to better equip AMNT members in holding their fund managers to account for their voting on issues where companies fall short of the governance "Red Lines" of their policy, which are yet to be announced. The initiative is virtually identical in concept to the vote monitoring Avon undertakes with this report.

9.5 Pre-Emption Group Revised Guidance

The Pre-Emption Group has now released updated guidance on the factors to take into account when considering whether to disapply pre-emption rights. https://frc.org.uk/News-and-Events/FRC-Press/Press/2015/March/The-Pre-Emption-Group-publishes-a-revised-Statemen.aspx

Manifest welcomes the March 2015 improved guidance particularly with regard to the explicit inclusion of "cash box placings". Manifest has tracked use of this dilutive capital raising mechanism since 2005. Our records reveal that a total of £2.7bn has been raised by 39 different companies using cash box placement over this period.

Quite how effective the revised guidance will be at stopping companies from using this method of share issuance is yet to be seen. The ABI (one of the Pre-Emption Groups members at the time) wrote to companies in February 2009 warning that the pre-emption principle was being eroded through the abuse of cash-box placings. Since that date this mechanism has been used more than 20 times by companies to which the ABI issued its warning. Key amendments to the 2008 Statement of Principles include:

- Clarification of the scope of the Statement, making it clear that it applies to both UK and non-UK incorporated companies whose shares are admitted to the premium segment of the Official List of the UK Listing Authority. Companies whose shares are admitted to the standard segment of the Official List, to trading on AIM, or to the High Growth Segment of the London Stock Exchange's Main Market are encouraged to adopt the Statement.
- Clarification that the Statement applies to all issues of equity securities that are undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction, including, for example, "cashbox" transactions.
- Flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice.
- Greater transparency on the discount at which equity securities are issued non-pre-emptively.

9.6 Japanese Stewardship Code

February 2014 saw the publication of the Japanese Stewardship Code. The working group which put it together included institutional investors, representatives of companies, as well as academics and representatives of government departments.

A part of the "Abenomics" policy, the aim of the code is to make the Japanese market more amenable to foreign investment, and thereby enabling Japanese companies to better harness the positive input from foreign investment perspectives to further enhance the growth of the Japanese economy as a whole.

It sets out the roles and responsibilities of both sides of the stewardship role – investors and companies. As regards investors, it distinguishes between asset managers and asset owners (who may outsource their asset management to asset managers), highlighting the formers' role as being to "contribute to the enhancement of corporate value of investee companies through day-to-day constructive dialogue with them" and that of the latter as being to "disclose their policies on fulfilling their stewardship responsibilities and … aim to assess the asset managers in line with the Code, not placing undue emphasis on short-term performance".

The code is also rightfully careful to point out that although voting is a vital part of engagement and stewardship, it is no substitute for constructive dialogue.

The main principles are very similar to the UK Stewardship Code – including the use of comply or explain. The encompass publicly disclosing a policy, management of conflicts of interest, monitoring of portfolio companies, having strategies for engagement and voting as well as disclosure of the latter, reporting of policy implementation to clients and the acquisition of adequate company knowledge to fulfil their Code responsibilities.

9.7 UK's Investor Association Updates to Executive Pay Guidelines

In June 2014 the Association of British Insurers (ABI) Investment Department on merged with the Investment Management Association (IMA) to create the Investment Association (IA). The ABI's Remuneration Guidelines have been a long standing feature of the UK's corporate governance landscape and so, not unsurprisingly, the IA has now published its own guidance on the role of shareholders and directors in relation to remuneration.

The only change of substance to the guidelines is reference to the emergent issue of "Allowances" which have been used by some banks to circumvent the EU cap on variable pay. As with the ABI guidance, the best practice outlined by the IA is a very broad church. What may surprise some investors is that the IA best practice appears tolerant of remuneration practices which post crisis regulatory initiatives are trying to tackle.

A comparison of attitudes apparent in the recent Prudential Regulatory Authority (PRA) Consultation paper (CP 15) towards a range of issues serves to illustrate the point. The PRA is proposing a minimum clawback period of 7 years for executives whom are classed as material risk takers under its rules and this extends to 10 years for senior managers in some circumstances. The IA is silent with regard to the period which shareholders should expect vested variable pay to be reclaimable by a company.

The PRA takes the view that deferral periods for variable pay should be longer than current minima whilst the IA explicitly tolerates 3 years as a minimum performance period for variable pay awards.

Pay for Performance

In an unequivocal statement the PRA assert that there is too much reliance on metrics based on short term revenue or profit such as RoE, EPS and TSR whilst the IA guidance explains how best to measure TSR when it is used as a metric. With regard to buy-outs (the practice by which a recruiting company buys out "forfeited" awards of an executives former employer) the PRA proposes four solutions including the banning of buy-outs.

Principles, not Prohibitions

The IA guidance doesn't countenance a prohibition of buy outs (actually the guidance doesn't countenance a prohibition of anything) but suggests that buy outs should take account of performance period remaining and performance achieved (in effect the application of malus by the new employer).

Guidance For Remuneration Committees

In its covering letter to remuneration committee chairs, the IMA outlined four focus areas which are of concern to investors:

- Amounts and gearing of variable pay: Basic salary should not exceed inflation or the increase for the general workforce and any increase to maximum variable pay should be clearly explained.

- Threshold performance: Despite the proportion of awards vesting being low this can still lead to substantial amounts being paid.
- Length of performance/holding period: Performance periods for long term incentives should be no less than three years, preferably longer.
- Retrospective changes to performance conditions: There should be no adjustments to take account of "adverse" exchange rate movements.

Standards Clash for Financials?

For listed financial companies (which include many IA members) there may be a concern about "Standards Clash" as the IA guidelines are a supplement to the PRA's bright line regulations. The IA guidelines don't address this scenario. It therefore remains to be seen whether engagement by IA members who are subject to the PRA pay code with companies who are not subject to the code will start to reflect the apparent asymmetry in attitudes towards executive pay.

UK Executive Pay Guidelines – PRA vs. IMA

Guidance Source >>	PRA/FCA Oct 2014 CP 15	IMA Remuneration Guidance
Issue	Applicable to financial companies including some IMA members (PRA designated investment firms)	Applicable to all companies including financial companies
Clawback	Proposes minimum clawback period of 7 years for material risk takers and 10 years for senior managers in some circumstances	Silent on period during which shareholders should expect vested variable pay to be reclaimable by a company
Long term Incentive Pay Characteristics	A means of retaining staff	Exists to reward the successful implementation of strategy
Performance Periods	The PCBS took the view that deferral over two or three years was insufficient to take account of the timescales over which material business issues can come to light. It is the view of the PRA and FCA that deferral periods should generally be longer than current minima.	The performance period should be clearly linked to the timing of the implementation of the strategy of the business, which should be no less than three years and shareholders would generally prefer longer.
Performance Measures	The PRA share this concern that there is too much reliance on metrics based on short term revenue or profit such as RoE, EPS and TSR.	Where TSR relative to an index is used remuneration committees should satisfy themselves that recorded TSR is a genuine reflection of underlying financial performance
Buy Outs (recruiting company buys out "forfeited" awards)	Proposed 4 options: a) banning buy-outs b)maintaining unvested awards c)applying malus to bought out awards d) reliance on clawback	Compensating executives for the forfeiture of awards from a previous employer should generally be on a comparable basis, taking account of performance achieved or likely to be achieved the proportion of performance period remaining and the form of the award.

Bath & North East Somerset Council

lgps look forward with confidence

INVESTOR IN PEOPLE

AVON PENSION FUND

Avon Pension Fund

FRC Stewardship Code

Avon Pension Fund, Statement of Compliance with Stewardship Code 2013

This is an updated draft following small amendments made to the Code in 2012. The changes to the Code with relevance to the Fund were as follows, with references to changes made in the Fund's revised draft statement in brackets:

- Principle 1
  – Guidance advised clarifying the scope of application of the Code within the investment portfolio (have stated it applies mainly to the Fund's equity portfolio)

- Principle 5
  – Guidance advised that to aid collaboration the Fund should include a contact for Stewardship issues (contact inserted)

- Principle 6
  - Guidance increased emphasis that investors should publicly disclose voting records (inserted explanation as to why undertake and publish aggregate voting data)
  - Guidance advised improved disclosure on use of proxy voting advisers (inserted confirmation that the Fund does not use proxy advisory services itself)
  - Guidance advised that Investors should disclose approach to stock lending and recalling lent stock (comments inserted explaining position on stock lending)

- Principle 7
  – Guidance advised that Funds should ask asset managers whether assurance on their voting and engagement activity has been covered as part of internal control report – (added comment that this is included as part of the Funds annual review of managers' internal control reports)

The revised draft statement for approval is as follows:

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

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

The Avon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund focuses on applying this code to its equity portfolios.

The Fund's policy in this area is set out in its Statement of Investment Principles (SIP).

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. Nine managers have published a statement of commitment to the Stewardship Code. In the case of the remaining four, three are hedge fund managers who are not long term holders of stock, and one is a property manager where the opportunity for stewardship activity is limited.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code (formerly the Combined Code). The overseas equity managers are required to vote at all overseas company meetings where practical.

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

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.

In respect of conflicts of interest within the Fund, pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to external asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from the active equity managers on voting and engagement activity are received by the pensions committee on a quarterly basis.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

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

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

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

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

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

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

In respect of shareholder voting, the Fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the Fund's appointed asset managers. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from asset managers on how votes have been cast.

Aggregate voting records of managers are reported to the Committee at the quarterly meeting. Detailed monitoring analysis of managers voting activity is undertaken and reported on an annual basis in a Review of Proxy Voting report that is publically available. Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide a summary report of voting taken on the Fund's behalf and benchmark the voting activity against their view of best practice – this analysis forms the basis for the annual report on voting activity.

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled funds is determined by the individual investment managers.

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

The Fund reports on stewardship and voting activity in its annual report. The Fund also annually reviews and updates it's SIP, which sets out the Fund's approach to responsible investing and assess compliance with governance best practice. The activity undertaken by LAPFF is reported to the Committee on a quarterly basis.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area it would expect to be tested within the controls environment.

Avon Pension Fund
Approved, June 2013

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 September 2015**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS Update – Pooling of Investments**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 Prior to the 2015 General Election the Government had been considering the structure of the Local Government Pension Scheme and looking at options for pooling investments. This included a "Call for Evidence", and then in May 2014 the Government issued a consultation document entitled "Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies." The Avon Pension Fund was one of many consultees who responded to the consultation, but no response was issued by the Government before the election.

1.2 However, the new Government has now returned to the agenda and this report sets out the latest Government proposals and sets out a way forward for the Avon Pension Fund.

2 RECOMMENDATION

That the Committee

2.1 **supports in principle the setting up of a South West Collective Investment Vehicle**

2.2 **authorises the S151 Officer to continue work with neighbouring funds in the South West to establish proposals for a South West Collective Investment Vehicle**

3 FINANCIAL IMPLICATIONS

3.1 There is no provision in the 2015/16 budget for specialist advice relating to the pooling of investments. This will be brought to the Committee for approval once there is agreement on the way forward across the region.

3.2 There will be costs associated with setting up a pooled arrangement. These will be costed once there is a decision as to the pooling arrangements to be established.

4 GOVERNMENT POLICY

4.1 The Government announced its intentions in the details of its July budget statement. The budget documents set out the following policy:

Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

4.2 Further briefings have provided more information on what is proposed. There will be no formal consultation on any form of structure. The Government are looking for the LGPS community to bring forward their own proposals on setting up pooling arrangements, but the proposals must be ambitious. A series of criteria will be outlined, which are likely to focus on size, cost (i.e. potential savings) and governance. They will be looking for proposals to come forward in the early Autumn, and for formal agreement of the proposals to happen in January. It appears that the previous suggestion that Funds will be forced into passive management of their assets will not be pursued.

4.3 There will be significant work required to set up the new arrangements (i.e. a collective investment vehicle or CIV) and the expectation is that these should be in place within three years. Not all of each individual Fund's investments will need to be within the CIV at the start, as many funds will have illiquid investments that they are committed to for a longer period, but the majority of assets should be transferred to the CIV in a managed process over a reasonable timeframe once the vehicle is established. Each individual fund would retain control of strategy and asset allocation decisions, but would need to use the managers employed by the CIV.

4.4 The formal consultation is likely to be around changing the investment regulations, which is mostly about removing any barriers to pooling which may be inferred from the current regulations, and the "backstop" legislation. The backstop legislation will simply give the Secretary of State the power to instruct an LGPS Fund to invest through a particular pooled investment vehicle if the fund has not made sufficient progress itself, i.e. if a fund does not voluntarily pool its assets it can be forced to do so.

5 THE WAY AHEAD

5.1 There are a variety of ways in which the pooling arrangements could be set up. Regional CIVs are not necessarily the only option but are one way it could go. Informal discussions have been held with neighbouring councils to consider the possibility of setting up a South West Regional CIV or alternative pooled arrangement. This would comprise Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset, Wiltshire and the Environment Agency.

5.2 In terms of size (total assets of around £19-20 billion) we would be at the bottom end of the Government's expectations, but the intention is that we would be open to other funds joining us. The key issue may be around how this fits in with what the LGPS funds in other regions propose in taking forward the agenda. The Local Government Association will play a role in trying to bring together a co-ordinated solution.

5.3 The South West LGPS pension funds have a good record of working together. Officer meetings are held on a regular basis to share best practice, and a number of South West LGPS collaborative frameworks have been set up, for example in relation to actuarial and investment consultancy services and legal services. These pre-dated the national frameworks that have been set up more recently. The region has many shared characteristics, such as demography, and would not be dominated by a large metropolitan authority. The South West would therefore be a good fit in terms of community of interest and shared objectives. A South West pooling arrangement would be a genuine partnership with clear accountability to the local funds. The alternative would be to invest in a more remote asset pooling arrangement that could be mandated by the Government.

5.4 Cost savings and governance will be key criteria in whether the South West proposal would be acceptable. This will involve looking at the forecast savings that we could make though the setting up of the CIV, and also how the structure would be organised. The London boroughs have been looking for some time at setting up an "Authorised Contractual Scheme" which is in effect a tax efficient separate corporate entity. This would be one option, although there are significant costs in setting up such a body. A more simple alternative might be a joint committee with a lead authority running the CIV. Some work has already been done on these issues, but more analysis will be needed to firm up on proposals to be made to the Government.

5.5 The Committee will need to be aware with that these changes are likely to involve significant changes in the investment of the fund, with significantly less directly involvement in selection of managers, and potentially some compromise with the detailed specification of mandates. However, with this approach the Fund will have a direct participation in the operation of the CIV, while other options will probably leave the Fund on the margins. As well as offering costs savings, a well-structured pooled vehicle could offer the opportunity to share expertise and knowledge.

Conclusion

5.6 The government has signalled its clear intention that LGPS investment assets should be pooled, and that action will be taken should local funds fail to engage sufficiently with the agenda. It is therefore proposed that the Avon Pension Fund should join with neighbouring funds in the South West to actively explore options to set up a regional collective investment vehicle, and that officers should continue to collaborate on proposals.

5.7 This is the first stage of an extensive process. There will be chance to review detailed proposals before significant investments are made in the new structure, and scope for further review before the funds are transferred over to the CIV. A progress report will be brought to the December committee meeting.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 September 2015**	**AGENDA ITEM NUMBER**
TITLE:	**REVIEW OF RESPONSIBLE INVESTING POLICY - SCOPE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investing Policy		

1 THE ISSUE

1.1 Responsible investing (RI) issues can have a material impact on investment risk and return in the long term and these issues are considered within the Fund's strategic investment policy. As an asset owner the Fund has a duty to ensure it carries out its stewardship duties effectively.

1.2 The Fund periodically reviews all its policies to ensure the investment strategy evolves over time by incorporating relevant investment opportunities and managing investment risk as effectively as possible. Since the last review of its Responsible Investing Policy in 2012 there have been developments in investment research, RI themes, governance standards and products available for investing responsibly. In addition, various campaign groups focussing on specific assets have lobbied the Fund at different times. Given these developments, it is proposed that the policy is reviewed to ensure all issues can be considered in a holistic way which is consistent with and supports the objectives of the investment strategy.

1.3 This paper describes the proposed aims and scope of the review, for agreement by the Committee.

2 RECOMMENDATION

That the Committee

2.1 **Agrees the scope for the Review of the Responsible Investing Policy as set out in section 5.1-5.3.**

2.2 **Agree to fund the costs of the review to an initial limit of £25,000.**

3 FINANCIAL IMPLICATIONS

3.1 There is no provision in the 2015/16 budget for investment advice relating to the review of the Responsible Investing Policy. However based on previous experience of the 2012 review the budget required would be in the region of £25,000.

4 BACKGROUND

4.1 The Responsible Investing Policy (see Appendix 1) is part of the investment strategy and brings together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The objectives, beliefs and policy were agreed in June 2012.

4.2 The current policy

a) incorporates the long term RI risks to which the Fund is exposed into strategic and operational (i.e. the investment manager's) decision making, and

b) ensures the Fund carries out its duties as a responsible investor. The policy reflects the Fund's current investment management structure, internal resources and governance framework.

4.3 The policy demonstrates how the Fund will implement these beliefs within the strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

4.4 The current policy is underpinned by RI beliefs as follows:

a) Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy

b) Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies

c) The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

4.5 The current policy allows flexibility for all investment approaches to managing RI risks to be adopted as long as it is aligned with the strategic investment objective.

5 REVIEW OBJECTIVE AND SCOPE

5.1 The objective of the review is as follows:

(1) To ensure all aspects of RI have been considered and reflected as appropriate within the policy consistent with the overall investment objectives and strategy

5.2 The scope of the review is as follows:

(1) Understand the changes to RI themes and emergent risk and opportunities including the evolution of information and products;

(2) Review the current policy including the objectives and beliefs to identify areas which may be impacted by findings from (1) above;

(3) Consider any revisions to the policy how they could be implemented within the portfolio;

(4) Review the investment policy regarding exclusion of specific assets;

(5) Make recommendations to the Committee on any proposed changes which improve the risk/return position within the investment strategy.

5.3 The review will be undertaken by Mercers, who have significant expertise in sustainability and responsible investing.

5.4 It is intended that the subject matter will be discussed at a number of workshops and a final report and recommendations will be presented to Committee no later than the September meeting in 2016.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Responsible Investment Policy

The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

The policy demonstrates how the Fund will implement these beliefs within the strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

- The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes This is evidenced by evaluating the following as part of the strategic investment review process:
    - The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing
    - Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value.
    - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that exclude or positively select investments could be appropriate for particular mandates.
- The Fund requires its investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles.

- When appointing external investment managers, the Fund:
    - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.
    - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
    - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.
- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets.
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role.
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible.
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives.
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles.
- The Fund encourages its external investment managers to become UNPRI signatories.
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.
- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

Approved by the Avon Pension Fund Committee on 22 June 2012.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 September 2015**	**AGENDA ITEM No 12**
TITLE:	**THE PENSIONS REGULATOR** **ADMINISTRATION – COMPLIANCE REPORTING**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:-

Appendix A – Member Data – July 2015

Appendix B – Data Improvement Plan - Roadmap

Appendix C – Data Improvement Plan - Report

Appendix D – Late Payers Report – September 2015

Appendix E – IDRP schedule

Annex 1 – TPR Regulatory Requirements - Member and Beneficiary Information

Annex 2 – TPR Regulatory Requirements - Records of Transactions

Annex 3 – TPR Regulatory Requirements - Communications

1. THE ISSUE

1.1 The introduction of The Pensions Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 sets out administration requirements for all public sector pension schemes. The Avon Pension Fund has reviewed its core data and processes (as set out in the regulations) and assessed its level of compliance with regulations requirements in respect of:

- Scheme record-keeping
- Maintaining contributions
- Providing Information to members

1.2 The report identifies the key findings and sets out a plan for improvements.

2. RECOMMENDATION

That the Committee:-

2.1 Note the report

2.2 Agree Appendix C – Data Improvement Plan

2.3 Agree Appendix D – Late Payers Report

2.4 Agree to receive a quarterly monitoring report going forward combining the overall administration performance report.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4. REPORT

4.1 The Pension Regulator's (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions. The regulations also set out requirements in respect of member communications.

4.2 The Avon pension fund has undertaken a detailed review of its member database to assess the level of compliance and reviewed it communications processes and reporting formats for late payments.

4.3 Despite the Regulations appearing comprehensive, some of the wording of the regulations is ambiguous therefore the regulations have been listed together with a statement of how the requirements have been interpreted and how the queries will be reported and resolved (see **Annex 1**).

5. SCHEME CORE RECORD KEEPING

5.1 The regulations require 100% completeness of data across a number of core areas. In all, the fund tested 102,000 membership records on its database as at 1st August, through a series of analytical reports and the level of completeness of data is shown in the table below:

Combined Membership Results		
Data type	**No. failed**	**%**
Address	7015	93.17%
Date Joined Fund	6	99.99%
Date of Birth	8	99.99%
Forenames	40	99.96%
Ident 2	109	99.89%
NI Number	102	99.90%
Sex	22	99.98%
Format of Hours	31	99.97%
Surname	0	100.00%
Title	10	99.99%
Missing Serv Casuals	1633	98.41%
Total	**8976**	91.26%
Membership tested		**102695**

5.2 The data shows the core data types tested and the number of records which have failed the analytical test. The analysis is further broken down by record category in Appendix A. It should be noted that some of the failures may not be whole but partial e.g. the postcode part of the address is missing or a part of the data is missing.

5.3 Missing or incomplete addresses represent the largest area of missing data. Currently missing addresses for active members are resolved via the employer and pensioner/dependant addresses are resolved directly if payments are continuing.

However no action is taken in respect of deferred members until 6 months before the pension is due to be paid, when the Fund begins its tracing process including where necessary the use of private tracing agencies. Over 80% of the address queries are in the deferred category.

5.4 It should be noted that the snapshot of 1st August is a fluid position as members join and leave the scheme or move into retirement. It should also be noted that many of the data failures relate to historic data. The fund does have strong controls in place to deal with emerging issues through the introduction of the Data Quality team and use of Electronic data transfer systems which highlight omissions on a more frequent basis rather than relying on the year end reconciliation. The Fund is however still dependent on employers for the supply of information.

6. Casual hours

6.1 Under the Final Salary Scheme working hours are recorded for all members. Returns for casual hour workers should have been received annually as at 31 March and updated on the member records. However many employers have not regularly supplied this data and the missing information is requested from the employer when the Fund is notified that the member is leaving the scheme or changing to contractual employment.

6.2 With the introduction of the CARE scheme the notification of annual hours for casual members will no longer be needed. As at 1 August 2015, there are 1633 casual member records on the system, all of which will require data reconciliation to verify pensionable service. All employers with casual members will be contacted and required to provide missing information.

6.3 The table bellows shows the employers with the most casual member records:

Employer	No. of casual employees
Bath Spa University	605
University of West of England	230
Bristol City Council	190
South Gloucestershire Council	190
Bath & North East Somerset Council	77
South Glos & Stroud College	61
North Somerset Council	38

6.4 In 2008 casual members working with no mutuality of obligation were excluded from the LGPS. At that time a full reconciliation of the four local Unitary Authorities data was undertaken. Further Education employers established mutuality of obligation during that time. The cases in the above table have arisen since this date.

7. Historic frozen refunds

7.1 These refunds are due to members who left the scheme prior to 2004 when the regulations did not entitle members to a deferred benefit if they had less than two years' service. They consist of either members who chose to hold the refund in the Scheme for a temporary period or members who left the Scheme and the Fund did not receive any leaver information only being identified as part of the year end reconciliation process.

7.2 A project has been in progress since the beginning of 2013 to trace members and pay the contribution refund due to them. Many of the records hold only basic 'skeleton' information therefore the Project Team has to create the record from microfilm, employers and HMRC data before a calculation can be processed, as well as tracing the member who may be unaware that a refund is due to them. It is therefore a time consuming task.

7.3 Progress to date is as follows:

Total outstanding January 2013	2008 cases
Completed in 2013	364 cases
Completed in 2014	685 cases
Completed in 2015	47 cases
Still Outstanding as at July 2015	912 cases

7.4 The total outstanding historic contributions waiting for refund on the member records amounts to approximately £263,000, with £3.01 representing the lowest amount and £3,290.00 the highest. The estimated mean average value of contributions to be refunded is £400.

7.5 Member tracing is prioritised by amount due and member age. Tracing members is primarily by a third party tracing bureau. More in depth tracing is undertaken at cost if the primary method is unsuccessful.

7.6 From 1 April 2014 the regulations have reverted to a two year vesting period. A report has been created to identify any frozen refunds after the maximum five year period members can hold them in the LGPS to ensure this situation does not happen again.

8. AVC Reconciliation

8.1 As well as the LGPS records a number of members make contributions to AVC's held with Equitable Life & Friends Life. In total there are 738 member records with an AVC (480 active members and 258 deferred members). The Fund carries out an annual reconciliation of AVC members for compliance.

9. Record of Transactions

9.1 Part 5 of the regulations specifies the requirements for the recording of transactions. Each requirement is specified in Annex 2 along with the process by which the Fund is complying.

9.2 The Altair system holds detailed member records including their contributions, benefits payments and any transfers. The Council's Financial Management System holds records of all financial transactions from employers and their employees.

9.3 Most financial transactions in the Financial Management System are aggregated. The receipt of contributions from a single employer will include the contributions for all their members. The payment of thousands of pensioners will be covered by a single BACS file.

9.4 Reconciliations between Altair and the Financial Management System ensure that the data on Altair reflects the financial transactions shown on the Council's Financial Management System and that the transactions shown on the Financial Management System are backed up with the necessary details on Altair.

9.5 The Pension Fund's section of the Council's Financial Management System is further reconciled to the Pension Fund's bank account to ensure that it reflects the actual transactions (and only the actual transactions) that have occurred. These reconciliations are independently audited as part of the annual audit of accounts.

10. Maintaining contributions

10.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator. The Fund already has a procedure in place to do this and has reported quarterly to the Committee for some time.

10.2 The Fund maintains a record of late payments showing the due date and actual date of payment, the amount of payment, and the reason for the delay. Late payments have previously been reported to Committee if they were in excess of £3,000 and more than an aggregate total of nine days late in three months. In future all late payments will be reported (see **Appendix D**).

11. Providing information to members

11.1 The Fund has a published communications policy that:-

- Ensures members have accessible and timely information on all aspects of their pension's benefits and informs and enables decisions in respect of their pensions.
- Enables employers to make effective decisions in the management of risks and liabilities as well as facilitates engagement in the wider pension debate.

11.2 Part of the regulations specifies the requirements to disclose information about benefits and scheme administration to scheme members and others. Each requirement is specified in **Annex 3** along with the process by which the Fund is complying. In all cases the Fund is 100% compliant with the requirements.

12. Internal Disputes Resolution Procedure [IDRP]

12.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved.

This is done under an IDRP. Due to a change of personnel and with the introduction of TPR guidelines within its code of practice, a review of our procedure is currently being carried out and a full report on this will be included for the December Committee.

The table in **Appendix E** shows the cases going through at the present time.

13. GMP Reconciliation

13.1 This project is required to ensure that data held on HMRC records matches our records to ensure incorrect payments are not made. A note regarding this was set out for the Committee in March 2015 and is included again in an update within Item 16 of this Committee. Some important areas concerning this matter are still being discussed within working groups with HM Treasury and a full report on the scope will be included at a subsequent committee meeting when details are finalised. Some initial population checks between our data and that held at HMRC have begun.

14. DATA IMPROVEMENT PLAN

Core Data

14.1 A Data Improvement Plan has been produced to address the issues identified over a two year basis reflecting the fact that it is not essential to prioritise some of the issues as they are not material to valuation of the fund or to individuals for whom pension payments are still some way ahead. It should be noted at this point that at the time of pension payment coming into effect, an employee's record is checked in detailed as part of the necessary rigour in calculating the correct pension.

14.2 As outlined in the Funds Administration Strategy and Service Plan, the Committee has agreed to continued investment in technology to ensure the accurate and efficient transmission of data between the fund and employers and this project continues to roll across employers. In order to ensure the Fund achieves the level of accuracy required on a consistent basis though, a proactive engagement programme will be undertaken with employers focusing on:

- Dealing with historic information requirements
- Addressing emerging data issues as they arise
- Establishing control processes within employers as a preventative measure
- Training employers staff on TPR and fund requirements
- Reminding employers of the new roles of the Pensions Regulator and The Pensions Board
- Addressing other pension issues the employer may have

14.3 The priority will be to investigate and resolve all non-address data queries. The plan for correcting addresses will be to prioritise pensioner and dependant members deferred members over age 55 (833 members over 55). Active members will be investigated by communication with respective scheme employer. A third party tracing bureau will be employed for deferred and pensioner members. The Fund will liaise with continue to liaise with other government departments where necessary to resolve issues of missing NI Numbers.

15. Casual hours

15.1 A project has been established to work with employers to ensure all member records have details of service up to 31 March 2014. Initially we are working with the employers with the most casual employees. It is likely that the project will take until June 2016 to complete.

16. Historic frozen refunds

16.1 Work will continue on this project prioritising cases according to age and size of the refund. Additional resources will be allocated as work pressures allow. Based on current resources the project will take until May 2017 to complete.

17. Quality review

17.1 Although not specifically identified in the regulations the TPR code of practice highlights the risks of not having sufficient internal controls and working closely with poorly performing employers to improve their data. Therefore as well as continuing with the data improvements as set out above the following improvements will also be implemented:

- Offering classroom style training courses on employer responsibilities and Employer Self Service.
- Enhancing engagement with new employers to ensure they are fully aware of their responsibilities and have the necessary systems in place to comply
- Identify poorly performing employers from the year end exercise and work with them to do a complete reconciliation of data and carry out training required to improve performance
- Introduce same day checking of leaver forms and feedback errors. Collate and report on poor performing employers

17.2 Further software development has been commissioned to enable the monthly loading of CARE scheme data in ‘real time’. It is anticipated that this will be available within the next 12 months which will enable more efficient data reconciliation.

17.3 A central record of all levels of compliance for all scheme employers has been established and will be updated on an ongoing basis.

18. Reporting

18.1 The quarterly Administration report will be revised to include a progress report on the Data Improvement plan including the level of compliance achieved by Employers together with an ongoing report on the quality of data received (**Appendix C**).

18.2 A quality assurance statement will be produced annually which will be used to benchmark the ongoing quality of data and enable the Committee to assess progress made and identify areas of further improvement.

18.3 All information in respect of current level of compliance and improvement plans will also be reported to The Pensions Board who has a specific responsibility for monitoring levels of compliance and ongoing improvement.

19. RISK MANAGEMENT

19.2 A risk assessment related to the issue has been undertaken in compliance with the Council's decision making risk management guidance.

20. EQUALITIES

20.1 An equalities impact assessment is not necessary.

21. CONSULTATION

21.1 N/A

22. ISSUES TO CONSIDER IN REACHING THE DECISION

22.1 Are contained in the report.

23. ADVICE SOUGHT

23.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Support Services) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Geoff Cleak, Acting Pensions Manager 01225 395277
Background papers	The Pensions Regulator Code of Practice 14: The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 and Various Statistical Records
Please contact the report author if you need to access this report in an alternative format	

Monthly Management tPR Reporting
Jul-15
Section 1 - Data Completeness Statistics by Status & Type

Active Membership		
Data type	**No. failed**	**Completeness %**
Address	664	98.20%
Date Joined Fund	0	100.00%
Date of Birth	4	99.99%
Forenames	8	99.98%
Ident 2	109	99.70%
NI Number	8	99.98%
Sex	19	99.95%
Format of Hours	31	99.92%
Surname	0	100.00%
Title	9	99.98%
Missing Serv Casuals	1633	0.00%
Total	**2485**	**99.33%**
Membership tested		**36933**

Deferred Membership		
Data type	**No. failed**	**Completeness %**
Address	5948	84.48%
Date Joined Fund	6	99.98%
Date of Birth	4	99.99%
Forenames	10	99.97%
Ident 2	0	100.00%
NI Number	56	99.85%
Sex	0	100.00%
Format of Hours	0	100.00%
Surname	0	100.00%
Title	1	100.00%
Total	**6025**	**98.43%**
Membership tested		**38334**

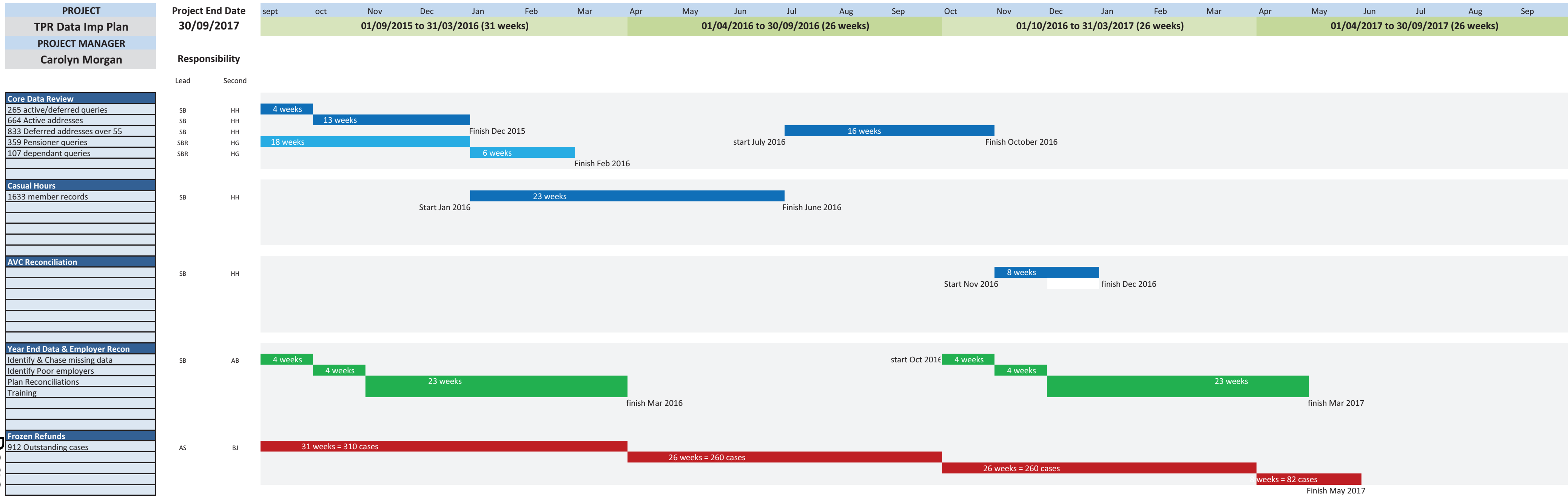
Pensioners Membership		
Data type	**No. failed**	**Completeness %**
Address	344	98.55%
Date Joined Fund	0	100.00%
Date of Birth	0	100.00%
Forenames	13	99.95%
Ident 2	0	100.00%
NI Number	1	100.00%
Sex	1	100.00%
Format of Hours	0	100.00%
Surname	0	100.00%
Title	0	100.00%
Total	**359**	**99.85%**
Membership tested		**23681**

Dependants Membership		
Data type	**No. failed**	**Completeness %**
Address	59	98.43%
Date Joined Fund	0	100.00%
Date of Birth	0	100.00%
Forenames	9	99.76%
Ident 2	0	100.00%
NI Number	37	99.01%
Sex	2	99.95%
Format of Hours	0	100.00%
Surname	0	100.00%
Title	0	100.00%
Total	**107**	**99.71%**
Membership tested		**3747**

Combined Membership Results		
Data type	**No. failed**	**%**
Address	7015	93.17%
Date Joined Fund	6	99.99%
Date of Birth	8	99.99%
Forenames	40	99.96%
Ident 2	109	99.89%
NI Number	102	99.90%
Sex	22	99.98%
Format of Hours	31	99.97%
Surname	0	100.00%
Title	10	99.99%
Missing Serv Casuals	1633	98.41%
Total	**8976**	91.26%
Membership tested		**102695**

-99.9327

-99.9126



Resource Assumptions

Core data 2.5 days x 30 queries = 75 cases per week
Addresses 2.5 days x 20 queries = 50 cases per week
Casual hours 2.5 days x 30 queries = 75 cases per week
Frozen Refunds 10 per week based on average of cleared
AVC queries 2.5 days x 30 queries = 75 cases per week

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Appendix C

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Out as % of membership
ACTIVES Total = 36933					
Addresses				664	1.2
Forename				8	0.02
Surname				0	0
Date of birth				4	0.01
NI Number				8	0.02
Title				9	0.02
Sex mismatch				19	0.05
Format of hours				31	0.08
Date joined Fund missing				0	0
Payroll ref missing				109	0.03
CARE pay missing					
Leaver forms missing					
Leaver forms in error					
Casual hours missing				1633	4.42
Starters in error					
Starters missing					
AVC reconciliation				467	1.26
DEFERREDS Total = 38334					
Addresses				5948	15.52
Forename				10	0.03
Surname				0	0
Date of birth				4	0.01
NI Number				56	0.15
Title				1	0.01
Sex mismatch				0	0
Format of hours				0	0
Date joined Fund missing				6	0.02
Historic refunds				912	n/a
PENSIONERS Total = 23681					
Addresses				344	1.45
Forename				13	0.05
Surname				0	0
Date of birth				0	0
NI Number				1	0.01

Title				0	0
Sex mismatch				1	0.01
Format of hours				0	0
Date joined Fund missing				0	0
DEPENDANTS Total = 3747					
Addresses				59	1.57
Forename				9	0.24
Surname				0	0
Date of birth				0	0
NI Number				37	0.99
Title				0	0
Sex mismatch				2	0.05
Format of hours				0	0
Date joined Fund missing				0	0

Appendix D

Monthly Contribution Return - Late Payers

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Clifton Suspension Bridge	April	**1**	1	4,584.29	Value / days late not material.	
Thornbury Town Council	April	**1**	1	5,389.95	Value / days late not material.	
Backwell Parish Council	April	**5**	1	907.24	Value / days late not material.	
Hanham Abbots Parish Council	April	**5**	1	185.81	Value / days late not material.	
Almondsbury Parish Council	April	**13**	1	654.10	Value / days late not material.	Staffing issues. Assisted by phone & e-mail
Clifton Suspension Bridge	May	**4**	2	4,174.84	Value / days late not material.	
Almondsbury Parish Council	June	**1**	2	673.23	Value / days late not material.	Staffing issues. Assisted by phone & e-mail
BAM Construction	June	**1**	1	4,018.66	Value / days late not material.	
Patchway Parish Council	June	**5**	1	3,210.86	Value / days late not material.	
Total Days		**36**		**23,798.98**		
Total Contributions in Quarter				**£38,186,000**	**Late Payments as Percentage of total 0.06%**	

All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment. Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.

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Appendix E

IDRP

From April 2015

AVON PENSION FUND STAGES 1 and 2

STAGE 1	Reason		Stage 1 Form received	**Date For Review Completion**
	Value of Benefits		17/08/2015	**16/10/2015**

Employer Stage 1 - Avon PF Stage 2

STAGE 2	Reason	Employer for Stage 1	Stage 2 Form received	**Date For Review Completion**
	Ill Health	Merlin	07/07/2015	**05/09/2015**
	Calculation of Pay [APP]	Bristol	24/08/2015	**23/10/2015**

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ANNEX 1

TPR regulatory requirements

Records of member and beneficiary information

All the criteria from part 4 of the Regulations has been taken and a report written (Appendix A) to show completeness of data in the following areas:

Section	Criteria	Report highlights if:
4.1a	the name of each member and of each beneficiary	missing or just initials present
4.1b	the date of birth of each member and of each beneficiary	Field is blank, member is under 16 or over 75 (actives and deferreds)
4.1f	the national insurance number of each member who has been allocated such a number	Field is blank, incorrect format, temporary NI number and they are over 16
4.1d	the last known postal address of each member and of each beneficiary	report picks up missing address line 1 or postcode and gone away indicator set
4.1c	the gender of each member and of each beneficiary	Sex & Title – blank and mis-match
4.1e	each member's identification number in respect of the scheme	Ident 2 – payroll reference missing for active members
4.1g	in respect of each active member, deferred member and pensioner member (i) the dates on which such member joins and leaves the scheme (ii) details of such member's employment with any employer participating in the scheme including: (aa) the period of pensionable service in that employment	date joined fund blank hours showing as a % or incorrect format

Data that is required by the Regulations but not included in the core data report are listed below together with how they will be reported:

Section	Criteria	How we will report
4.1g	in respect of each active member, deferred member and pensioner member	
	(i) the dates on which such member joins and leaves the scheme	The core report shows start date but not leaving date. A record cannot be moved from active without a leaving date.
	(ii) details of such member's employment with any employer participating in the scheme including:	From Year End exercise and from iConnect updates identify and report on missing starter and leaver forms.
	(aa) the period of pensionable service in that employment	Period of pensionable service is recorded in hours for the final salary scheme. The core report picks up any hours in the incorrect format but cannot check for accuracy. The report does also not show missing hours for casual workers which are generally not updated until the member leaves. An exercise to complete all missing casual hour data will be part of the improvement plan
	(bb) the amount of pensionable earnings in each year of that employment	Pensionable earnings are updated either annually as part of the year end process & monthly as part of the iConnect update. Missing data could be due to missing leaver forms or incomplete data from the

		employer at year end. Following the Year End exercise employers will be chased to clear all missing data.
4.2	In respect of each member's rights and, where applicable, of each beneficiary's entitlement, to any benefits which are not money purchase benefits, injury benefits or compensation benefits under the scheme, the records which are specified are: (a) any formula or formulas used for calculating the member's or beneficiary's pension or benefit (b) the percentage to be applied in respect of revaluation for each year to the member's accrued rights to benefits under the scheme (c) any increase to be applied to the pensioner member's or beneficiary's pension or benefit in payment in each year	 link to relevant GAD guidance from TPR control spreadsheet link to Pensions Increase tables & revaluation treasury order from the TPR control spreadsheet link to Pensions Increase tables & revaluation treasury order from the TPR control spreadsheet
4.3	In respect of each member's rights to any money purchase benefits under the scheme, the records which are specified are: (a) any investment decisions taken by, or in relation to, the member; (b) any investments held on behalf of the member; and (c) any anticipated date of retirement notified by the member	 all of these are held by Equitable Life & Friends Life in respect of our AVC members, however we will undertake a reconciliation exercise for all AVC members
4.4 & 4.5	In respect of pension credits & debits under section 29(1)(b) of the Welfare Reform and Pensions Act 1999(b) (creation of pension debits and credits) or	link to procedure for dealing with pensions debit from TPR control spreadsheet. This process ensures that the correct details are updated on the system.

	under article 26(1)(b) of the Welfare Reform and Pensions (Northern Ireland) Order 1999(c) (creation of pension debits and credits), the records which are specified are records of any information relevant to calculating each member's rights under the scheme which are attributable (directly or indirectly) to a pension credit.	

ANNEX 2

TPR regulatory requirements

Records of transactions

Part 5 of the regulations specifies the requirements for the recording of transactions. Each requirement is specified in the table below along with the process by which the Fund is complying.

Section	Requirement	Compliance
5a	Employer's contributions & Employee's contributions relating to each active member.	Employer's & Employee's contributions per employer are recorded on the Council's Financial Management System. Employee's contributions per Employee are recorded on Altair.
5b	Payment of Pensions & Benefits (including date of payment)	Full details are recorded on Altair payroll.
5c	Payments other than for Pensions Benefits or Leavers (including name and address of recipient and reason).	In the event that this should occur full details of the transaction would be recorded in the Council's Financial Management System.
5d	Transfer of assets (including name, and address of recipient and reason). We understand "assets" to mean an individual member's pension pot.	Full details are recorded on Altair payroll and / or the Council's Financial Management System.
5e	Receipts or payments of money or assets in respect of member transfers (including members name, terms, sending / receiving scheme, date of transfer, date of payment / receipt).	Full details are recorded on Altair payroll and / or the Council's Financial Management System.
5f	Payments to Leavers other than by transfer (including members name, date of leaving, entitlement, calculation of entitlement, method of payment.	Full details are recorded on Altair payroll and the Council's Financial Management System.
5g	Payments to any employers participating in the scheme.	Full details are recorded on the Council's Financial Management System.

5h	Write off of amounts due to the scheme.	In the case of invoiced debtors full details are recorded on the Council's Financial Management System. If material a note would be made to the accounts.
5i	Other payments to the scheme (including name and address of payee and relevant member if applicable).	Full details are recorded on the Council's Financial Management System and Altair.

Reconciliations between the Council's Financial Management System and Altair.

The Altair system holds detailed member records including their contributions, benefits payments and any transfers. The Council's Financial Management System holds records of all financial transactions.

Most financial transactions in the Financial Management System are aggregated. The receipt of contributions from a single employer will include the contributions for all their members. The payment of thousands of pensioners will be covered by a single BACS payment.

Reconciliations between Altair and the Financial Management System ensure that the data on Altair reflects the financial transactions shown on the Council's Financial Management System and that the transactions shown on the Financial Management System are backed up with the necessary details on Altair.

The Pension Fund's section of the Council's Financial Management System is further reconciled to the Pension Fund's bank account to ensure that it reflects the actual transactions (and only the actual transactions) that have occurred.

Maintaining contributions

The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

The Fund maintains a record of late payments showing the due date and actual date of payment, the amount of payment, and the reason for the delay.

Late payments have previously been reported to Committee if they were in excess of £3,000 and more than an aggregate total of nine days late in three months. In future all late payments will be reported in the following format:-

Employer	Payroll Month	Days late	Cumulative Occasions	Amount	Significance	Reason / Action
ABC Academy	June	2	2	£16,000	Not materially significant.	Informed of late payment.
DEF Town Council	April	17	1	£2,300	Time / value significant	Staffing issues. Advised to amend their payment authorisation procedures.
	Total days	**19**	**Total amount**	**£18,300**		
			Total Contributions in Quarter	**£31,200,000**	**Late Payments as % of total**	**0.06%**

All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment.

Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.

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The Pensions Regulator requirements – Communications

ANNEX 3

Key information to be provided to members of public service pension schemes

Information	Guidance	Requirement	APF response	Commentary
Annual benefit statement – active members	Must contain: • a description of benefits earned by the person in respect of their pensionable service • other information specified by Treasury directions	Statements to be issued annually	100%	ABS statement (paper version) posted to all active members by 31 August ABS statement available online to members signed up to “my pension online” (member self-service) ICT strategy – move to online ABS fully 2016. Paper version still available upon request ABS statement also contains scheme information/updates
Benefit statement (upon request)	Must contain: • the amount of any benefits (and how they are calculated) payable on a specified date if the member were to die in service • the amounts of member’s benefits and survivor’s benefits that would be payable from the date benefits are payable if pensionable service were to end on either a date specified by the scheme manager, a date agreed	Within two months of the request, if not already provided within the previous 12 months upon request	100%	Benefits statement provided in post within two months of request ICT strategy – provide statements/calculations/estimates on “my pension online” during 2016

	between the scheme manager and member or, the date when the member reaches normal pension age • the amount of the member's pensionable remuneration on a date specified by the manager of the scheme • the date pensionable service started • a summary of the method for calculating member's benefits and any survivors' benefits • how any deduction from benefits is calculated			Self-service elements of "my pension online" allow members to do their own projections
Deferred (upon request)	Must contain: • the date pensionable service started and ended • a summary of the method for calculating member's benefits and any survivors' benefits • how any deduction from benefits is calculated • the amount of member's benefits and survivors' benefits payable from the date benefits are payable • the amount of pensionable remuneration on the date pensionable service ended	Within two months of the request, if not already provided within the previous 12 months	100%	As above
Pension credit (upon request)	Must contain: • the amount of member's benefits and survivors' benefits payable from the date benefits are payable • a summary of the method for calculating the member's benefits and any survivors' benefits • how any deduction from benefits is calculated	Within two months of the request, if not already provided within the previous 12 months	100%	As above
Basic scheme information (upon	Information must be provided to members and, where practicable to prospective members. Beneficiaries, spouses and civil partners of members and prospective members and trade	Members and prospective members: where the managers	100%	Scheme guides and factsheets available as hard copies and online via the APF website – these cover all the

request)	unions must be given information on request, provided that the information has not already been given in the last 12 months. The information to be provided is: • who may become a member of the scheme, under what conditions, and how they are admitted to membership • a summary of the treatment of accrued rights when a member leaves the scheme, including whether those rights can be transferred, commuted or annuitised and any charges associated with those options, together with a statement that further information is available on request • whether the scheme has, or has applied for, tax registered status • whether the scheme will accept transfers from other arrangements • any arrangements for the payment of AVCs by members • a summary of the way in which member and employer contributions are calculated • a statement of the role of The Pensions Advisory Service, the Pensions Ombudsman and The Pensions Regulator in relation to the scheme, and details of the electronic and postal address of each of those bodies • a statement of the period of notice (if any) which a member must give to terminate pensionable service, and whether and on what conditions a member whose pensionable	have received jobholder information, the information must be provided within one month of receiving that information. Where they have not received jobholder information, it must be provided within two months of the date the person became an active member. Where a request is received information must be provided within two months, if it has not already been provided within the previous 12 months		required elements outlined Information also provided in correspondence (letter/email) upon request Newsletters are posted twice a year to active members containing regulation updates and scheme information. ICT strategy – ability to update and email members (via “my pension online”) with latest scheme updates/information

	service has terminated may re-enter membership of the scheme • a summary of the benefits payable under the scheme, including details of how they accrue, what definition is used (if any) for pensionable earnings, how benefits are calculated, when and on what conditions they are payable, and how they increase in payment • where benefits include DC benefits, a statement that the pension payable will depend on several factors including contributions paid, investment returns and annuity rates; • details of the scheme's dispute resolution arrangements, including the job title and address of the person who should be contacted should a person wish to use those arrangements			
Scheme information that has materially altered	Changes to the basic scheme information as described above must be provided to members and beneficiaries, and to recognised trade unions who have been given the basic scheme information. Changes to basic scheme information need be provided to other persons only where the change is relevant to that person's rights or prospective rights under the scheme	Before or as soon as possible after the change takes effect, and within three months of the change taking effect at the latest	100%	Scheme changes update on APF website Member newsletters (twice a year) also contain scheme change information. Direct communication (usually via post) available if any change relating to specific member's rights – for example a mailshot re: joining of records
Constitution of the	Details of the instrument under which the scheme is established, and (if different) a copy of the rules	Within two months of the request	100%	Full guides to the LGPS scheme available online via

scheme (upon request)	governing the scheme, together with the name and postal and electronic address of each scheme employer			APF website or as hard copy on request
Transfer credits (upon request)	Whether the member is entitled to acquire transfer credits in exchange for a cash equivalent or transfer payment from another scheme, and if so a statement of the transfer credits the member is entitled to acquire	Within two months, if it has not already been provided within the previous 12 months	100%	Providing all relevant information received and legislation/guidance in place

Add in link to the Communications Policy??
Add in link to the ICT Strategy??

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 SEPTEMBER 2015**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Minutes from Investment Panel meeting held 11 September 2015 [TO FOLLOW]

Exempt Appendix 2 – Exempt Minutes from Investment Panel meeting held 11 September 2015 [TO FOLLOW]

Exempt Appendix 3 – Recommendations from Currency Hedging Review

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has held one formal Investment Panel meeting since the June 2015 committee meeting, on 11 September 2015. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in Appendix 1 and Exempt Appendix 2. The recommendations and decisions arising from these meetings are set out in paragraph 4.1 and Exempt Appendix 3.

2 RECOMMENDATION

That the Committee:

2.1 Notes the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1

2.2 Agrees the recommendations on currency hedging at 4.1 2) a), and points 1), 2) and 3) in Exempt Appendix 3

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 The following decisions and recommendations were made by the Panel since the last quarterly activity report:

Investment Panel Meeting, 11 September 2015:

(1) **Managing Liabilities**: The Committee requested that the Panel review the range of investment options available to more effectively manage liability risks, how they may be implemented and the potential cost. Having considered a report from Mercer, the Panel agreed the next steps would be as follows:

a) For the Committee to consider increasing the Fund's allocation to Index Linked Gilts above the current range to allow current allocations within gilts and overseas bonds to be allocated to index linked gilts (ILG).

Given the limited time since the Panel meeting, the rationale for this will be considered in full at the December committee meeting. In the meantime, under the Panel's delegated powers, the switch to ILG will be implemented as far as it can within the permitted allocation ranges.

b) The Panel will continue to consider the options for liability management and have requested further information from the consultant before making full recommendations to Committee.

(2) **Review of strategic hedging of currency exposure**: The Panel reviewed the Fund's decision to hedge its currency exposure given the programme has been in place for over three years. Having considered a report produced by Mercer the Panel made the following recommendations:

a) Recommendation - That the Fund should continue to strategically hedge its exposure to currency risk.
Rationale – Currency risk is unrewarded and leads to volatility of sterling returns. Currency hedging can efficiently reduce volatility from currency risk.

Details on further recommendations are included in Exempt Appendix 3.

5 INVESTMENT PANEL DELEGATION

5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

2. Review the Statement of Investment Principles and submit to Committee for approval.

3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.

5. Approve investments in emerging opportunities within strategic allocations.

6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.

7. Approve amendments to investment mandates within existing return and risk parameters.

8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.

9. Delegate specific decisions to Officers as appropriate.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1279/15

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: **25 SEPTEMBER 2015**

Author: Matt Betts
Report Title: Item - Investment Panel Activity List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 11 September 2015 Exempt Appendix 2 – Exempt Minutes from Investment Panel meeting held 11 September 2015 EXEMPT Appendix 3 - Recommendations from Currency Hedging Review.

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt report and appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Performance Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2015**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 June 2015)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Annual Investment Review Exempt Appendix 3 – Changes in RAG status of Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 June 2015.

1.2 The main body of the report comprises the following sections:

Section 4. Funding Level Update
Section 5. Investment Performance: A - Fund, B - Investment Managers
Section 7. Investment Strategy
Section 8. Portfolio Rebalancing and Cash Management
Section 9. Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 4**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2013 will affect the next triennial valuation in 2016. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) The funding level has fallen 1% over the quarter from 78% to c. 77% and the deficit has risen slightly from c. £1.07bn to c. £1.1bn.

(2) The deterioration over the quarter was largely due to negative asset returns over the quarter despite a rise in the discount rate from 3.9% to 4.3% reducing the value of liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets decreased by £99m (a return of -2.6%) in the quarter, giving a value for the investment Fund of £3,730m at 30 June 2015. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns
Periods to 30 June 2015

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	-2.6%	7.9%	10.9%
Avon Pension Fund (excl. currency hedging)	-3.0%	7.6%	10.5%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	-2.5% *(-0.1%)*	8.1% ***(-0.2%)***	9.7% *(+1.2%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	-2.5% *(-0.1%)*	8.2% ***(-0.3)***	10.8% *(+0.1%)*

5.2 **Fund Investment Return:** All Equity markets produced negative returns over the quarter in Sterling terms. Asia Pacific was the worst performing region (-8%) whilst the UK All Share Index fell by -1.6%. Bond yields rose sharply across all maturities leading to negative returns from Gilts (-6.3%) and Corporate Bonds (-3.9%).

5.3 Over 3 years all asset classes outperformed their strategic return assumption, with the exception of Emerging Market equities, hedge funds and overseas fixed interest.

5.4 **Fund Performance versus Benchmark: -0.2% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **0.1%** over the 12 months. This was due to the underweights to Hedge Funds and Diversified Growth, and an overweight in developed overseas equities. The currency hedging programme contributed **0.3%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance detracted -**0.6%** of the outperformance over the 12 month period, relative to the strategic benchmark, driven by under performance in overseas equities, hedge funds and property versus their individual benchmarks despite strong manager outperformance in UK equities.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund marginally underperformed the average fund.

5.6 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme has contributed +0.4% to the total Fund return over the quarter and added 0.3% over the year.

B – Investment Manager Performance

5.7 Eleven mandates met or exceeded their three year performance benchmark, which offset underperformance by Partners, Signet and Schroder Global Equity. SSgA, RLAM, and Jupiter all continue to perform particularly well against their three year performance targets.

5.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **This quarter TT has been upgraded from Amber to a Green rating (explained in Exempt Appendix 3).** Currently 2 managers are amber rated, Schroder (global equity), and Signet (fund of hedge funds). It should be noted that the Fund has terminated its mandate with Signet.

6 INVESTMENT STRATEGY

6.1 Infrastructure: The Fund's investments in infrastructure are awaiting drawdown by the selected manager IFM who anticipate the funds being drawn down over the next 12 to 18 months.

6.2 The Investment Panel is undertaking a review of the Fund's management of liability risk which will form a significant part of the workplan over the coming months.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires automatic rebalancing between the allocations to Liquid Growth (equities and diversified growth funds) and Stabilising (Bonds) assets when the liquid growth portion deviates from 75% by +/- 5%. Tactical rebalancing is allowed between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 The Equity (inc. DGFs):Bond allocation is estimated to be 75.2: 24.8 at 26 August 2015 which is within the acceptable range, requiring no action.

Cash Management

7.3 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

7.5 The Fund continues to deposit internally managed cash on call with NatWest, Bank of Scotland and Svenska Handelsbanken. The Fund also deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated). Another AAA rated fund with Deutsche Bank is also available for deposits if required. The Fund also has access to the Government's Debt Management Office, however the interest paid currently may not cover the transfer and administration costs incurred.

7.6 During the period there were no breaches of the Fund's Treasury Management Policy (approved June 2015).

7.7 The 2015/16 Service Plan forecast an average cash outflow of c. £2m each month during the year to 31 March 2016. Unbudgeted inflows during the year including a deficit termination payment and expected reduced outflows have led to a revised cash flow forecast for the whole year of a £7m outflow.

8 CORPORATE GOVERNANCE UPDATE

8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	578
Resolutions voted:	9,238
Votes For:	8,823
Votes Against:	380
Abstained:	54
Withheld* vote:	46

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

10 EQUALITIES

10.1 An Equality Impact Assessment has not been completed as this report is for information only.

11 CONSULTATION

11.1 This report is for information and therefore consultation is not necessary.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	LAPPF Member Bulletins, Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND VALUATION - 30 JUNE 2015

	Passive Multi-Asset	**Active Equities**					**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**	**DGFs**		**Property**		**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Pyrford	Standard Life	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																	
UK	222.1	187.0	168.1			34.6										611.8	16.4%
North America	207.8					114.4										322.2	8.6%
Europe	160.5					38.3		41.5								240.3	6.4%
Japan	48.2					23.7		43.3								115.2	3.1%
Pacific Rim	50.8					7.1		33.2								91.1	2.4%
Emerging Markets				152.1	181.4	20.7										354.2	9.5%
Global ex-UK							273.9									273.9	7.3%
Global inc-UK															23.8	23.8	0.6%
Total Overseas	***467.3***	***0.0***	***0.0***	***152.1***	***181.4***	***204.2***	***273.9***	***118.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***23.8***	***1420.7***	**38.1%**
Total Equities	**689.4**	**187.0**	**168.1**	**152.1**	**181.4**	**238.8**	**273.9**	**118.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**23.8**	**2032.5**	**54.5%**
DGFs											**121.5**	**241.0**				**362.5**	**9.7%**
BONDS																	
Index Linked Gilts	231.2															231.2	6.2%
Conventional Gilts	104.4															104.4	2.8%
Corporate Bonds	20.6								298.7							319.3	8.6%
Overseas Bonds	104.9															104.9	2.8%
Total Bonds	**461.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**298.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**759.8**	**20.4%**
Hedge Funds										163.0						**163.0**	**4.4%**
Property													174.0	140.4		**314.4**	**8.4%**
Cash	5.2	11.5	10.0			4.0							9.8		57.4	**97.9**	**2.6%**
TOTAL	**1155.7**	**198.5**	**178.1**	**152.1**	**181.4**	**242.8**	**273.9**	**118.0**	**298.7**	**163.0**	**121.5**	**241.0**	**183.8**	**140.4**	**81.2**	**3730.1**	**100.0%**

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HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2015

AUGUST 2015

MAKE TOMORROW, TODAY MERCER

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

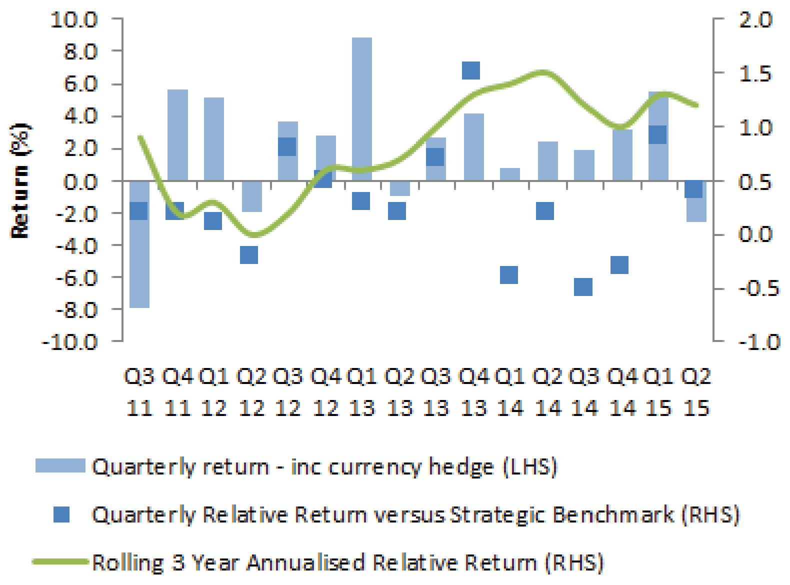
CONTENTS

SECTION 1
EXECUTIVE SUMMARY

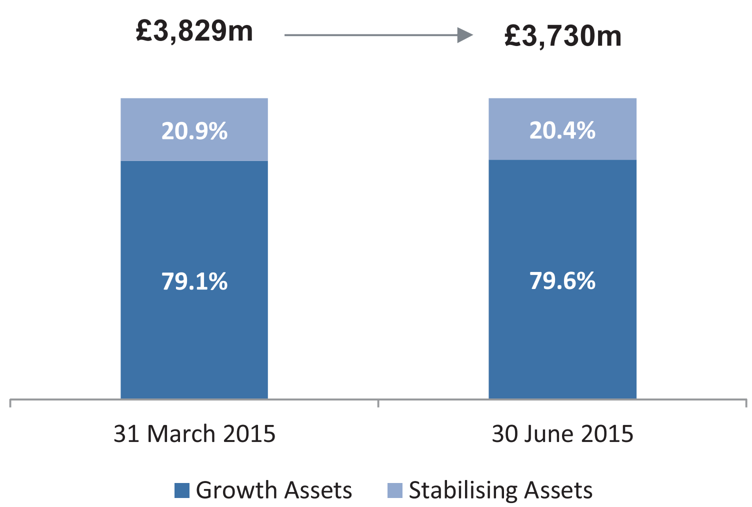
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-2.6	7.9	10.9
Total Fund (ex currency hedge)	-3.0	7.6	10.5
Strategic Benchmark (no currency hedge)	-2.5	8.1	9.7
Relative (inc currency hedge)	**-0.1**	**-0.2**	**+1.2**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) decreased from £3,829m (31 March 2015) to £3,730m.

This decrease was due to the negative performance from most asset managers, as both equity and bond markets fell over the quarter.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes with the exception of developed market equities which are overweight (although their overweight allocation will be reduced once the infrastructure investments are drawn down).

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund ("the Fund"), to assess the performance and risks of the Fund's investments.

Funding level

- The estimated funding level decreased by c. 1% over the second quarter of 2015, primarily due to negative asset returns over the quarter, despite a rise in the valuation discount rate (decreasing liabilities).

Fund performance

- The value of the Fund's assets decreased by £99m over the quarter, to £3,730m at 30 June 2015. The Fund's assets returned -2.6% over the quarter (-3.0% excluding the Record currency hedging mandate, given the appreciation of sterling over the quarter), as a result of falls in both equities and bonds. This underperformed the strategic benchmark return of -2.5% (although note that the strategic benchmark has a 10% allocation to hedge funds, which outperformed the overall benchmark over the quarter).

Strategy

- Global (developed) equity returns over the last three years at 14.6% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest over the next three years.

- The three year return from emerging market equities has risen to 5.0% p.a. from 3.7% p.a. last quarter. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening US$ on many emerging economies. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

Strategy (continued)

- UK government bond returns over the three years to 30 June 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 5.3% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 7.4% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high. Whilst from an absolute return perspective government bonds remain unattractive due to the low yields available, we continue to believe that their value in the context of the overall portfolio is important from a liability risk management perspective.
- UK Corporate bonds also performed strongly, returning 6.6% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns of 12.6% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- Looking forward, our medium term view for the prospects for corporate bonds remains unattractive. Given the fall in liquidity in bond markets in recent years, as a result of increased regulation, subdued lending and central bank quantitative easing, bond markets in the short term are likely to be volatile. We believe this presents opportunities for more active "absolute return" or multi-asset credit managers.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect 'alpha' driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward.

EXECUTIVE SUMMARY

Managers

- Absolute returns over the quarter were mixed but generally negative as equities and bonds both produced negative returns over the quarter, although both Jupiter and TT International generated positive returns in the face of the falling UK equity market. The Schroder UK Property fund's return for the quarter was strong as the property market continued to improve. The lowest absolute returns were from the SSgA Europe ex-UK Enhanced Indexation fund, at -6.3%.
- Returns over the year were more positive. The Fund's global equity mandates in particular fared well, with Invesco returning 11.8% (0.5% above benchmark), and Schroder returning 10.0%. Schroder UK Property produced the highest absolute return at 15.2% over the year, whilst the weakest performance was from the Genesis Emerging Market Equities mandate which returned -0.1%.
- Over three years, all funds produced positive returns (with the exception of Signet), with Pyrford, Partners Group and Signet failing to beat their benchmarks (although see comments on the measurement of Partners Group's performance later). In addition, Schroder (Global Equity) failed to achieve its three-year performance objective despite beating their benchmark. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- Over the coming months the Fund will be reviewing its policies on rebalancing, the use of opportunistic assets / tactical asset allocation and currency hedging, together with reviewing the alignment of the Fund’s assets and liabilities, and ways to better manage liability risk.
- The Schroder Global Equity mandate continues to underperform its performance objective over three years, and over three months and one year has lagged its benchmark. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity).
- The absolute performance of the Partners Group global property investment may be misleading given the long-term, value-add and opportunistic approach they take, and the up front costs incurred from investments of this nature - the net internal rate of return (which is in line with expectations) is a more meaningful measure.
- Pyrford’s performance since inception has lagged its return objective. This is due to the manager’s very defensive positioning (see page 35).

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SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Global equities were roughly flat, returning -0.2% in local currency terms. However, for unhedged sterling investors, the outcome was a negative return of -5%, driven by the sharp appreciation of sterling. Global small cap stocks, as measured by the FTSE World Small Cap Index, posted a local currency return of 1.3% with a corresponding fall of 4.4% in sterling terms, outperforming the broader market over the quarter.

Asia Pacific was the worst performing region, delivering a loss of 8% in sterling terms and 2.7% in local currency terms. European equities detracted by almost 6% in sterling terms (-3.8% in local currency), a fall that has mostly been attributed to investors' concern about Greece and potential spillovers. Compared to the other key regions, the Japanese market continued to deliver the highest returns over the year to date. In the second quarter it posted a return of 5.6% in yen terms (a 2.3% fall in sterling terms), against the backdrop of continued extraordinary monetary stimulus, government pension fund rebalancing into equities, and government's commitment to structural reforms.

In the UK, the FTSE All-Share index fell by 1.6% over the quarter, dragged down by the FTSE 100 index which fell by 2.8%. The underperformance of large cap stocks was offset by the FTSE 250 and FTSE Small Cap indices, which delivered positive total returns of 3.6% and 2.6%, respectively.

Bond Market Review

After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities, resulting in negative returns for investors.

UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.

The real yield curve also shifted up, although by less than the nominal curve, resulting in a degree of normalisation of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 Year Index-Linked Gilts index.

Total returns from global credit were -6.4% in the second quarter in sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

Currency Market Review

The European Central Bank continued to inject money into the financial system, while the Bank of Japan remained dedicated to its Quantitative Easing program. This caused sterling to appreciate over the quarter against the yen and the euro by 8.1% and 2.1%, respectively. Sterling appreciated against the US dollar by 5.9%, fuelled by weaker than expected economic data in the US.

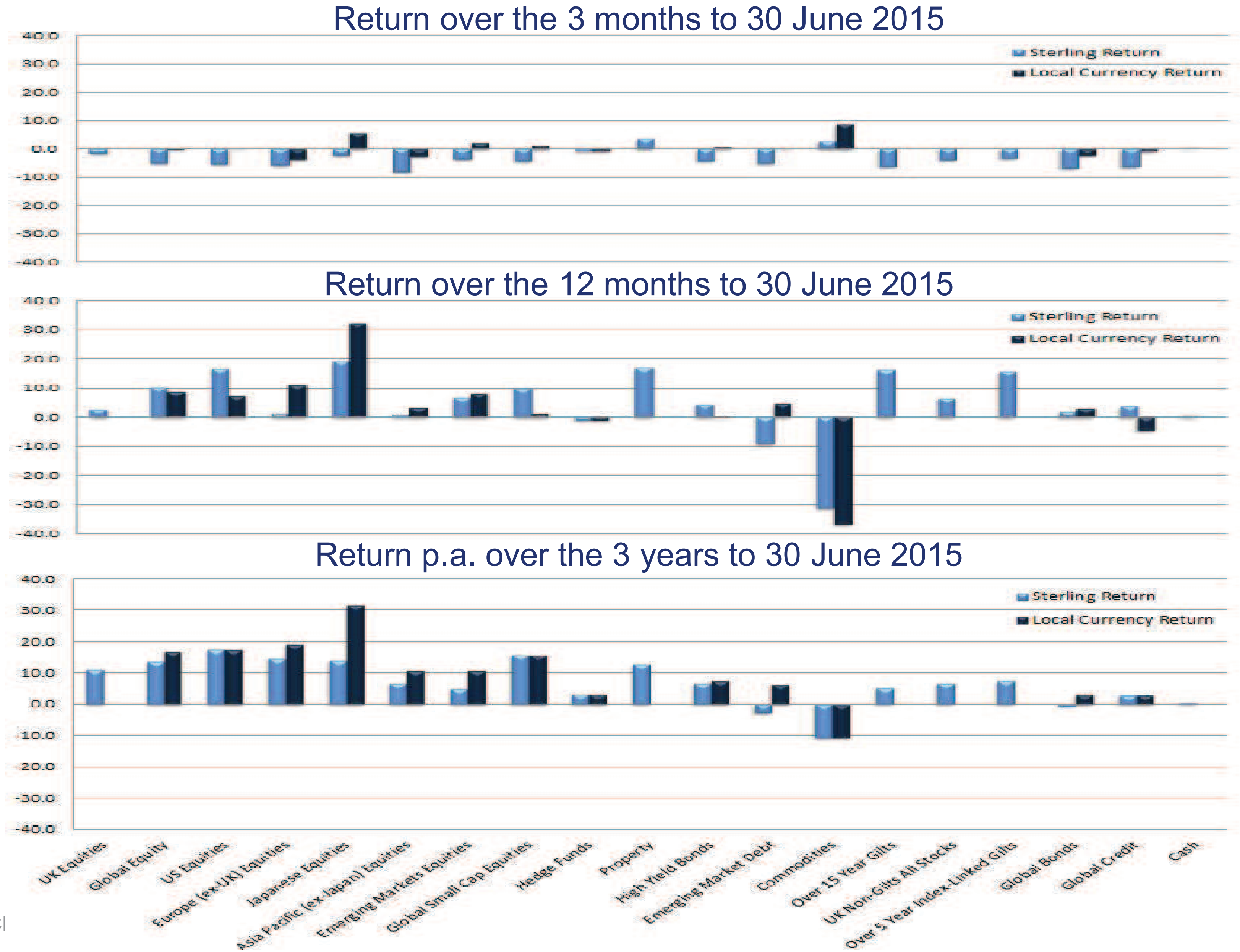
Commodity Market Review

The energy sector (followed by agriculture) led the quarter's rebound in commodities, which posted a return of 8.7%. Total returns from Industrial & Precious Metals returned -5.5% and -1.7% respectively.

Gold prices fell marginally during each of the three months in the second quarter. After a sharp sell-off in the second half of 2014 and early 2015, oil prices stabilised and traded around the $60 mark per barrel for most of the second quarter of this year.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

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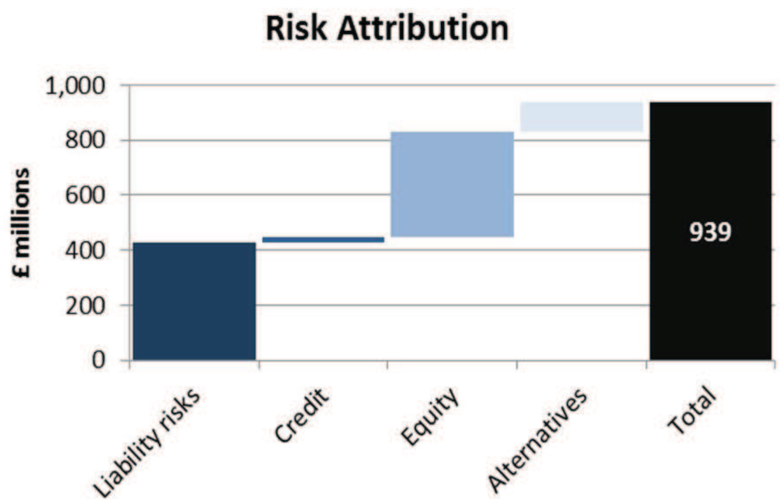
SECTION 3

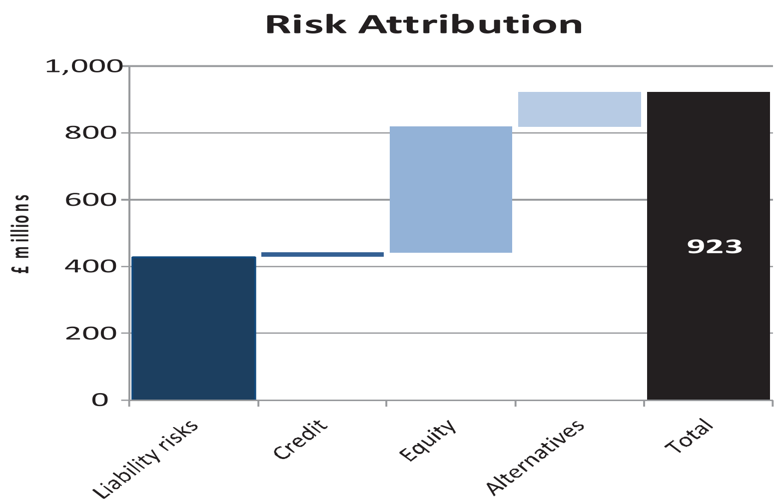
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

31 March 2015



30 June 2015



The two charts to the left illustrate not only the main risks the Fund is exposed to (which is why the funding position is volatile) but also the size of these risks in the context of the deficit position.

The purpose of showing these charts is not to alarm, rather to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the "big picture".

The black column on the right hand side of each chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider the worst case outcome which has a 1 in 20 chance of occurring, what would be the impact on the deficit relative to our "best estimate" of what the deficit would be in one years time.

If we focus on the chart at 30 June 2015, the chart shows that if a 1 in 20 "downside event" occurred, we would expect that in one year's time, the deficit would increase by an additional **£923m** on top of the current deficit.

Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of equity markets and alternative assets and increasing longevity).

The two charts show a decrease in one-year risk over the quarter of c£16m from **£939m** to **£923m**, largely as a result of the decrease in the size of the liabilities.

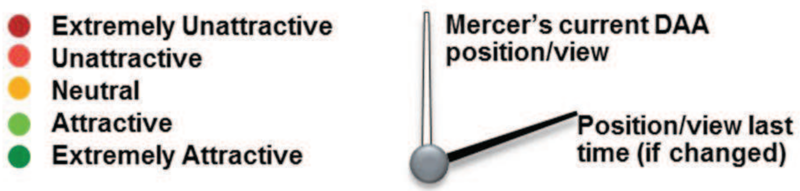
The contributions to the total risk from the various return drivers have as expected, changed little. Liability risks (i.e. interest rate) and equity market risk dominate.

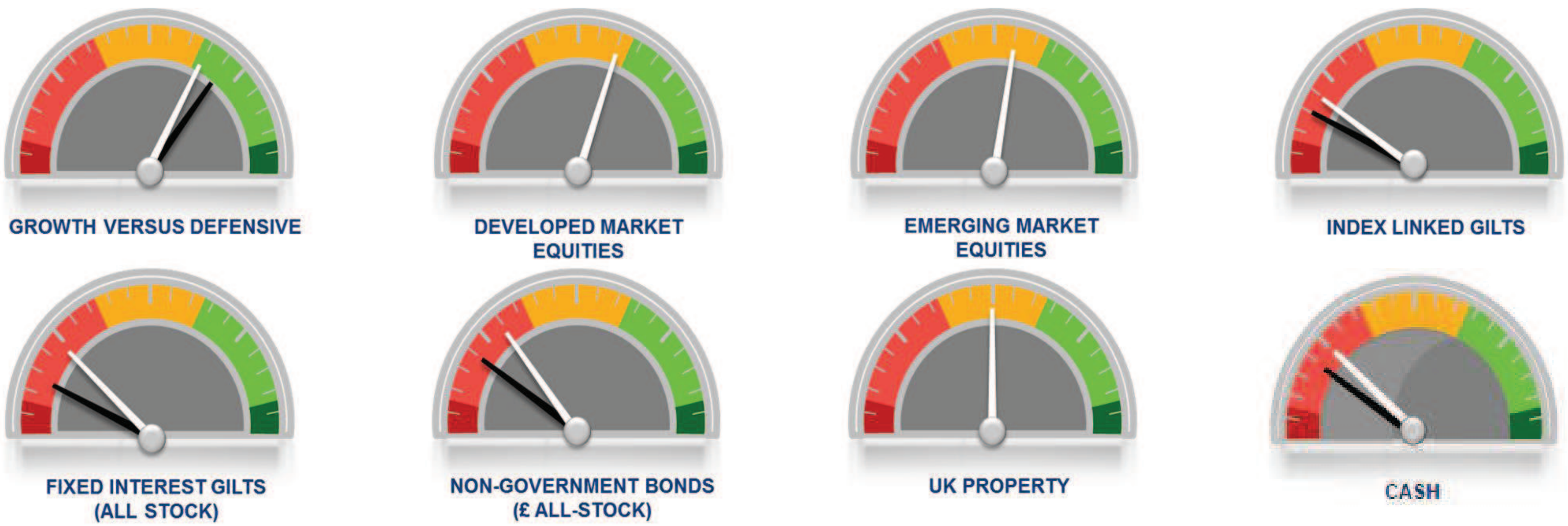
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	14.6	*Remains significantly ahead of the assumed strategic return.* *This has decreased from 15.4% p.a. last quarter as the latest quarter's return of -5.2% was lower than the -3.1% return of Q2 2012, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	5.0	*The 3-year return from emerging market equities has risen from 3.7% p.a. last quarter with the Q2 2012 performance (which dropped out of the index) being -7.3%, significantly lower than the Q2 2015 return. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 7.3	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	5.3	*Bond returns remain above the long term strategic assumed return as yields remain depressed relative to historic averages. Returns have reduced compared to the previous quarter as a result of the rise in yields (and hence negative total returns) experienced in the last quarter.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	7.4	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	6.6	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	-2.6	*Well behind the assumed strategic return and three-year performance has moved back into negative territory this quarter as result of the rise in global bond yields.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	3.3	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but recent returns have improved slightly given signs of volatility emerging.*
Property (IPD UK Monthly)	7.0	12.6	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2015





These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

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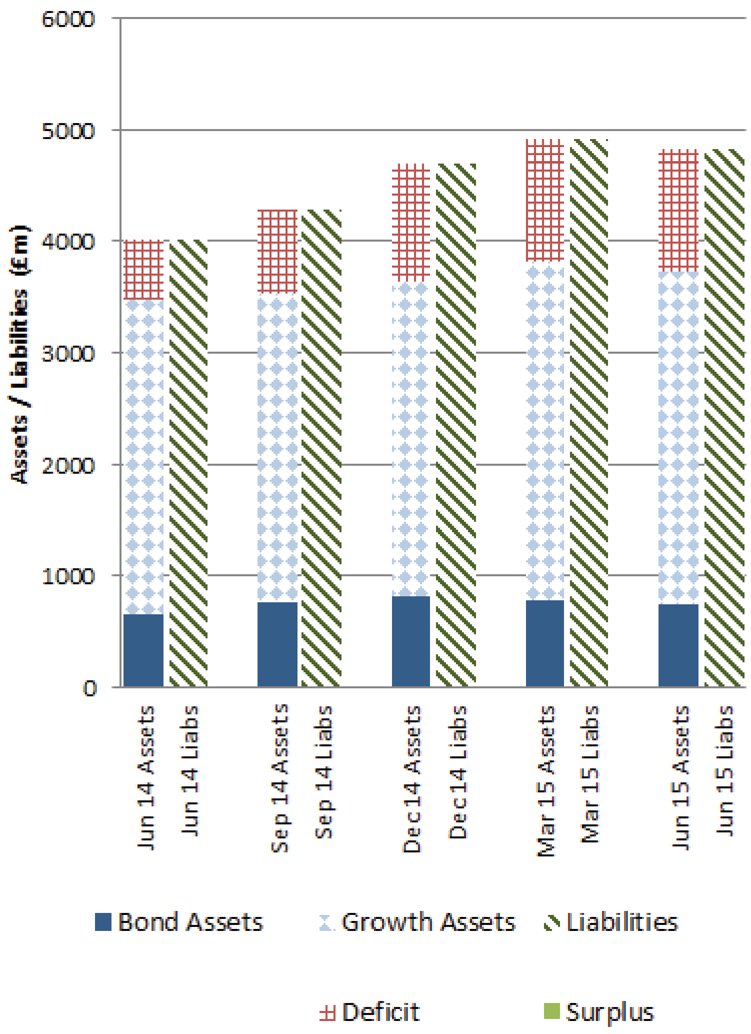
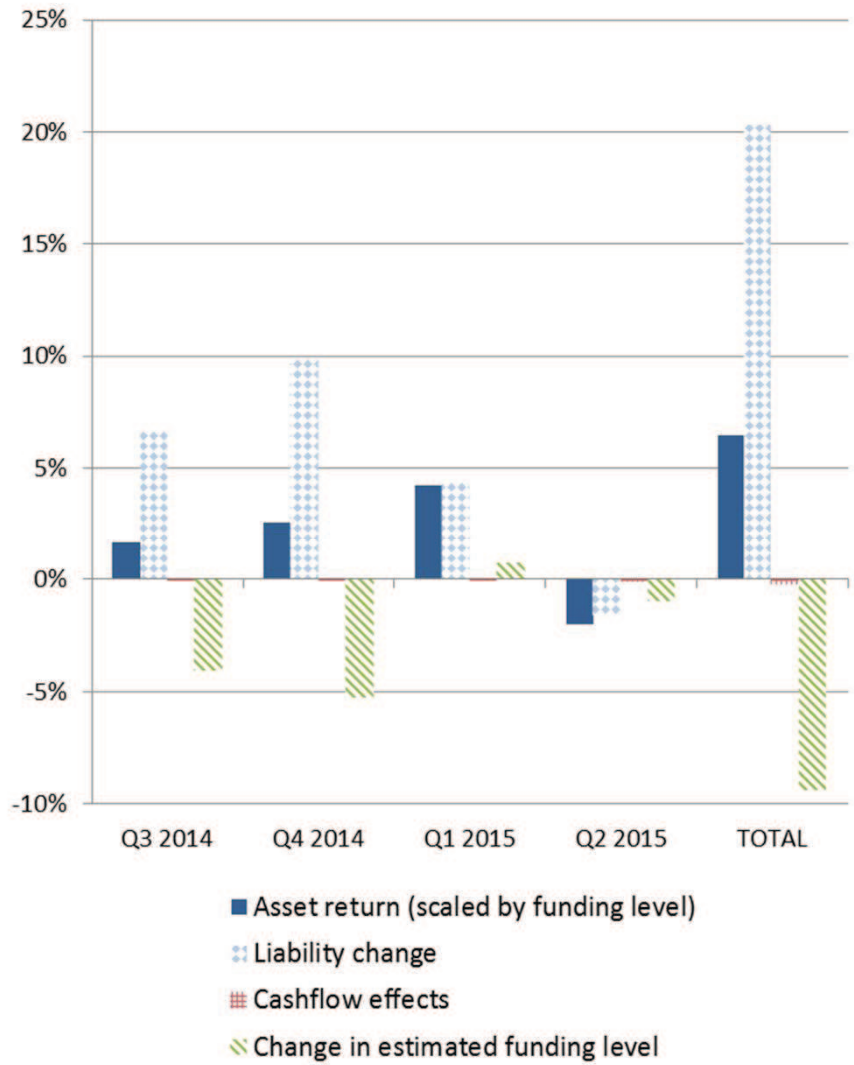
SECTION 4
CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level decreased by c. 1% over the second quarter of 2015, all else being equal. This was driven by:
  - A negative asset return
  - A positive effect from the liabilities, as the discount rate increased, decreasing the value placed on the liabilities (offset to some extent by an increase in the inflation assumption used to value inflation-linked liabilities).
- At the valuation date, 31 March 2013, the Scheme was 78% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have decreased the overall funding level to 77%. This reduction has come mainly from the increase in the present value of the liabilities over the period (due to the falling discount rate).

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



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- The Fund's assets, scaled to take into account the estimated funding level, produced an absolute return of -2.0%, over the last quarter.
- However, the Fund's estimated liabilities decreased by 1.6% (primarily due to an increase in the discount rate, offset to some extent by an increase in the inflation assumption used to value inflation-linked liabilities and accruing benefits).
- Over this quarter, the "cashflow effect" from contributions was negligible.
- Overall, the combined effect has led to a decrease in the estimated funding level to 77% (from 78% at 31 March 2015).

SECTION 5
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,769,396	1,700,572	46.2	45.6	40.0	35 - 45	+5.6
Emerging Market Equities	351,961	333,534	9.2	8.9	10.0	5 - 15	-1.1
Diversified Growth Funds	368,177	362,564	9.6	9.7	10.0	5 - 15	-0.3
Fund of Hedge Funds	162,792	162,952	4.3	4.4	5.0	0 - 7.5	-0.6
Property	306,177	314,626	8.0	8.4	10.0	5 - 15	-1.6
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	798,547	759,781	20.9	20.4	20.0	15 - 35	+0.4
Cash (including currency instruments)	71,606	96,070	1.9	2.6	-	0 - 5	+2.6
Total	**3,828,656**	**3,730,099**	**100.0**	**100.0**	**100.0**		**0.0**

Source: WM Performance Services, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets decreased over the quarter by £99m due to negative returns across many major asset classes. Developed equities remain overweight relative to benchmark, although this overweight position reduced slightly over the quarter. This will be used to fund draw downs for the infrastructure allocation over the coming year.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,216,557	-	1,155,704	31.8	31.0
Jupiter	UK Equities	175,562	-	178,108	4.6	4.8
TT International	UK Equities	194,929	-	198,482	5.1	5.3
Schroder	Global Equities	256,314	-	242,720	6.7	6.5
Genesis	Emerging Market Equities	160,236	-	152,092	4.2	4.1
Unigestion	Emerging Market Equities	191,725	-	181,442	5.0	4.9
Invesco	Global ex-UK Equities	291,423	-	273,939	7.6	7.3
SSgA	Europe ex UK & Pacific inc. Japan Equities	124,517	-	118,061	3.3	3.2
Record Currency Management	Overseas Equities (to fund currency hedge)	20,608	-	34,093	0.5	0.9
Pyrford	DGF	124,700	-	121,530	3.3	3.3

Source: WM Services, Avon. Totals may not sum due to rounding.

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FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Standard Life	DGF	243,477	-	241,035	6.4	6.5
MAN	Fund of Hedge Funds	549	-	549	0.0	0.0
Signet	Fund of Hedge Funds	63,441	-	63,153	1.7	1.7
Stenham	Fund of Hedge Funds	39,661	-	39,745	1.0	1.1
Gottex	Fund of Hedge Funds	59,141	-	59,505	1.5	1.6
Schroder	UK Property	177,723	-	183,792	4.6	4.9
Partners	Property	136,985	-	140,391	3.6	3.8
RLAM	Bonds	308,883	-	298,655	8.1	8.0
Internal Cash	Cash	42,224	-*	47,103	1.1	1.3
Total		**3,828,656**	**-**	**3,730,099**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* Interest payments into the Fund are not included as cashflows.

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SECTION 6
PERFORMANCE SUMMARY

PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

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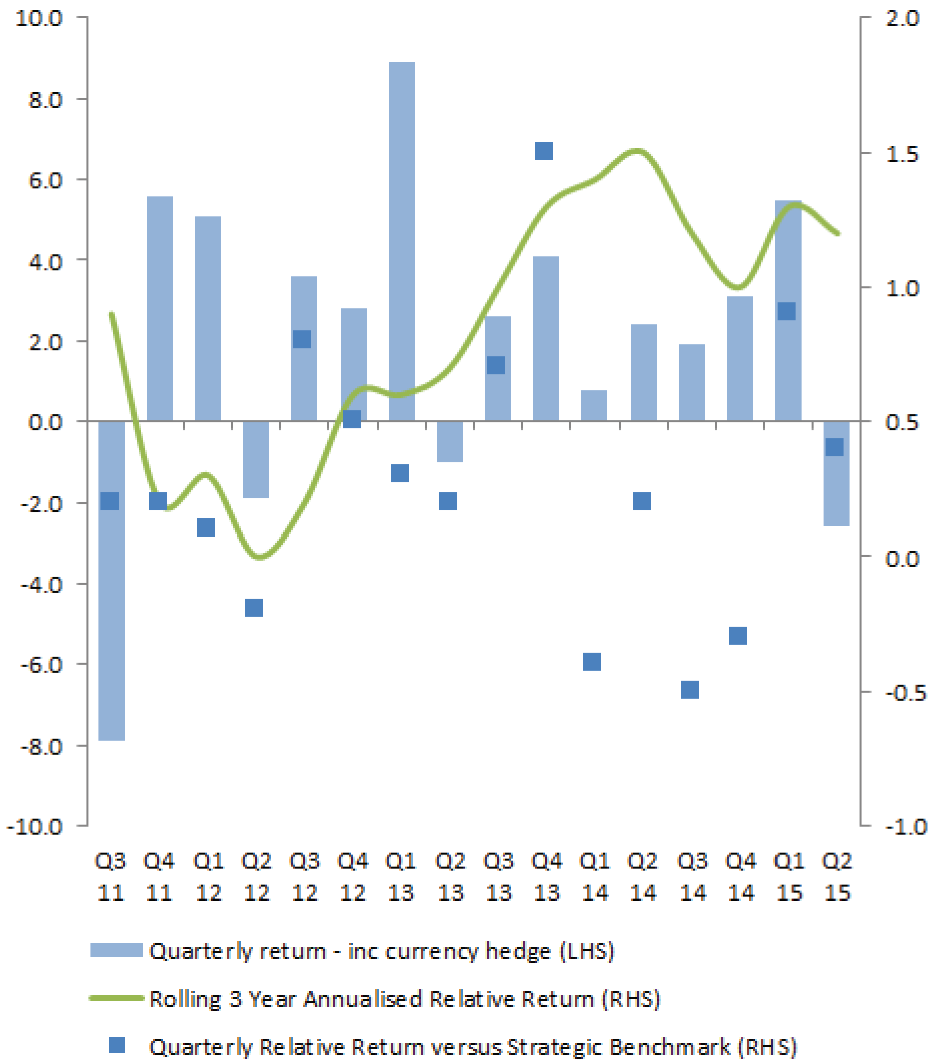
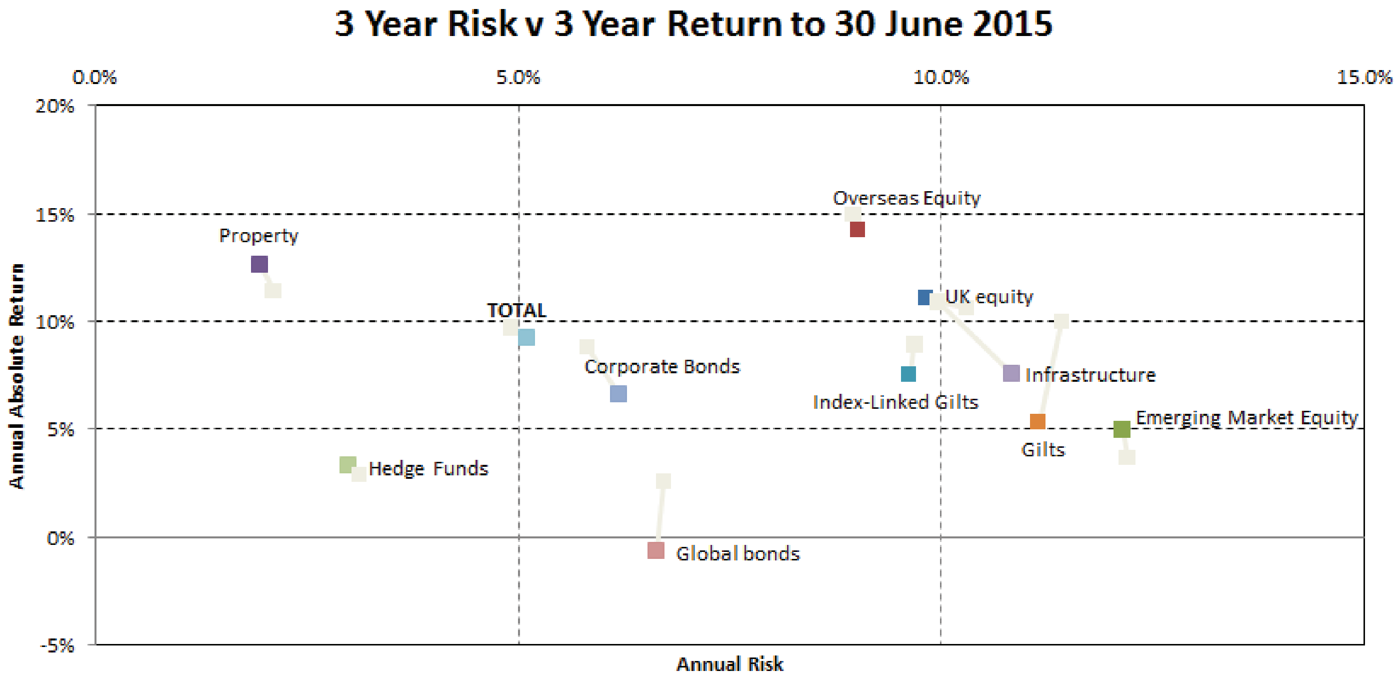


	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-2.6	7.9	10.9
Total Fund (ex currency hedge)	-3.0	7.6	10.5
Strategic Benchmark (no currency hedge)	-2.5	8.1	9.7
Relative (inc currency hedge)	**-0.1**	**-0.2**	**+1.2**

- Over Q2 2015, the Fund underperformed its Strategic Benchmark by 0.1% when including the currency hedge, and by 0.5% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 0.2% but outperformed over the three year period by 1.2% p.a.
- The latest quarter's underperformance has reduced the rolling twelve month outperformance from +0.3% p.a. to -0.2% p.a.
- The largest component of the quarter's underperformance was the overweight holding in equities (which fell in value) and the underweight holdings in hedge funds as they outperformed the strategic benchmark. This was somewhat offset by strong stock selection in UK equities and the currency hedge as sterling appreciated over the quarter.

MANAGER MONITORING
RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

Comments

- *The most significant movement seen over the quarter was Fixed Interest Gilts, which saw a significant decrease in three-year trailing return given the rise in yields experienced over the quarter (with similar movements seen for index-linked gilts and corporate bonds).*
- *Sterling returns for infrastructure also fell, as a result of negative returns experienced in June 2015.*

MANAGER MONITORING
RISK RETURN ANALYSIS

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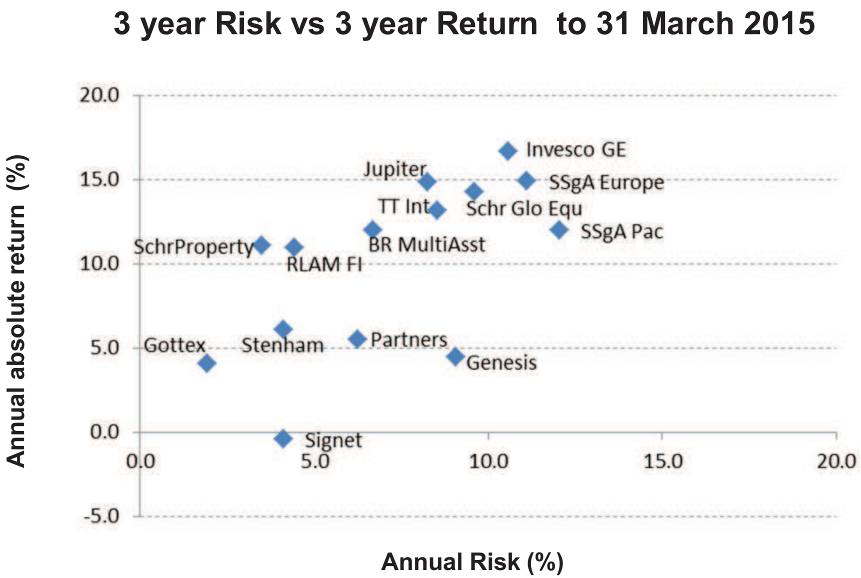

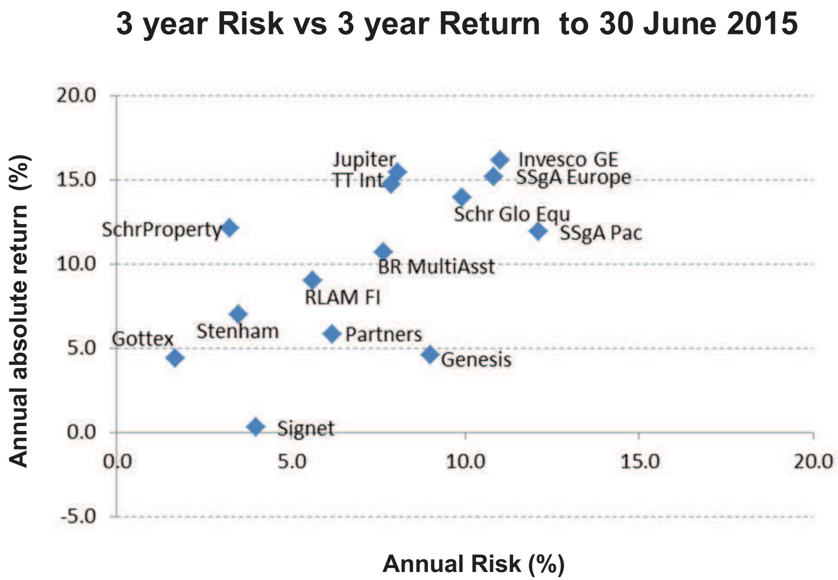

Comments

In general there was not a significant change in the three year risk and return profile of the funds over the quarter, although the absolute returns for both Jupiter and TT rose in light of positive returns in Q2 2015 (while volatility also rose).

MANAGER MONITORING

MANAGER PERFORMANCE – RELATIVE RETURNS TO BENCHMARK (TO 30 JUNE 2015)

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	0.0	-0.1	0.1	Target met
Jupiter	2.9	5.7	4.6	Target met
TT International	3.4	5.5	3.8	Target met
Schroder Equity	-0.3	-0.1	0.3	Target not met
Genesis	0.1	-3.6	0.6	Target met
Unigestion	-0.7	0.5	NA	NA
Invesco	-0.5	0.6	1.3	Target met
SSgA Europe	0.1	0.4	0.6	Target met
SsgA Pacific	0.2	1.4	1.4	Target met
Pyrford	-4.5	-2.9	NA	NA
Standard Life	-2.3	NA	NA	NA
Signet	-2.0	-9.4	-3.8	Target not met
Stenham	-0.8	0.8	3.2	Target met
Gottex	-0.3	-2.1	0.6	Target met
Schroder Property	0.1	-0.3	1.5	Target met
Partners Property	-1.8	-13.4	-3.5	Target not met
RLAM	0.6	0.4	2.6	Target met
Internal Cash	0.0	0.0	0.1	NA

Source: WM Services, Avon.
Returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.

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APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2
MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

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APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2015	31 March 2015	30 June 2014	30 June 2013
UK Equities	3.46	3.33	3.27	3.53
Over 15 Year Gilts	2.63	2.23	3.34	3.43
Over 5 Year Index-Linked Gilts	-0.75	-0.91	-0.10	-0.02
Sterling Non Gilts	3.15	2.65	3.59	3.73

- After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities over the quarter, resulting in negative returns for investors.
- UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.
- The real yield curve also shifted up, although by less than nominal yields, resulting in a degree of normalization of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 year Index-Linked Gilts index.
- The total returns from global credit fell by 6.4% in the second quarter in Sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

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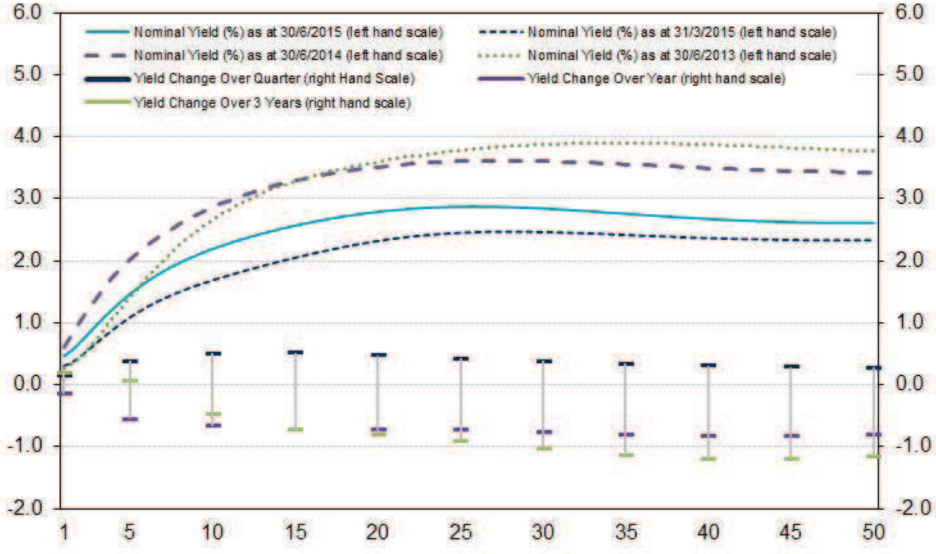
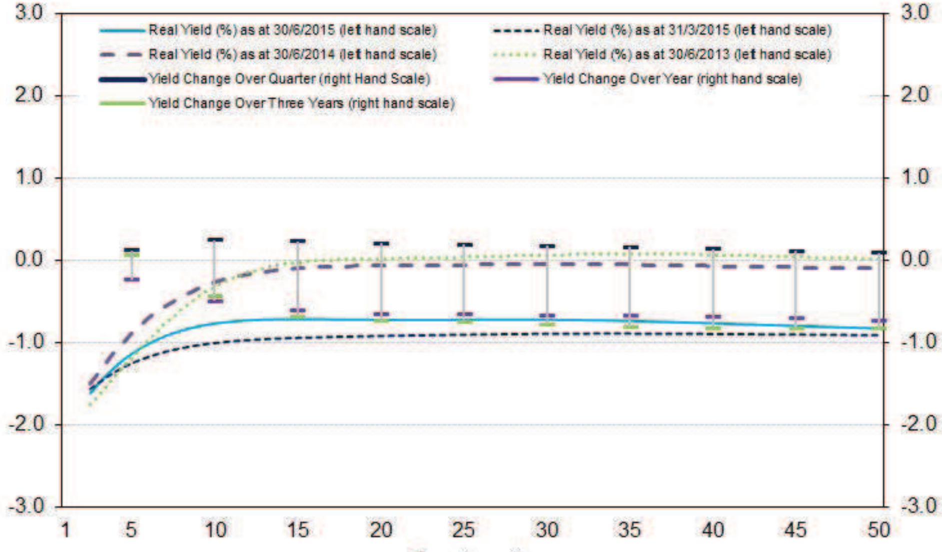
Nominal yield curves.



Source: Mercer.

Real yield curves.



Source: Mercer.

MAKE
TOMORROW,
TODAY

MERCER

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1279/15

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 25 SEPTEMBER 2015

Author: Matt Betts
Report Title: REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 June 2015) Appendix 1 – Fund Valuation Appendix 2 – Mercer Annual Investment Review Exempt Appendix 3 – Changes in RAG status of Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt report and appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendices also contain detail of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Performance Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2015

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of member funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £165 billion.

ACHIEVEMENTS

- Shareholder resolutions on strategic resilience to the **BP** and **Shell** AGMs achieved unprecedented levels of support, with votes in favour of over 98% at BP and nearly 99% at Shell. The success of these resolutions reflects the positive nature of the collaborative 'Aiming for A' group but also LAPFF's own long-term engagement with the companies culminating in twelve funds co-filing and 31 funds pre-declaring support for the resolutions The resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios, which includes remaining within 2°C limits, and the role exploration, disposals and cash distributions to investors will play in the nearer term.

- A voting alert was issued for a similar resolution to the **Statoil** AGM, which received a correspondingly high level of support. LAPFF continued to highlight these issues with a related voting alert on cash distributions to investors for the **Chevron** AGM, on demand management strategy at **Anadarko** and supporting carbon emission targets at **ExxonMobil**.

- A meeting with the chairman of **Barclays** followed LAPFF's publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. The LAPFF chair also raised concerns with the accounts due to the accounting standards being applied.

- A number of LAPFF funds co-filed a shareholder resolution to the **National Express** AGM, requesting an independent assessment of labour relations at the Company's US subsidiary, Durham School Services. Cllr Greening of the LAPFF executive spoke to the motion and almost a quarter of independent shareholders failed to back National Express over labour rights at the AGM, the highest level of support for a shareholder resolution on employee rights.

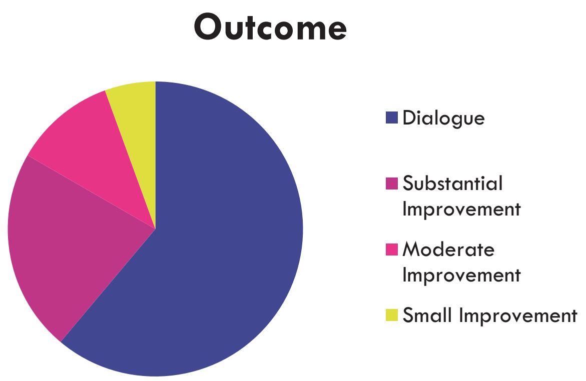
- LAPFF representatives attended and proposed motions or addressed the board at eight AGMs during the quarter. These included **Rio Tinto**, where Cllr Greening raised tax transparency and carbon management; **British American Tobacco**, where health objectives linked to executive incentives were raised; **Carillion** and **Balfour Beatty,** where blacklisting and labour supply chain issues were raised and **Next** on supply chain standards in Bangladesh.

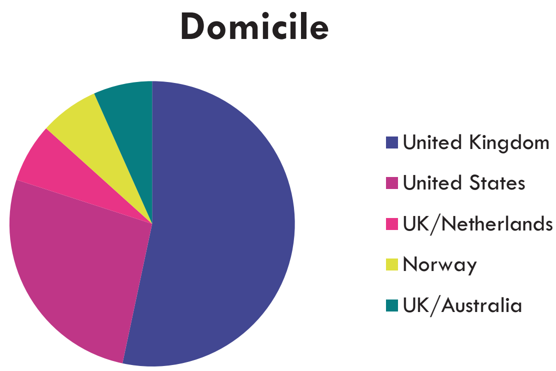
- In late May, **Tesco** announced provisions to claw back bonuses from its CEO and Finance Director. This move came after senior executives, who were in place during Tesco's accounting scandal, left the Company with high payouts. LAPFF had written a letter to Tesco in February concerning a lack of malus provisions in executive remuneration contracts and was pleased with the claw back developments.

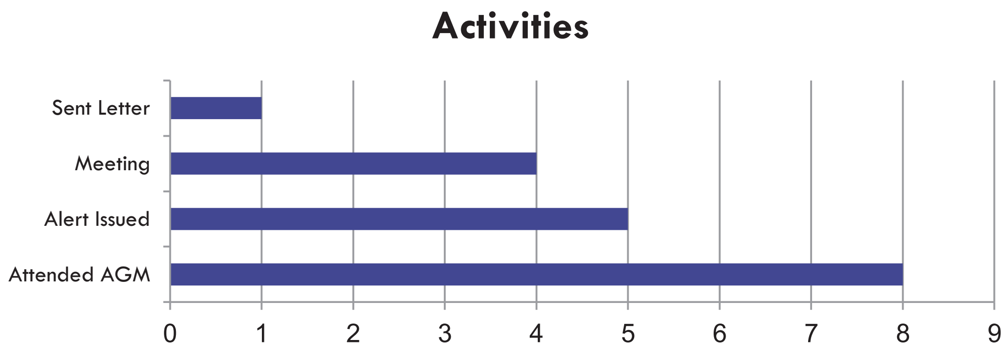
ENGAGEMENT SUMMARY

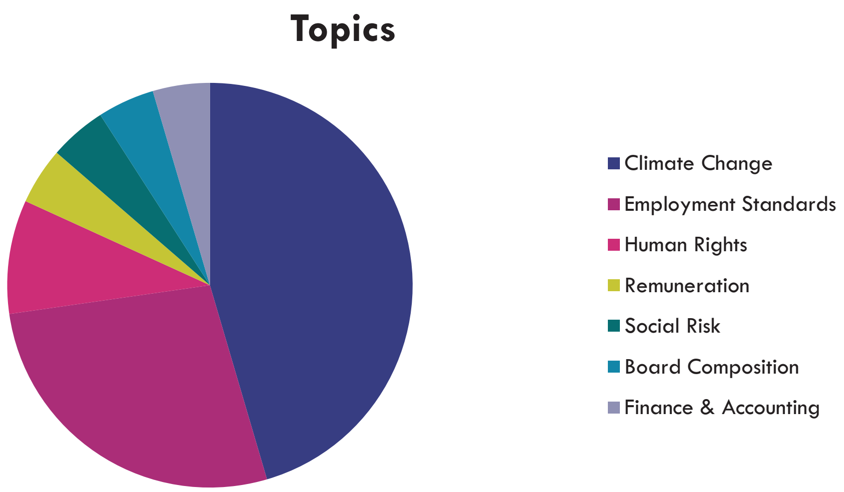
APRIL TO JUNE 2015

The Forum engaged with **15 companies** over the period









COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Attendance at a range of AGMs enabled LAPFF to address boards directly, supporting progress where relevant and highlighting areas of concern to member funds. The **Rio Tinto** AGM was a case in point, where Cllr Greening congratulated the Company on its tax transparency, asked the board to consider replacing the auditors before 2020, and to re-double efforts to seek solutions to the human rights issues raised in local communities. On carbon management, the company was pressed on how it will manage the transition from the use of coal to gas. The response from the chair, Jan du Plessis, was that there should be a greater focus on energy use and efficiency and the development of renewable energy.

International Financial Reporting Standards (IFRS)

The European Financial Reporting Advisory Group (EFRAG) has issued draft endorsement advice on the proposed replacement of the EU International Accounting Standard (IAS) 39 with IFRS 9. LAPFF considers that EFRAG has been lacking objective and transparent legal criteria for assessing the true and fair view principle of the law for IFRS endorsement and as a result has not been following the correct model of 'true and fair view' in endorsing IFRS. LAPFF's full response to the draft endorsement advice by EFRA can be found with other LAPFF consultation responses here at http://www.lapfforum.org/Publications/consultations.

PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF Chairman Cllr Kieran Quinn met with **Barclays** Chairman, Sir David Walker, and the company secretary, Laurence Dickinson. The meeting was requested by LAPFF following the press coverage expressing LAPFF's dissatisfaction with the fact that Sir John Sunderland had presided over another full year as remuneration committee chairman at Barclays. The week before the 2014 AGM, Barclays had indicated that Sir John was to be replaced as remuneration committee chairman by Crawford Gillies. The timing of this announcement coincided with a likely high level of dissent for the AGM against the 2014 remuneration committee report, i.e. the announcement was taken as the quid pro quo for some investors not voting down remuneration, or opposing Sir John's re-election. LAPFF generated a number of press pieces on this topic and issued a voting alert ahead of the 2015 Barclays AGM to ensure shareholders were aware of this concern. Subsequently, Sir John has left the Barclays Board.

A meeting with the chairman of **ABF** explored developments in supply chain management, carbon reporting and the composition of an effective board.

MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

LAPFF's own engagement, and collaboratively with 'Aiming for A' partners, achieved an unprecedented number of global institutional co-filers, board support and high level of vote turnout for the strategic resilience shareholder resolutions to the **BP** and **Shell** AGMs. These resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios (which include the 2°C scenario) and the role exploration, disposals and cash distributions to investors will play in the nearer term.

The Forum also supported a shareholder resolution to **Chevron** requesting that the board adopt a dividend policy increasing the amount authorised for distribution to shareholders in light of the growing potential for stranded assets and decreasing profitability associated with capital expenditures on high cost projects. A voting alert on a shareholder resolution to the **Anadarko** general meeting supported a request for the company to address the risk of stranded assets and demand reductions for oil and gas, including analysis of long and short term financial and operational risks to the company.

In the run up to the much anticipated climate change treaty discussions in Paris in December, LAPFF has co-signed a global investor letter aiming to promote a meaningful climate change agreement at the next Conference of Parties (COP). The letter, addressed to Finance Ministers, asked for two key components for agreement in Paris: a long-term global emissions reduction goal; and submission of short to medium-term emissions pledges and country level action plans. The ultimate goal is to create policy incentives to invest in low-carbon and climate-resilient activities to prevent an average global temperature increase above 2°C.

Building on LAPFF's 2014 work as part of a coalition that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land, the Forum co-signed a letter pressing the Roundtable on Sustainable Palm Oil (RSPO) to adopt more stringent standards on palm oil production. The letter, organised by the New York State Common Retirement Fund and Green Century Capital Management, urges the RSPO to align the standards it sets for sustainable palm oil production with the industry expectations and best practices for sustainable sourcing.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

Employment standards and human rights have figured prominently at many of the AGMs attended by LAPFF representatives. The labour standards resolution filed at the **National Express** AGM by LAPFF funds and other investors, representing around 2% of share ownership, drew attention to questions over on-going allegations of poor behaviour in Durham School Services. The proposal requested an independent review in order to best resolve these questions. LAPFF issued a voting alert outlining concerns, and Cllr Greening represented the three LAPFF co-filing funds at the AGM. The resulting vote, where nearly one quarter of the free-float voted in favour or abstained, may make this the highest vote for a labour rights shareholder resolution to a UK company.

Other AGM attendance included Cllr Richard Greening asking about blacklisting and labour standards in supply chains at the **Balfour Beatty** AGM. Leanne Clements asked about the same issues at the **Carillion** AGM and LAPFF executive member Jane Firth asked about second and third-tier supplier risks under the Bangladesh Accord at the **Next** AGM. This representation has boosted awareness of LAPFF with the companies in question and with other shareholders who attend, and is helpful in securing meetings with board members.

Social and Reputational Risks

LAPFF members have a significant level of holdings in European pharmaceutical companies, and one issue that has come up in company dialogue is transparency of companies' clinical trials. To support this engagement, the Forum has signed on to an investor Clinical Trial Transparency Initiative, led by BNP Paribas Investment Partners and Broadwaters Advisory Services. The Initiative includes an Investor Statement that highlighs the importance of clinical trials in determining the effectiveness and safety of drugs that come to market and a request that companies publish complete and accurate information on trial results so that investors can make fully informed decisions.

As part of its Corporate Tax Transparency Initiative, the Forum has written to the FTSE 100 seeking disclosure on existing tax practices, transparency, reporting, potential risks and assessment of future policy changes. This project leads out of the tax governance reform principles raised in the LAPFF led Pre-G20 Investor Statement.

MEDIA COVERAGE

BP and Shell strategic resilience resolutions

BBC World Service, Professional Pensions, Investment & Pensions Europe, The Local (Norway), Lexology, Forbes, Blue & Green Tomorrow, Local Government Chronicle

National Express 'Independent Review' resolution

Satellite PR News, PR Newswire

LAPFF G20 tax transparency

Investors Chronicle, Financial Times

NETWORKS & EVENTS

NAPF Local Govt. Conference: A LAPFF representative presented on a panel on 'How engagement can contribute to long-term investment performance'

CIG Conference: A LAPFF representative presented on LAPFF engagement including the Aiming for A, Shell & BP strategic resilience resolutions

Nikko Research Center, Inc: discussion on Japanese and UK shareholder engagement.

Shell SRI Day: investor briefing and interaction on Shell's SRI activities.

Rio Tinto Pre-AGM meeting: Company employment practices explored by IndustriALL on Rio Tinto

National Express Pre-AGM meeting: - held by UNITE, ITF and Teamsters to brief investors on National Express' employment practices.

ITC call: held regarding Chevron and the Company's Gorgon project in Australia.

COMPANY PROGRESS REPORT

Companies not previously engaged with on an individual basis noted in bold.

Company	Topics	Activity/Outcome	Domicile
Associated British Foods	Supply Chain/ Board Structure	Meeting/Moderate Improvement	UK
Anadarko	Carbon Management	Voting Alert/Dialogue	US
Balfour Beatty	Employment Standards	AGM/Dialogue	UK
Barclays	Executive Pay	Meeting/Small Improvement	UK
BP	Carbon Management	AGM/Substantial Improvement	UK
British American Tobacco	Social Risk	AGM/Dialogue	UK
Carillion	Employment Standards	AGM/Dialogue	UK
Chevron	Carbon Management	Voting Alert/Dialogue	US
ExxonMobil	Carbon Management	Voting Alert/Dialogue	US
Glencore	Carbon Management	Meeting/Dialogue	UK
National Express	Employment Standards	AGM/Dialogue	UK
Next	Employment Standards	AGM/Dialogue	UK
Rio Tinto	Carbon Management	AGM/Dialogue	UK/Australia
Royal Dutch Shell	Carbon Management	Meeting - AGM/Substantial Improvement	UK/Netherlands
Statoil	Carbon Management	Voting Alert/Substantial Improvement	Norway

Local Authority Pension Fund Forum Members

Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cardiff and Vale of Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hertfordshire County Council Pension Fund
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
Lewisham LB

Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
Sheffield City Region Combined Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2015**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 JULY 2015;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 30 June 2015;** **(3) SUMMARY PERFORMANCE REPORT to 30 June 2015**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1	Summary Financial Accounts: Year to 31 July 2015
Appendix 1A	Summary Budget Variances: Year to 31 July 2015
Appendix 2	Cash Flow Forecast
Appendix 3A	Balanced Scorecard : 3 months to 30 June 2015 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 30 June 2015 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5	Active membership statistics over 12 Months to 30 June 2015
Appendix 6	Joiners & Leavers statistics over 12 Months to 30 June 2015
Appendix 7	Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 30 June 2015. Annex 1 current quarter, Annex 2 timeline.
Appendix 8	Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2015. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 30 June 2015 and Summary Performance Reports on Employer and APF performance over 4 years to 30 June 2015 as well as the Risk Register.

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure incurred for 4 months to 31 July 2015
2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 June 2015.
2.3 Summary Performance Report for period from 1 July 2011 to 30 June 2015.

That the Committee agrees:
2.4 To review the full risk register once a year
2.5 To review the top 10 risks and changes quarterly

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 4 months to 31 July 2015 are contained in **Appendix 1.**

The forecast for the year to 31st March 2016 is for expenditure to be £97,000 over budget. Within the directly controlled Administration budget expenditure is forecast to be £10,000 below budget. The forecast reduction in directly controlled expenditure results from the delay in appointing staff to assist in the GMP data reconciliation project.

In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £107,000. This overspend all relates to Investment manager fees. The increased spending is due to higher performance related fees payable in 2015/16 than was anticipated in the budget which is partially offset by savings on hedge fund manager fees following the appointment of a new manager/mandate.

4.2 At the June committee meeting the need to shift resource requirements from administration to compliance was discussed. This was also discussed in the service plan at March Committee but at that stage we were not in a position to specify the requirements at that point. With the growth in employers (currently 213) there has been a significant increase in valuation work and this is set to continue as it is expected more schools will become academies and Councils continue to explore outsourcing options given current government policies.

4.3 The Fund is also doing significantly more work on covenant to secure sustainable employer contributions and work on the 2016 valuation will begin in earnest in the late autumn 2015. In view of this there is a need for an increase in the resources in this area to support the Valuation Advisor. The extra cost can be contained within the current budget envelope for the Fund as it will be delivering some of its IT Developments at lower cost than originally envisaged, and in the current year there are some staff savings in investment team.

4.4 Explanations of the most significant variances are contained in Appendix 1A to this Report.

5 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The 2015-2018 Service Plan included a cash flow forecast showing a net outflow in 2015/16 of just over £24m.

The actual cash flow to 31 July was a net inflow of £10m against a budgeted outflow of £8m for the same period. The variance was due to the receipt of a large termination deficit payment from an employer exiting the Fund and the payment by some employers of annual deficit recovery contributions in full in April instead of in monthly instalments. Lump sum payments were also lower than expected while investment income received as cash was higher than budgeted.

The current forecast for the full year is for a net outflow of £7m against a budgeted outflow of £24m. The forecast variances of £17m over the whole year are mainly due to the termination deficit payment and lower than expected lump sum payments. These are forecast to be partially offset by lower than budgeted investment income received as cash and the bulk transfer payment relating to Probation Service members transferring to the Greater Manchester Fund.

The effect of the advance payment of deficit contributions for the year in April unwinds during the year and so has no effect overall in the full year.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 30 June 2015

6.1 The information provided in this report is consistent with the methodology applied to the Council generally but has been customised to reflect the special circumstances of the Avon Pension Fund. Full details of *performance against target,* in tabular and graph format, are shown in **Appendices 3A and 3B.**

7 ADMINISTRATION PERFORMANCE

7.1 The level of work outstanding from tasks set up in the period (Item C4 and graphs 4-6 of **Appendix 3A and 3B**) in the 3 month period is reported by showing what *percentage* of the work is outstanding. In this period 7598 new cases were received and 7234 were cleared. As a snapshot, at 30 June 2015 there were 3428 cases outstanding of which 31% represents actual workable cases and 69% represents cases that are part complete, pending a third party response.

7.2 **CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30 JUNE 2015 - Retirements**

Appendix 4 reports on the customer satisfaction based on 49 questionnaires returned from members retiring from both active and deferred status (out of a total of 330 questionnaires issued in respect of the reporting period). 100% of deferreds rated the service as good or excellent, with 83% of actives rating the service as good or excellent.

8 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS

8.1 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) potential opt-outs by members concerned about scheme changes.

8.2 The active membership statistics are shown in graph format in **Appendix 5** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 6**

8.3 The Committee will be kept informed of the on-going changes and the effect it is having on Scheme membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.

9 SUMMARY AVON PENSION FUND & EMPLOYER PERFORMANCE

9.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is sent monthly to each of the four unitary authorities to report on their own and APF's administration performance against agreed targets set in the SLA.

9.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 30 June 2015 is included as **Appendix 7. (Annex 1,2 &3)**

9.3 The Report discloses any poor performing employers which need to improve. It is important that the Committee are made aware of these going forward and the steps taken to assist these employers in improving their performance to avoid the imposition of additional charges

9.4 **Appendix 7** contains:

9.5 Bar charts for APF and each of the four Unitary Authorities and collectively 'Other' employers reporting an event during the period. Performance against retirements and early leavers is measured against agreed SLA targets. **Annex 1** shows achievement within target over the current quartile. **Annexes 2 and 3** are comparator reports over the previous 4 year period.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

- Following the Governments introduction from 1st April 2015 of Freedom and Choice in Pensions the Fund has undertaken a review of its processes to ensure compliance. In the reporting period there have been 177 transfer requests and 13 paid out, none of which we were under pension freedoms.
- The Year End project was successfully completed at the end of June, which enabled the Annual Benefit Statements for members to be run and distributed.
- The Annual Benefit Statement distribution to all deferred and active members was successfully completed by the regulation set deadline of 31 August.
- Our moves to becoming a digital fund are moving forward with over 10% of membership now signed up to 'my pension online' (almost 9,000 members).
- Initial reports and plans have been put in place to demonstrate that we are working towards compliance with The Pension Regulator requirements effective from April 2015. A suite of reports has been developed and reported as a separate item at this meeting

10.1 **Employer Self Service: Update**

As at 30 June 2015 60% of employers had received full training on ESS data submission – representing approx. 75% of total scheme membership.

10.2 ***i-Connect***

10.3 Work is continuing to ensure that the i-Connect middleware is fully integrated with the four unitary authorities. With technical changes brought about by the introduction of New LGPS 2014 and on-going work required to resolve historic issues with employer data extracts a dedicated resource has been identified to work with both employers and the soft-ware provider to ensure a robust process and set of procedures is signed off and operational. All four unitary authorities have signed agreements to use i-Connect and currently two are successfully sending monthly returns, although North Somerset returns are only up to April 2015. A further two medium sized employers are currently in discussion to take the software in the near future. For the two unitary authorities not currently sending returns:-

10.4 **South Gloucester Council** is in the final stages of data extract testing and is expected to go 'live' in October 2015.

10.5 **Bath & North East Somerset Council** has just replaced its HR & Payroll service. Due to in-house staff expertise required to support this exercise a decision was made to suspend i-Connect for the relevant period until the new system is in operation and required extract reports have been re-written. Avon Pension Fund is in discussion with B&NES regarding a probable timeframe for re-introduction which is likely to be late October 2015. Key member data will continue to be supplied via an alternative EDI process during the interim period.

11 RISK REGISTER

11.1 The Risk Register follows the format of the Council's risk register for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

11.2 The Risk Register is reviewed regularly by the pension management team. Risks identified cannot be eliminated but can be treated via monitoring.

11.3 The risks identified fall into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

11.4 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

11.5 The Fund proposes that the Committee review all risks annually and the top 10 risks and changes quarterly.

11.6 A summary sheet of all risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8.**

12 RISK MANAGEMENT

12.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

13 EQUALITIES

13.1 No items in this Report give rise to the need to have an equalities impact assessment.

14 CONSULTATION

14.1 None appropriate.

15 ISSUES TO CONSIDER IN REACHING THE DECISION

15.1 There are no other issues to consider not mentioned in this Report

16 ADVICE SOUGHT

16.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259. Geoff Cleak, Acting Pensions Manager (*All except budgets*) Tel: 01225 395277
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2016

	4 MONTHS TO JULY 2015			FULL YEAR 2015/16		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	22,786	31,742	8,956	68,359	68,359	0
Administration Costs	24,470	20,121	(4,350)	73,411	73,411	0
Communication Costs	22,583	6,654	(15,930)	67,750	67,750	0
Payroll Communication Costs	14,139	8,563	(5,576)	42,418	42,418	0
Information Systems	100,795	146,590	45,795	302,384	302,384	0
Salaries	500,428	466,854	(33,574)	1,501,284	1,491,284	(10,000)
Central Allocated Costs	134,027	134,027	(0)	402,081	402,081	0
Miscellaneous Recoveries/Income	(74,067)	(67,750)	6,317	(222,200)	(222,200)	0
IT Strategy	49,205	0	(49,205)	147,614	147,614	0
Total Administration	**794,367**	**746,801**	**(47,566)**	**2,383,101**	**2,373,101**	**(10,000)**
Governance & Compliance						
Investment Governance & Member Training	90,220	34,949	(55,271)	270,660	270,660	0
Members' Allowances	13,322	5,023	(8,299)	39,966	39,966	0
Independent Members' Costs	6,421	5,233	(1,189)	19,264	19,264	0
Compliance Costs	141,133	61,381	(79,752)	423,400	423,400	0
Compliance Costs recharged	(83,333)	(23,586)	59,748	(250,000)	(250,000)	0
Pensions Board	12,467	37	(12,429)	37,400	37,400	0
Total Governance & Compliance	**180,230**	**83,038**	**(97,192)**	**540,690**	**540,690**	**0**
Investment Fees						
Global Custodian Fees	28,050	16,667	(11,383)	84,150	84,150	0
Investment Manager Fees	6,177,420	4,880,579	(1,296,841)	18,532,259	18,639,261	107,000
Total Investment Fees	**6,205,470**	**4,897,246**	**- 1,308,224**	**18,616,409**	**18,723,411**	**107,000**
NET TOTAL COSTS	**7,180,067**	**5,727,084**	**(1,452,982)**	**21,540,200**	**21,637,202**	**97,000**

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APPENDIX 1A

Summary of main budget variances: Year to 31 July 2015

Variances Analysis of the full year forecast expenditure or income, against budget to the year end.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(10,000)	Reduced salaries expenditure due to:- - The appointment of additional staff resources to meet the requirements of the GMP reconciliation has been delayed but is now proceeding.
Administration	**(10,000)**	
Investment Manager Fees	107,000	A reduction in Investment Manager Fees resulting from the divestment from three previously held hedge funds is largely offset by the forecast fees from the one replacement hedge fund. The net reduction in fees from this restructure of the allocation to hedge funds has been more than offset by a net increase in performance related fees. These fees are payable in 2015/16 although they partly relate to performance in previous years. The expenditure on fees does not include any provision for performance related fees that relate to the period but remain subject to variation as a result of future performance.
Expenditure Outside Direct Control	**97,000**	
Total Forecast Overspend	**97,000**	

***() variance represents an under-spend, or recovery of income over budget**
+ve variance represents an over-spend, or recovery of income below budget

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FOUR MONTHS TO JULY 2015			FULL YEAR 2015/16		
		Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Outflows							
Benefits	Pensions	(41,290)	(42,287)	(997)	(123,869)	(126,860)	(2,991)
	Lump sums	(11,297)	(7,660)	3,636	(33,890)	(22,981)	10,909
Administration costs		(1,922)	(1,912)	9	(5,765)	(5,737)	28
Total Outflows		**(54,508)**	**(51,859)**	**2,649**	**(163,524)**	**(155,578)**	**7,946**
Inflows							
Deficit recovery		2,426	17,014	14,588	7,278	20,813	13,535
Future service Contributions		38,928	38,727	(201)	116,784	116,180	(604)
Total Contributions		**41,354**	**55,741**	**14,387**	**124,062**	**136,993**	**12,931**
Net Cash Flow (excluding Investment Income)		(13,154)	3,882	17,036	(39,462)	(18,585)	20,877
Investment income received as cash		5,081	6,495	1,414	15,243	11,830	(3,413)
Net Cash In-Flow (Out-Flow)		**(8,073)**	**10,377**	**18,450**	**(24,219)**	**(6,755)**	**17,464**

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 30 Jun 2015

	INDICATOR	Red Amber Green	2014/15	Target for 2015/16	Actual 3 months to 30/06/2015	Comments	
A	**Customer Perspective**						
1	General Satisfaction with Service - retirees' feedback	G	97%	97%	97%	83 out of 209 responses received from retirees in reporting period	**Appendix 4**
2a	Service Standards - Processing tasks within internal targets (SLA)			0%			
	Deaths [12 days]	G	91%	92%	94%	17 of 18 Tasks were completed within target	
	Retirements [15 days]	G	86%	90%	93%	451 of 486 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	80%	75%	79%	613 of 775 Tasks were completed within target	
	Refunds [5 days]	G	75%	80%	84%	210 of 251 Tasks were completed within target	
	Transfers In [20 days]	G	76%	75%	80%	57 of 71 Tasks were completed within target	
	Transfers Out [15 days]	A	64%	75%	73%	154 of 211 Tasks were completed within target	
	Estimates [10 days]	A	85%	90%	80%	985 of 1232 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			Nil	No complaints received in the period	
4	Pensions paid on time	G		100%	100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)				n/a	None due this quarter	
6	Number of hits per period on APF website	G	55898/4658pcm		16,465	5488 per calendar month for reporting period	**Appendix 3b Graph 1**
7	Advising members of Reg Changes within 3 months of implementation			0	n/a	none this quarter	
8	Issue of Newsletter (Active & Pensioners)			0	n/a	none this quarter	
9	Annual Benefit Statements distributed by year end	G		0	n/a	2014/15 ABS sent by 31 August 2015	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining				0%		
2	% Sickness Absence a) Short Term	G	1.3%	3%	1%	Ahead of APF target and well ahead of corporate target of 5%	**Appendix 3b Graph 2**
	% Sickness Absence b) Long Term	G	0%	2%	0%		
C	**Process Perspective**						
1	Services actually delivered electronically	G			10.6%	10.6% represents eligible users who have signed up to 'my pension online'. 8924 members now have electronic access to their pension record.	
2	a) Active membership covered by employer ESS	G	72%	90%	75%		
	b) % of employers submitting data electronically	G	58%	70%	60%		
3	% Telephone calls answered within 20 seconds	G	97%	95%	97.0%	11636 calls, 11286 answered within 20 seconds	**Appendix 3b Graph 3**
4	Maintain work outstanding at below 75%	G	30053 created 27944 cleared	75%	95%	7598 created, 7234 cleared	**Appendix 3b Graphs 4 & 5**
5	Year End data receipt			100%		2014/15 due by 30 April 2015	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	91%	Business Financial Services (inc Pensions).	
2	Temp Staff levels (% of workforce)	G	0.74%		0.0%	Within target	

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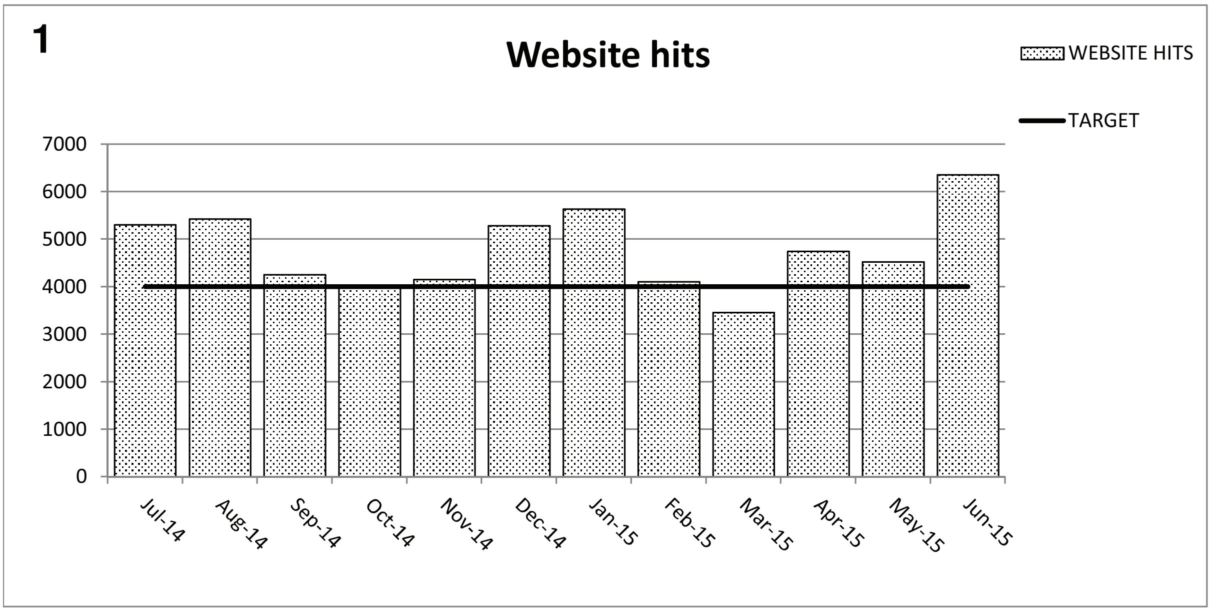
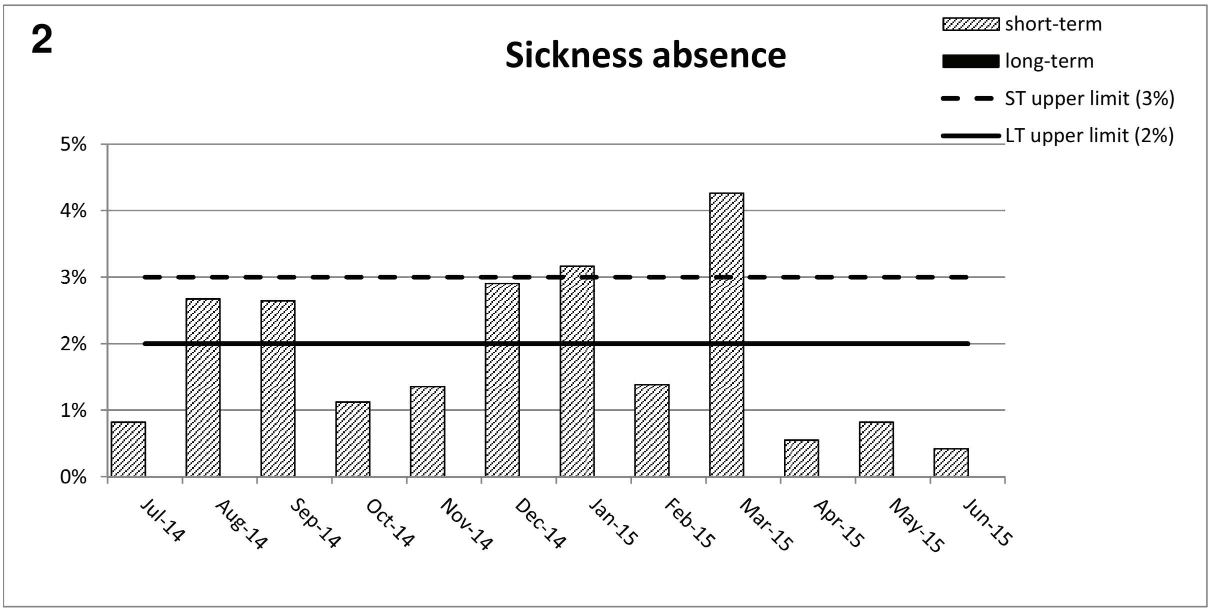
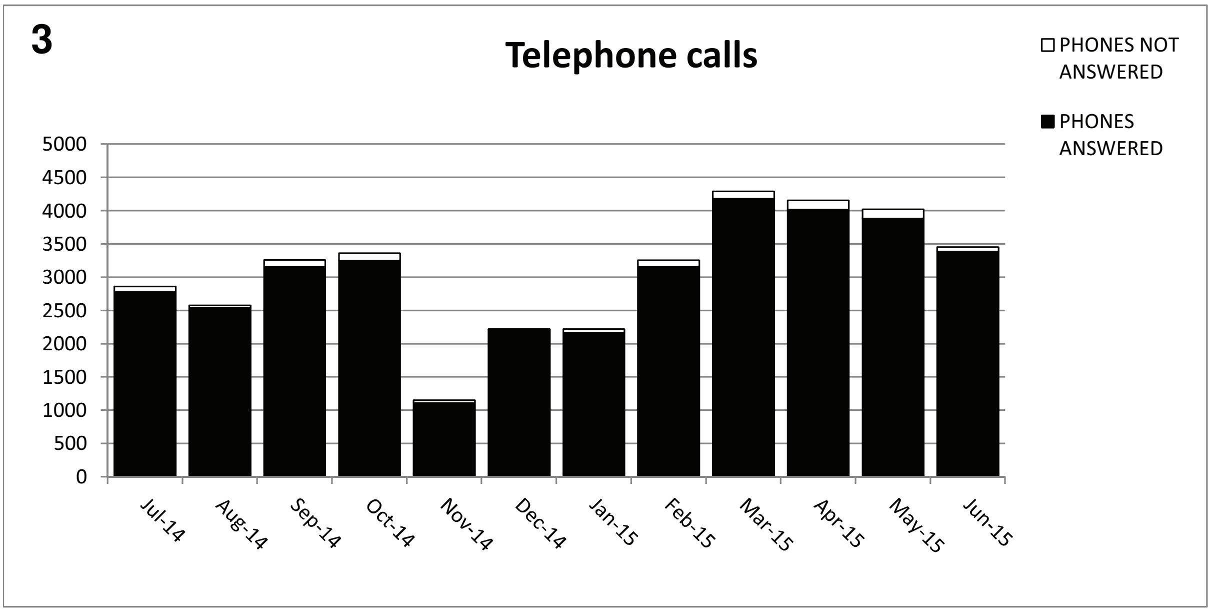
Pension Fund Administration report: Appendix 3b







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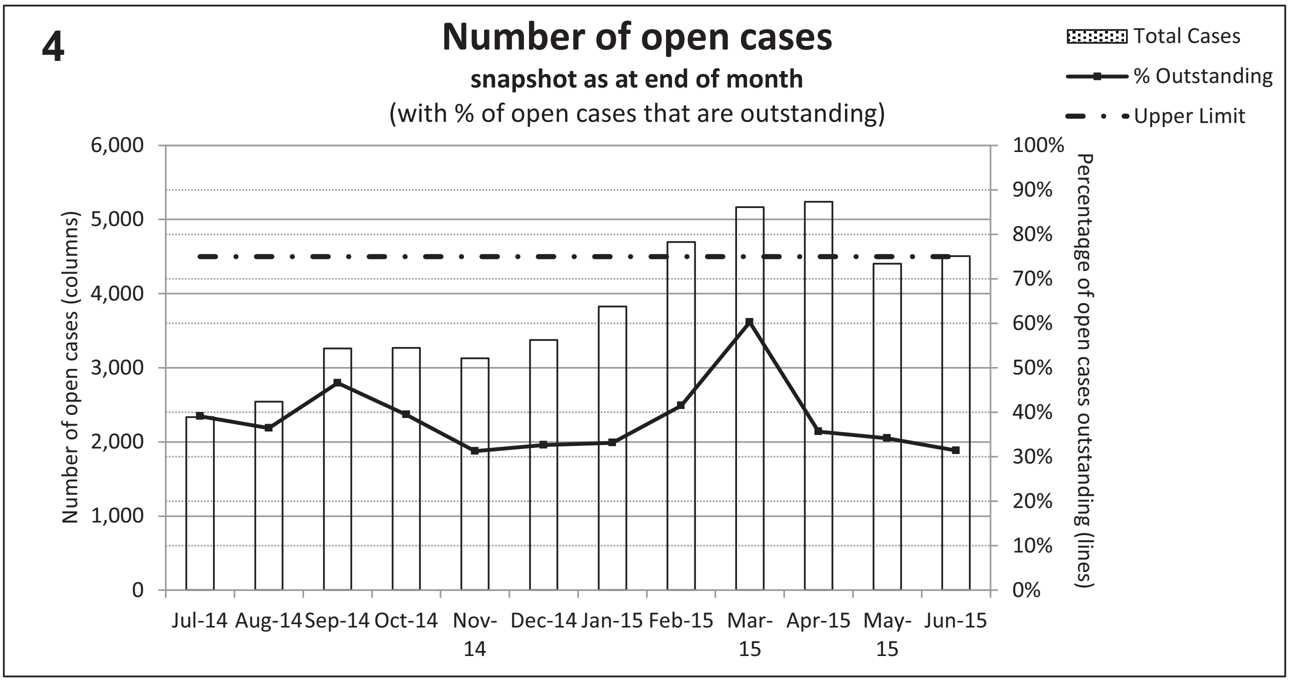
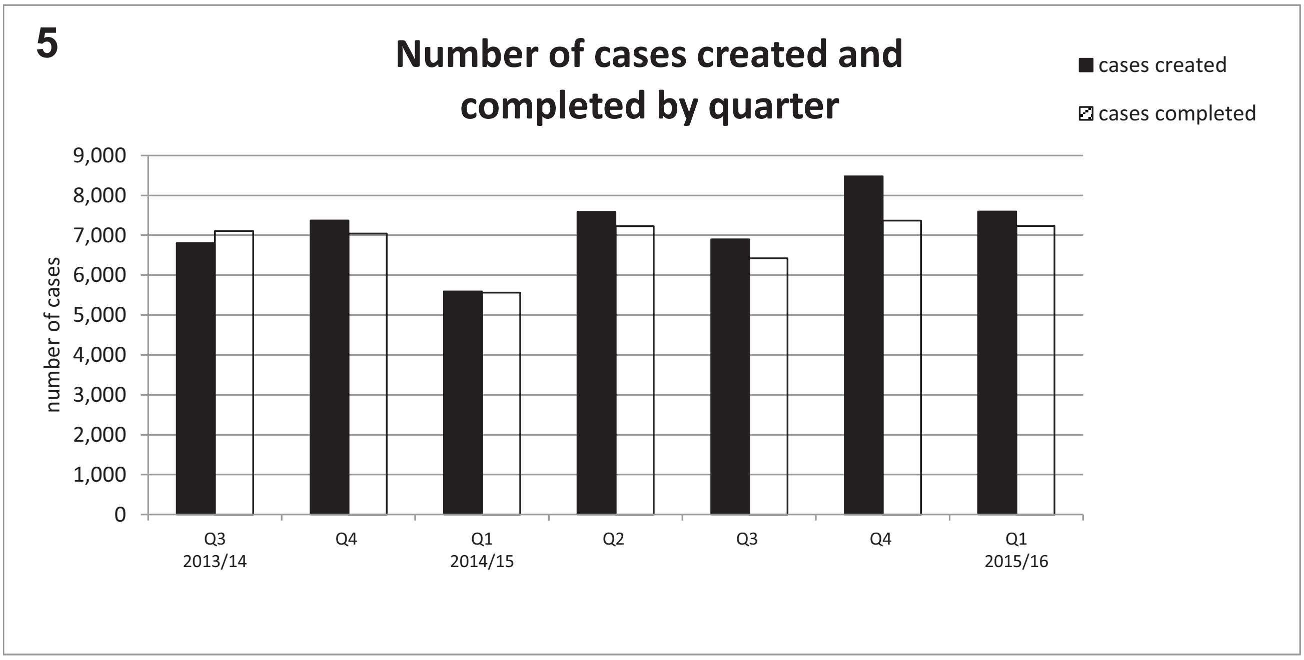
Pension Fund Administration report: Appendix 3b





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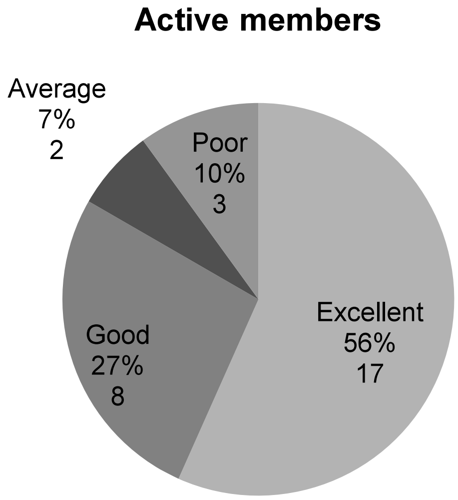
Appendix 4

Customer satisfaction (Apr - Jun 2015)

Responses to the question **"Overall, how would you rate the service you received from Avon Pension Fund?"**

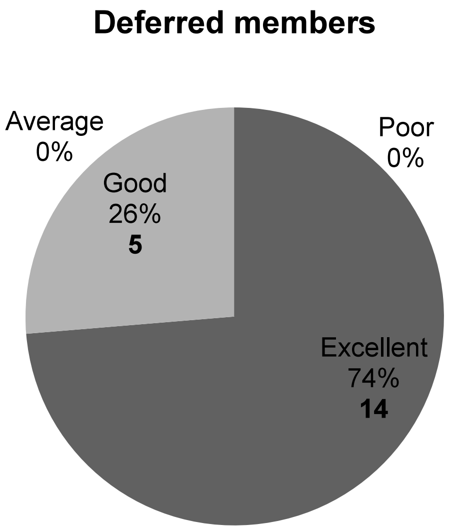
Active members

Number retiring	183
Questionnaires received	30
Response rate	16%



Deferred members

Number retiring	147
Questionnaires received	19
Response rate	13%



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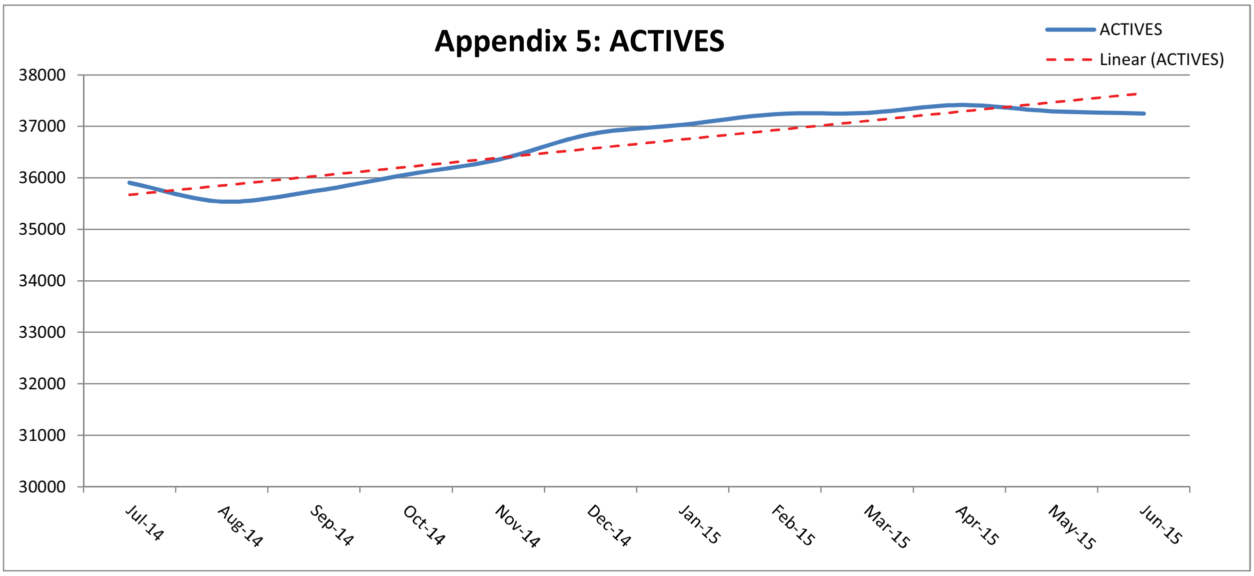
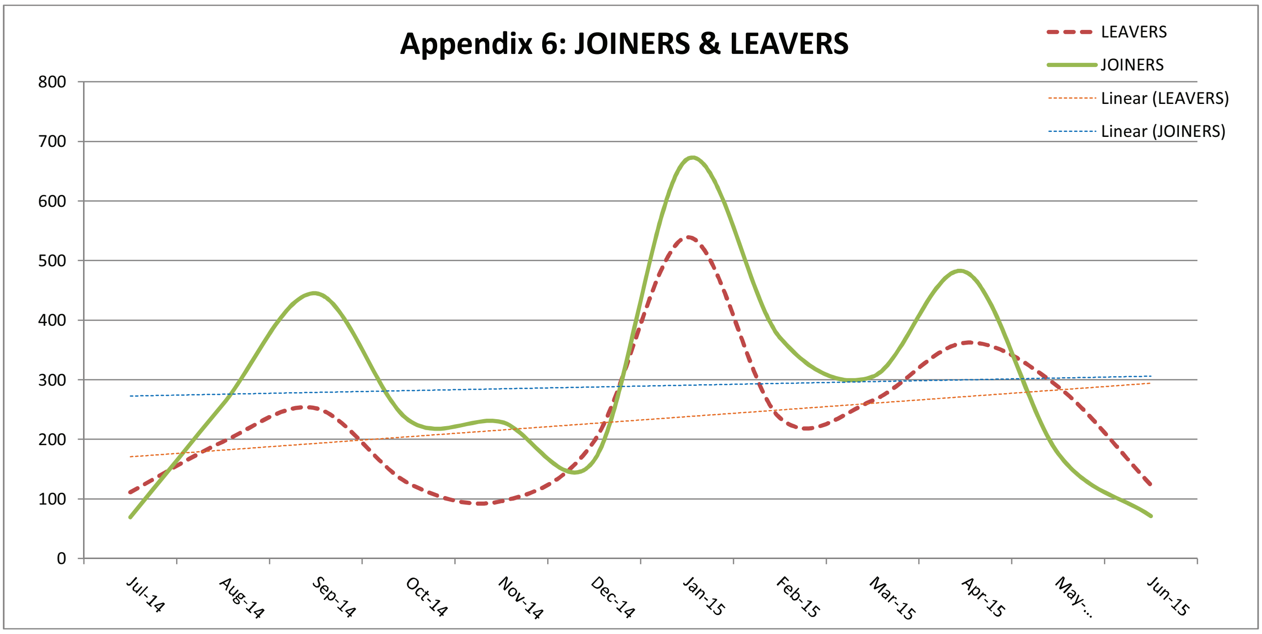
Admin Reports - Appendices 5 and 6. Actives, Joiners and Leavers to 30th June 2015





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APPENDIX 7 (to Pension Fund Administration Report) Agenda Item 15

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the fifteenth report on the performance of Fund employers and the Avon Pension Fund staff following the Pensions Administration Strategy coming into effect on 1st April 2011.

Included in the Report are the following:

1. Graphs for each of the four Unitary Authorities and collectively all 'Other' reporting employers showing performance on processing leavers (retirements and early leavers). **Annex 1** details current reporting quartile, **Annexes 2 & 3** display the trend expressed annually from 1st April 2011 to 30th June 2015.

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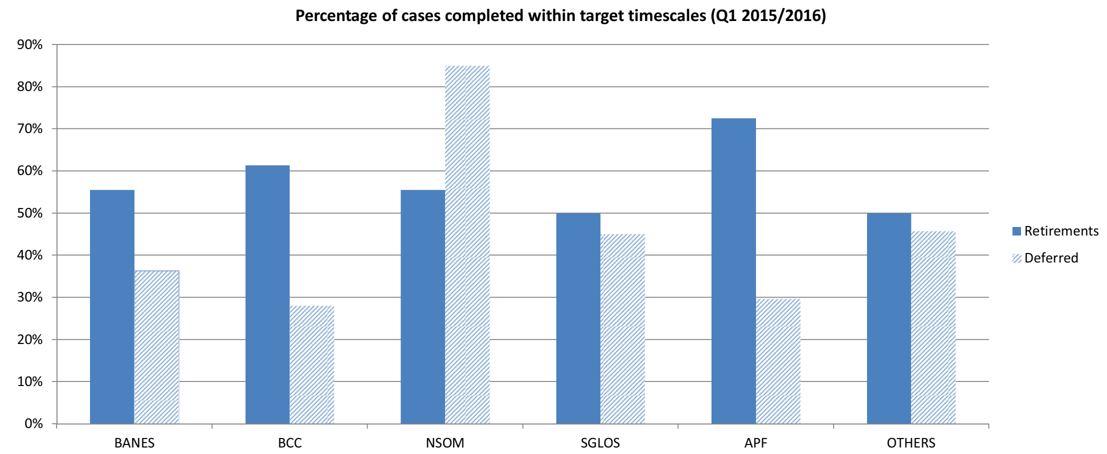
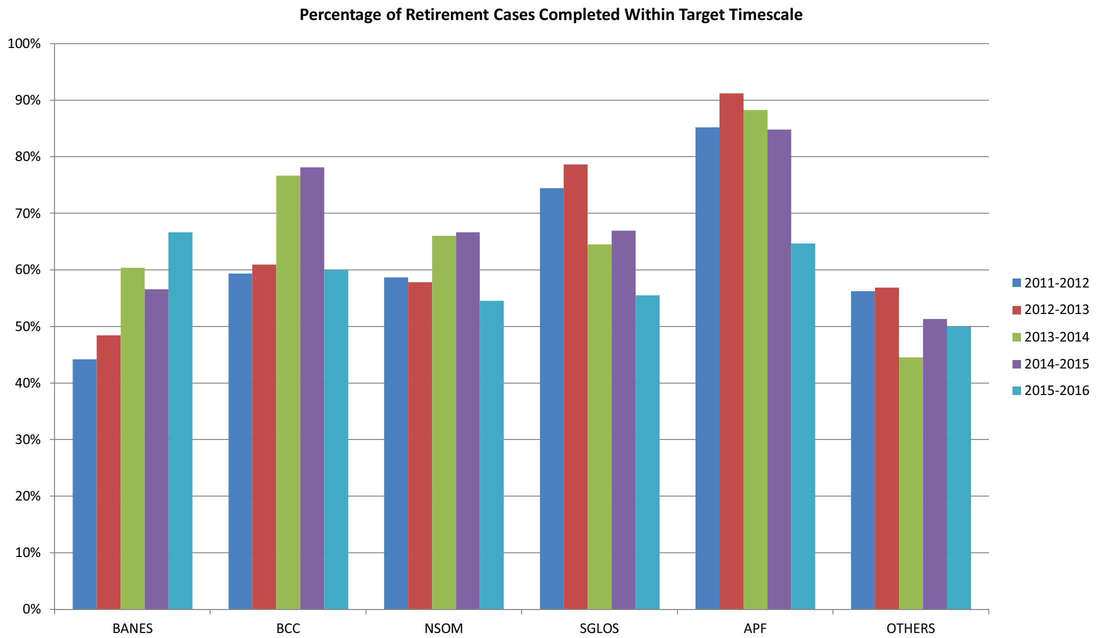
Admin Report: Appendix 7

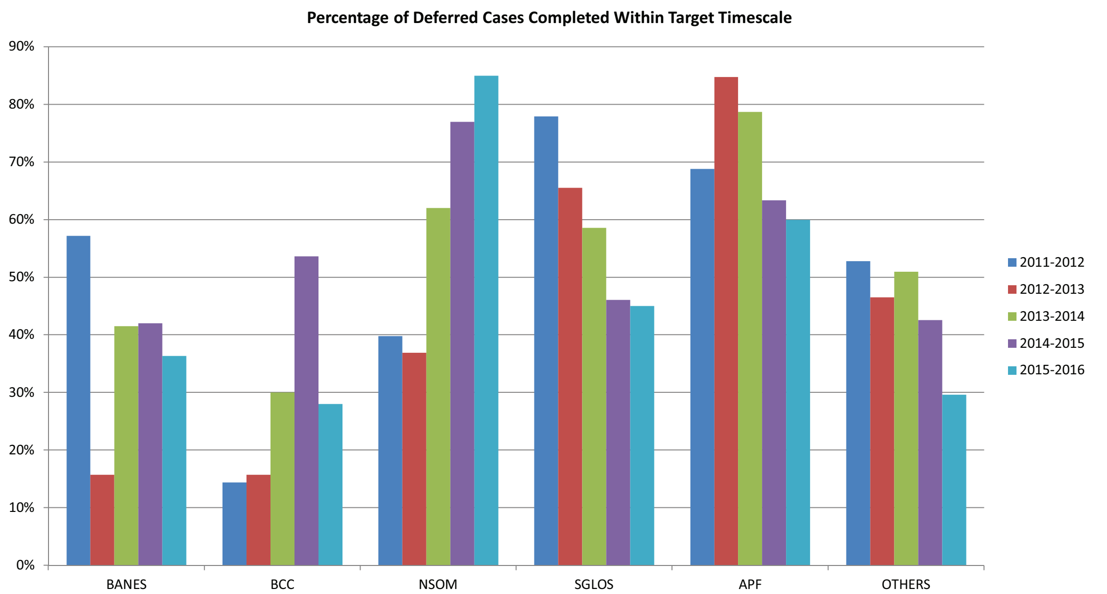
Annex 1



Annex 2



Annex 3



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Appendix 8

AVON PENSION FUND RISK REGISTER

			Likelihood					Impact					Risk score	RAG	Scale of financial impact
			1	2	3	4	5	1	2	3	4	5			
	Risk	**Management actions**	L		M	H		L		M	H				
1	Systems failure or lack of accessibility to systems. Implication: potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions	Policies in place: (i) SLA with B&NES IT for corporate systems (ii) SLA with Heywood for pensions system (iii) APF DR policy (iv) B&NES BCP. Daily back up of pensions system limits loss of data, re-processing of data. Tested periodically (on-going). Rely on B&NES systems of control and firewalls to prevent virus attacks	1							3			3	G	£10,000 to £100,000
2	Dependence on electronic data from scheme employers. Implication: inaccurate or incomplete data.	Internal and /or external audit to review scheme employer processes. Employers are trained on use of electronic data submission by Fund staff. Controls in place to monitor data quality	1							3			3	G	£10,000 to £100,000
3	Fraudulent access to the self service facilities offered to employers and members	Rely on B&NES systems of control and firewalls to prevent virus attacks. Register of authorised users maintained by Fund	1							3			3	G	Under £10,000
4	Failure to comply with TPR code to maintain accurate and timely membership records caused by failure of employing bodies to notify employment changes. Implications:	Introduced electronic facilities for employers to send membership data to the Fund. Process in place to monitor employers and Fund's compliance with agreed timescales (on-going) Data Quality Team in place to check and monitor accuracy of data/records (on-going)	1							3			3	G	£100,001 to £1m

	breach of statutory duty to notify, pay benefits, maladministration and potential fine from TPR	Pensions Committee awareness of TPR requirements - access given to TPR training toolkit Hold regular employer user group meetings to remind them of their obligations and statutory/ Fund policy changes Ensure employers' website is up to date with accurate information and instructions to employers about notification of changes. Ongoing website updates - 6 monthly review of content. Complete annual reconciliation of membership Review TPR code to ensure compliance procedures and processes in place. Review TPR code to ensure compliance procedures and processes in place. Administration Strategy sets out the compliance standards. SLA in place with employers stating employer obligations and timescales. Establish monitoring system of TPR standards to ensure compliance by Fund and employers. Implement APF TPR employer data improvement plan													
5	Non-compliance with Data Protection Act (including TPR's codes and standards). Implication: Fines imposed, criminal/civil prosecutions, data processing suspended, adverse publicity	Pensions Manager responsible officer for DPA. Obtain Confidentiality Agreement from the Fund Actuary (Mercer) and Nominated Tracing Bureau. Ensure compliance with B&NES DP policies (on-going) All staff share personal data with 3rd parties through secure portals		2						3			6	G	£100,001 to £1m

		Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud viz. National Fraud Initiative. (On-going) On-going training of employers in their TPR obligations													
6	Failure to provide information asked for under the terms of the Freedom of Information (FOI) Act 2000	FOI contact officer have been appointed - Investments Manager Documented procedure have been circulated to all staff for handling all FOI requests - all requests passed to FOI Contact Officer to deal with. Requests logged centrally for pensions. Circulate FOI procedure to all staff annually Make generic data available via website, to reduce number of requests and responses required.	1						2				2	G	£10,000 to £100,000
7	Fail to communicate effectively with stakeholders - Employers, Members. Implication - reputational risk, poor public relations, lack of information to make informed decisions and failure to comply with TPR code	Regular newsletters are produced to advise members of the performance of the fund and changes to the Pension Scheme including feedback. Maintain a list of employer representatives to take part in User Groups/ attend forums.(On-going) Arrange regular Employer User Group meetings to remind them of their responsibilities and any Statutory / Fund changes (On-going). Arrange annual conference for all employers, APF Committee members Local Pension Board members and HR, payroll and Finance senior staff.	1							3			3	G	£100,001 to £1m

		Following change in LGPS benefits arrange for scheme documentation to be revised /re-issued to members within legal deadlines. (On-going) Maintain APF website up to date (On-going). Maintain and publish a Service Charter to clearly communicate minimum service standards. Communication Strategy sets out Fund's statement and approach to communications													
8	Avon Pension Fund Committee and employing bodies do not receive independent assurance that the Fund's system of internal controls is operating effectively.	Report all independent reviews, normally by internal audit (including specific reports on Fund's system of internal controls) of the Avon Pension Fund to the APF Committee. (On-going).	1							3			3	G	£10,000 to £100,000
9	Failure to identify payments in error resulting in undetected fraud or error. Implication: impact on Fund assets.	Sign off process in place for all payment types Agree with internal audit the strategic /annual audit plan to ensure this risk is reviewed, actions identified and assurance provided. Fund data provided to National Fraud Initiative to enable fraud to be detected. (every 3 years) In post training to mitigate errors and ensure understanding of procedures	1						2				2	G	£10,000 to £100,000
10	Contributions from Employing bodies to the Fund are incorrect in value or late. Implication: adverse short term cash flow	Monitor receipt of monthly LGPS50 forms from employing bodies and do reasonableness check on payment amount. Follow up potentially incorrect payments (monthly, on-going) and verify authorisation.		2						3			6	G	£100,001 to £1m

	and employer specific deficit could be over/under stated (this would ultimately be identified in next actuarial valuation), breach of obligations could lead to TPR fines	Annually request from each employer details of all contributing members. This is reconciled to contributions received from the employer. Monitor receipt of monthly LGPS50 forms from each employing body to check timely receipt of contributions and authorisation. Follow up any late payers. (monthly on-going) Verify receipt of employing body payments through review of bank statements (On-going) Report Performance Indicator to Avon Pension Fund Committee quarterly including late payers (On-going) Set out fines for non-compliance/ disproportionate work in Administration Strategy													
11	Failure of Pension software supplier. Implication: Risk that system used by Fund is not supported	Monopoly supplier providing service to >90% of LGPS funds with common system. Therefore high probability business / client base will be bought by another provider Monitor provider to verify sufficient market share is held to indicate committed to client base. Monitor financial standing annually.	1								4		4	G	£100,001 to £1m
14	Delayed payment of pension because of failure of BACS System or Interface with CSeries. Implication: members may experience cash flow problems and possible bank charges if pension payments are delayed. Reputational risk if	Documented Contingency Plan / council DRP in place detailing: method of communicating problem to members, alternative method of processing payments. To be updated for new interface. B&NES IT will be reviewing SLA in April 2015 Procedure in place to enable members to claim reimbursement of costs related to late pension payments. To be reviewed.	1							3			3	G	Under £10,000

	payments are not paid promptly. Non-compliance with TPR code.														
15	Industrial action by postal service used by Pension Fund. Implication: Delay in members receiving communications or payment if payments made by cheque. (Note: Cheque payments to members per month - <0.2% of total payments)	Greater use of electronic means for payments, receiving changes to member records and dissemination of information to members and employers mitigates this risk (on-going) Documented contingency plan for those members receiving cheque payments.	1					1					1	G	Under £10,000
16	Absence of staff with specialist / key skills. Implication: Delays/errors in processing payments to members. Members experience hardship and bank charges. Reputational damage to Pension Fund. Non-compliance with TPR code.	Strengthened resources within teams to increase knowledge, experience and build in resilience. Review staffing level/ capacity annually as part of service plan Training in place to ensure technical skills and knowledge is shared Identified training requirements in PDRs; training plans in place	1							3			3	G	£10,000 to £100,000
19	Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and	Ensure all information is provided in an accessible and timely manner Training tailored for employers' staff is provided for all new employers and refresher sessions for existing employers		2						3			6	G	£10,000 to £100,000

	employee members, and TPR code	Enforce penalties allowed under administration Strategy for repetitive non-compliance with obligations / disproportionate work Set out employer training obligations in Administration Strategy. TPR improvement plan to highlight areas of employer failure													
20	Governance risk of investment managers, custodian and other investment suppliers, including insolvency and control environment to prevent fraud. Implications: Detrimental impact to the investment strategy through loss of assets or inability to trade due to assets being inaccessible	Internal control reports of all investment suppliers reviewed annually to identify and investigate any weaknesses in the control environment and to be evaluated as part of any tender exercise. Exceptions reported to Committee. Financial standing of custodian is checked during tender evaluation prior to appointment Custodian's oversight of sub-custodian network assessed in tender process for custodian Annual monitoring of the financial standing of the custodian during period of contract Legal agreement with custodian includes requirement of custodian to exercise due care in selection of sub-custodians Custodian's monitoring process of sub-custodian network assessed annually as part of review of internal controls Obtain legal advice for the custody and investment management contracts during a tender process to ensure adequate protection in the event of fraud or insolvency (as required)	1								4		4	G	Greater than £1m

		Assurance obtained annually from the managers of pooled assets that they have in place monitoring procedures regarding the financial standing of their custodian & that the custodians that they use gave systems in place to monitor and control their network of sub-custodians Due diligence undertaken by the hedge fund managers on underlying managers/holdings on controls around administration and prime brokers is assessed on appointment and monitored annually as part of the audit process Monitoring process in place to reconcile the custody transactional records to those of the fund managers in respect of income receipts (dividends, coupons, tax reclaims), trades, holdings and security values													
23	Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Implication: Any liability will be absorbed by the Fund and spread across other employers, increasing overall liabilities and employer contribution rate and reduce the funding level.	Covenant assessment monitoring process in place for on-going assessment of financial standing of fund employers Review all employers to identify whether guarantee arrangements are adequate as part of covenant assessment and explore options for obtaining guarantee, bond or contingent assets if appropriate Exit and termination policies in place to ensure financial risk to the Fund is minimised when scheme employers cease to be active employers. For those employers where the pension liabilities undermine the financial viability of the organisation, discuss ways of capping the debt.			3				2				6	G	Greater than £1m

25	Lack of continuity and knowledge within Avon Pension Fund Committee. (This risk arises mainly because some members face re-election simultaneously. Until the new members are fully trained, there may be a delay in decision-making).	Maintain 2 independent members on the committee that are not subject to the electoral cycle. Introductory sessions are organised for all new committee members, covering pension and investment issues on the upcoming meeting agenda. (on-going) Arrange basic training course for all new Committee Members [organised by the LGPC] (on-going) Assess committee knowledge and skills level; identify training needs; agree training plan. Hold workshops for committee to explore aspects of the fund in more detail to facilitate decision making Training plan in place reported to committee quarterly				4				3			12	A	Greater than £1m
26	The Avon Pension Fund fails to achieve investment returns sufficient to meet its liabilities, as set out in the Actuarial Valuation. This could negatively affect the contribution rates paid by the employing bodies.	The Fund periodically undertakes an asset liability study which determines the appropriate risk adjusted return investment strategy required to meet the liabilities. The investment strategy is reviewed annually by the committee to ensure it remains appropriate. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee. Monitoring of investment performance of the Fund is reported to the Panel and Committee quarterly. Implementation of strategic or tactical decisions is reported as required to Panel and /or Committee. Any issues will be reviewed by the investment panel prior to being considered by the committee (on-going).			3						4		12	A	Greater than £1m

		The estimated funding level is reviewed quarterly to monitor the impact of the investment return on the funding level and is reported to Committee (on-going). Ensure specialist advice is taken prior to any investment decisions are made to ensure decisions are in line with SIP and contribute to investment objective. Report any potential legislation changes that may affect the investment strategy to the Panel for discussion. Discuss implications of consultation papers or draft regulations with advisors immediately to assess impact and identify potential projects. Inform scheme employers and members as appropriate of any potential changes in the relating to investments and funding in the regulations. Ensure SIP clearly sets out investment strategy and is kept up to date Established Investment Panel to support Committee in implementation of investment strategy. Explore approaches to managing liabilities more effectively and build into funding and investment strategies													
27	The investment managers appointed by the Avon Pension Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve	Monitoring & managing the performance of the managers is delegated to the Panel. The RAG performance monitoring framework identifies managers that are underperforming and issues that could impact future performance. Issues and changes in RAG ratings are reported to the Panel who agree an action plan to address the issue. The Panel reports quarterly to committee on the			3				2				6	G	Greater than £1m

	the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	performance of the managers and changes in RAG ratings. Ensure adequate due diligence is undertaken prior to the appointment of a new manager, incorporating the use of external advice covering technical capability, investment approach, risk management (including responsible investing risks) and value for money. The impact of underperformance by any individual manager is limited given diversification within investment management structure. Thus in aggregate the likelihood and impact are reduced.													
28	The Fund is unable to recruit appropriately skilled technical or investment staff given the short supply of such staff regionally in the market. This could restrict the Fund's ability to develop and implement the service plan.	Complete PDR process with all staff to identify training and professional qualification needs based on Service requirements. Identify at risk areas and consider succession planning to minimise risk of losing skilled/specialist staff. Explore options for developing apprentice and graduate level staff.			3				2				6	G	£10,000 to £100,000
29	There is a risk that the service does not focus on the customer needs / expectations resulting in poor service delivery and inability to maintain good customer service	Ensure all policies are in place to ensure quality service is delivered to TPR requirements. Review periodically e.g. administration and communications strategies, SLAs Use of feedback from members and employers to continually improve the service	1						2				2	G	£10,000 to £100,000

38	The pension fund monies are not accurately allocated to the pension fund bank account through the income receipting system. This will result in an incorrect pension fund cash balance.	Bank reconciliation in place whereby the pension fund accounts are reconciled to the pension fund bank account on a weekly basis (ongoing). Monthly reconciliation statement reviewed by Investments Manager.	1					1					1	G	£100,001 to £1m
39	For the cash invested by the Council on behalf of Pension Fund that the counterparties fail / delay the return of principle and /or investment income to pension fund as requested.	Annual report to Committee to obtain approval for the Pension Funds Treasury Management Policy (sets out the maximum limits and maturity terms for each counterparty). Monitor compliance with the PF Treasury Management Policy by reviewing Investment Activity Report (ongoing).		2						3			6	G	Greater than £1m
40	The pension fund cash flow profile is maturing. Risk there is not enough cash to pay pensions on a monthly basis due to a reduction in contributions paid into the Fund. This will result in the bank account being overdrawn and possibly non-payment of pensions.	Policy in place to monitor cash balance during the monthly cycle. Monitor on ongoing basis. Investment policy addresses need to generate income from investments portfolio and / or the divestment of assets as required. The cash requirement is monitored on ongoing basis.	1							3			3	G	£100,001 to £1m

41	There is a risk that the service fails to comply with the Council's codes of practices, standing orders and corporate policies in respect of equalities, H&S and employment. Implication: fines for non-compliance, disciplinary issues, reputational risk.	Ensure all managers are aware of the Council's policies which are documented on the Council's information system	1						2				2	G	£10,000 to £100,000
42	Increasing political pressure to reform scheme structure, governance and direct investment decisions. If fund does not have robust plan for change, government may legislate to enforce change: Implications: committee does not make decisions in the best interest of the Fund or is unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, with consistent message Participate in collaborative working practices with other LGPS funds where possible/appropriate Officers responsibility is to advise Committee and if Committee unable or unwilling to take decisions, can refer issue to S151 Officer under urgent powers or report under Code of Conduct Discussing with other funds to agree frameworks for collaboration and identifying opportunities for shared investments.				4					4		16	R	Greater than £1m
43	Changes to the scheme lead to significant implementation failures	Have project plans in place with distinct milestones and responsibilities													£100,001 to £1m

	or lack of resources to deliver existing service. Implication: productivity falls, quality of service reduced, mis-information to employers and members - CLOSED	Review project plans progress at monthly management meetings.													
44	Office move: service moving to new council offices by November 2014. Risk that move delayed; physical move causes delays to work; access to systems for flexible working not fully operational by move date. CLOSED	Prepare teams for new flexible working environment prior to move (review filing, start working flexibly, restructure work processes for fully electronic working). Test systems thoroughly before move to identify issues and put work around solutions in place Have identified "movers & shakers" to engage actively with Council project team and feedback requirements to management team.													Under £10,000
45	Pension legislation allows people to withdraw their pension "pot" from age 55. This will apply to the LGPS. Although tax penalties may reduce the attractiveness of this option, there is a risk that it matures the fund more quickly than assumed in the 2013 valuation. Cash flow could become more negative due to transfers out. As yet no	Work with actuary to understand potential consequences on maturity profile of fund, funding of liabilities and agree a policy for valuing the transferring pension "pots". Incorporate into 2016 valuation. Initial report prepared by actuary in June 2015. Ongoing review as experience develops. Review leaver process to ensure capture numbers that leave due to this option. Engage with DCLG/Treasury and actuarial bodies on relevant regulations / guidance. Build assumption for transfers out into cash flow model once experience develops.			3					3			9	A	Greater than £1m

	clarity as to how it may affect the actuarial assumptions used for such transfers.	Assess impact on investment strategy in terms of maturity profile, cash flows and income generation.													
46	Transformational risk as move towards fully electronic management and use of data and information	Training of employers to ensure staff have sufficient knowledge to transact electronically. This could include Fund officers working at employer sites or remotely to support employers For those members that still request non-electronic data receipt, have alternative systems in place to meet their needs. Resource and systems in place to support transformation viz employer communications strategy/website/training		2					2				4	G	Under £10,000
47	Introduction of employer cost cap mechanism by central government. PR/communication risk and increased need for communications to employers and members	Ensure this is covered in employer user groups/forums and explained via employer and member newsletters. Use generic material from Actuary to communicate to employers. The cost cap mechanism will be discussed with the Committee during the 2016 valuation process.			3			1					3	G	Under £10,000

48	Trivial commutation project. Small pensions in payment can be commuted to a lump sum. Around 4000 pensioners may be eligible under this regulation. Implications: Impact on cash flow through payment of lump sums versus monthly payments; resources required to support the project.	Manage resource requirement over medium timeframe			3				2				6		£100,001 to £1m
49	Freedom & Choice in Pensions. Pensions reforms offering greater flexibility on DC schemes for individuals aged 55 and over. There is an indirect impact on members considering DB to DC transfer arrangements	Member transfer estimate and payment requests monitored and reported Freedom and choice guidance and member F&Q's communicated and available on website Transfer process amended to require appropriate (FCA) advice for payment requests. Recommended for <£30K			3				2				6	G	£100,001 to £1m
50	B&NES Reduced Office Space in Civic Centre. Office closure in Bath resulting in expected increase in staffing numbers from Nov/Dec 2015.	Task workflow project implemented to support flexible working for 50% staff officers Hot Desking Spreadsheet set up to identify desk availability		2						3			6	G	Under £10,000

51	Risk of Fund retaining incorrect pensions liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	Manage resource requirements over timeframe Develop project plan to manage data reconciliation process and outcomes including volumetrics Monitor and report progress and actions taken Communicate with HMRC and members regarding actions undertaken (ongoing)			3					3			9	A	£100,001 to £1m

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 September 2015**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS UPDATE [INCL. RESPONSES TO CONSULTATIONS]**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Notes on Best Value and GMP Reconciliation from March Committee

Appendix 2 – Avon Pension Fund Response – [Public Sector Exit payment Cap] 28th August 2015 with Annex 1

Appendix 3 – Avon Pension Fund Response – [Green paper on Taxation of Pensions] September 2015 (to be tabled at meeting)

1 THE ISSUE

1.1 The purpose of this report is to present to Committee an update of areas highlighted at the March Committee that would potentially impact on the administration of the Local Government Pension Scheme [LGPS], including responses to the consultations set up by HM Treasury..

1.2 With the exception of the Pension Regulator Code of Practice covered This report gives an update on the

Effects of "Freedom and Choice"
Fair Deal and Best Value Direction
HMRC: GMP Reconciliation

1.3 There has also been a short consultation on the introduction of an Exit Cap on payments made to employees leaving on redundancy grounds. A response was sent and a copy is attached as Appendix 2.

1.4 The summer budget statement included reference to a consultation on pension tax relief and a draft response letter is attached as Appendix 3

2 RECOMMENDATION

That the Committee:

2.1 Notes current update and the response made by Bath and North East Somerset Council in connection with the Exit Payment Cap consultation

2.2 Approves the response letter regarding pension tax relief consultation

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates

3.2 There are no specific financial implications.

4 Areas that will impact on the Administration of LGPS

Freedom and Choice

4.1 The introduction of Freedom and Choice within pensions following the Budget 2014 has resulted in the need for a set of amendment regulations; a consultation on these changes is expected before the end of the year.

Best Value and Fair Deal

4.2 As reported in March [see Appendix 1] the government had set out, in September 2014, it's guidance for Fair Deal on outsourcing functions to contractors and pension members retaining public sector pension rights. DCLG for Local Government, which does not come under Fair Deal but has a Best Value Directive, were expected to produce a consultation on how this was to operate going forward.

4.3 Following various delays including the election and then having a new minister to instruct a meeting between DCLG pensions and the minister was scheduled to take place week commencing 14 September 2015.

GMP Reconciliation

4.4 As reported in March [see appendix 1] as part of the introduction of the Single State Pension, HMRC have informed that the unit dealing with the Second State will be shut down by 2018.

4.5 Initial population checks on our data are being made against information received from HMRC. This will be the minimum level of checks required as it will identify the correct members for the correct schemes and in local government each fund.

4.6 There has not been any definite confirmation from HM Treasury on how inflation proofing of GMPs will be covered once the Single State Pension comes into force. There are two working parties from all public sector employers trying to get HM Treasury to prescribe a definitive solution as the timescale involved has already reached critical with regards any changes to pension payroll routines.

4.7 One of the outcomes may be to pass all inflation proofing back to the schemes in which case the full reconciliation may not be required.

4.8 A copy of the response letter from an administrative perspective is attached as Appendix 2

5 Responses to Consultations

Public Sector Exit Payment Cap [£95,000

5.1 On 31 July 2015 HM Treasury issued a consultation on a Public Sector Exit Payment Cap. https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap

5.2 The consultation sought views on a potential limit on the costs paid when an employee was made redundant with a proposed limit of £95,000. This limit was to include all payments made including such items as any redundancy payment, ay in lieu and specifically the cost of bringing any immediate pension scheme benefits into payment early.

5.3 The consultation ran for four weeks with a closing date of 27 August 2015

5.4 The consultation was brought to the attention of all Scheme Employers for them to comment if affected, as the main implications were primarily employer based.

5.5 However from an administering authority perspective a response was send through to HM Treasury on 27th August 2015 from Bath and North East Somerset and a copy of this response is included in Appendix 2

Consultation on Pension Tax Relief

5.6 The Chancellor announced with his summer budget statement that a consultation was being issued to discuss the way forward in how pensions were to be taxed. This was a review to look at pension taxation in light of the pension changes under Freedom and Choice as set out in the budget in 2014.

5.7 One of the key areas included is whether the system of allowing pension contributions to be made tax free should remain or whether a system similar to ISAs where the tax concession is made at the point of access should be adopted

5.8 The deadline for responses is 30 September 2015 and a draft response will be issued at the meeting as Appendix 3 for approval.

6 RISK MANAGEMENT

6.1 No specific issues to consider

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Alan South Technical Manager (Tel: 01225 395283)
Background papers	*Consultation documents and responses*
Please contact the report author if you need to access this report in an alternative format	

DCLG: Consultation on Best Value

Initially the Hutton Report indicated that contractors should not be allowed to participate in public sector pension schemes. However Lord Hutton did subsequently change his views and as a result in December 2011 the Heads of Agreement for the new public sector pension schemes allowed for members being subjected to an outsourced contract be allowed to remain in their existing pension arrangement.

This option could not be included in the original LGPS 2014 regulations as the PPA2013 is not operative until 1 April 2015.

The other public sector schemes all have their new schemes effective from this date and the Government has also issued guidance on the Fair Deal arrangements connected with this.

The LGPS is subject to DCLG guidance on Best Value and a consultation document on this, similar to the Best Value guidance, has been expected over the past year but has yet to appear. It is expected that regulation changes will be made to reflect this guidance. It is unlikely that a consultation will be released before the General Election in May 2015.

Some educational employers within the LGPS, such as Academies, are subject to Fair Deal but until the LGPS regulations have been amended the GAD advice has been to continue the current process on TUPE transfers which allows the new contractor to either apply to become an admission body within the APF or to provide a broadly comparable pension scheme as certified by the Government Actuary.

Abolition of Contracting-out in 2016
Guaranteed Minimum Pension Reconciliation

As the LGPS is a contracted-out pension scheme Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension. From April 1978 to March 1997 pensions paid had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP]. APF is also responsible for certain elements with regards to pension increases on this element.

With the introduction of the Single State Pension in April 2016, contracted-out status will cease. HMRC will phase out its contracted-out section by April 2018. Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating the amount of GMP they will receive and who is responsible for paying it. Ahead of this, schemes should reconcile the GMP values they hold for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom they believe they have no liability.

Until 2018 schemes will be able to challenge the figures where they believe discrepancies are the result of errors on HMRC's part, but past this point no further challenges will be accepted. With exercises frequently taking up to three years to complete, this gives schemes a limited window to make sure their own records tally with HMRC's

APF have registered with HMRC for them to provide a list of all members that they have on their records as belonging to us. This list will then be compared with our records to ensure that all GMP liabilities are correct. From April 2018 there will be nowhere to challenge any GMP going forward. In the past notifications have been received from HMRC that refer to other employers such as members of the Teachers' Pension Scheme so it is important that our records match with HMRC so that no unnecessary liabilities remain.

Errors in GMP values can lead to potentially significant pension overpayments. Based on findings from the National Audit Office's enquiry into five public sector schemes, it has been estimated that the total overpayment on existing deferred and pensioner members within a small pension fund could be around £550,000. The initial reconciliation will cover deferred and pensioners with HMRC supplying information for active members in 2017.

The project will need to

- Identify the member records affected, including those records where the fund and HMRC differ over responsibility for the liability.
- Assess impact of varying the matching tolerance.
- Reconcile member data, including service, held by the fund to records provided by HMRC.
- Calculate any GMP liability that is not currently held on the record, e.g. at date of death where applicable.
- Update records that match or are within a given tolerance.
- Accelerate the investigation process by indicating likely causes of any mismatch

The actual size of this project will be unknown until the HMRC list is received and compared but other LGPS administrators are allocating resources for the next two years, some are creating temporary posts. There are several companies willing to provide assistance but it is doubtful whether the costs involved would be justified as it would appear that whilst the initial population check would be done the work on specific reconciliations of amounts would either still require in house input or costs would be high.

Discussions are in progress with HMRC regarding our list of the records and once this list is received we will be able to assess the overall task involved, along with the potential costs involved.

Consultation on Exit Payment Cap
Workforce, Pay and Pensions Team
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Ask for: Alan South
Telephone: 01225 395283
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS

Date: 27 August 2015

Dear Sir

Consultation on Exit Payment Cap

Bath and North East Somerset are the administering authority for the Avon Pension Fund [APF] under the Local Government Pension Scheme [LGPS]. This response is made as an overview from the Fund, All our scheme employers have been notified of this consultation to submit responses from an employer perspective if they so wish.

The main concerns regarding the introduction of an exit cap are

- whether local authorities are already making costing decisions because of the reduction in budgets and this merely complicates matters
- that considerable care is exercised in how it will it be implemented within the LGPS regulations. Some issues may lead to over complicated legislation
- particular care must be made to incorporate how it will affect all the different types of employer within the LGPS
- in ensuring that use of waiving the cap is both fair and consistent and that this is independently monitored
- that conditions for exemptions should be in public interest and specific bodies not allowed to self-regulate [e.g. BBC, Banks, MPs]

Comments regarding the issues raised in the consultation are set out in Annex A

There are many different areas of concern involved with these proposals and once the consultation period has concluded, it will be imperative that all interested parties have an opportunity to input into any changes to schemes and the implementation from an administration perspective.

Failure to do so could have severe consequences for employers at a time when redundancies are very much an important tool in addressing budget issues.

Yours sincerely

Alan South
Technical and Compliance Manager
Avon Pension Fund

Annex A

Comments on Exit Cap Consultation

As some questions are linked with others, these comments have been assessed as a whole from the following questions from the consultation

Question 3: Do you agree that the payments listed should be subject to a cap on exit payments under the terms set out above? If you believe certain payment types should be excluded please provide a rationale and examples.

Question 8: Do you agree that the government has established the correct scope for the implementation of this policy?

Question 9: How do you think the government should approach the question of employees who are subject to different capping and recovery provisions under TUPE rules following a transfer to (or from) the private sector and whether there should be consistency with public sector employees in general?

Question 10: Do you agree with the proposed approach for waivers to the cap on exit payments?

Comments

The LGPS has altered significantly over the past few years in the number and types of employers that now participate in the scheme. Any introduction of an exit cap must be considered carefully as changes to the scheme although relevant to the majority of members may impact on a significant number of employers to administer.

The LGPS has recently been changed as a result of Lord Hutton's review along with other public sector schemes. All interested stakeholders were included in the discussions for deciding the new scheme details. This was therefore an opportunity for the LGPS to have been aligned with other public sector schemes where receipt of an immediate pension on redundancy for those over age 55 is only allowed where the member elects and takes a reduction in benefits for the early payment. As this was not actioned there must have been some rationale as to why and HM Treasury did not insist that this change should be made. It does seem strange that HM Treasury now want to restrict the amount this costs the employers.

It could therefore be taken that if kept as before the decision on cost would be entirely down to the employers. Under the LGPS there are a number of discretions that employers have to make as a policy statement. In the large majority of cases employers will usually state that the provision will only be used where there is no cost to the employer. Would a similar policy requirement be made for any exit cap? Who will monitor the exceptions?

Experience has shown that employers will request strain cost estimates before proceeding with redundancies and will then make their decisions on whether such a redundancy will be cost effective. This will have been highlighted in recent years with local authority budgets being cut and the need to downsize the workforce.

Annex A (Cont)

When going through this exercise of reducing costs, the larger savings will always be from reducing those at the highest levels. Exit costs are relative throughout the workforce and higher earners have worked through to attain their level.

From the figures shown in 3.3 it shows that only 660 members exceeded the proposed cap out of 38,406. Is this not just penalising the few who have earned their position and entitlements? These members are already paying higher contributions and having restrictions imposed with regards taxation on their benefits

In the short term with critical retirement ages still around the age 60 mark, this cap could easily affect members whose pay is around £40-50k where service is at a sufficient level.

By introducing a cap there could be some interference with the selection process by releasing someone whose exit payment is below the cap in preference to one who exceeds it, regardless of other criteria.

Would the member be compelled to take capped benefits or have any other options?

In the more high profile individual cases an employer will be seeking to terminate employment and these cases even involve compromise agreements so it is likely that these cases may still exceed any cap. Full Council approval is already generally sought in such cases so any cap here may become irrelevant. Will there be any monitoring by an outside auditor of decisions made?

Exactly how will the £95k be assessed when dealing with strain on fund cost for early receipt of benefits? Strain costs are set out by fund actuaries so are different throughout the country whereas the exit cap is a standard rate so will there be a standard strain cost issued by Government Actuary to ensure consistency among funds?

There will also be the requirement of information from employer to administrator as if the starting figure is £95k what order will all exit payments be taken and what will constitute any level of strain on the fund cost still allowed. Will this be open to agreement with the member whether one exit payment is given up to retain another?

Where TUPE transfers have occurred always seems to raise problems. Indeed there are two procedures that relate to pensions in such cases, Fair Deal and those in local government subject to a Direction Order. Again it must be dealt with to ensure that protections are maintained and that no area is either advantaged or disadvantaged. The problem will be that many of the scheme employers are outside contractors and not subject to the requirements of TUPE in this respect. Any introduction of an exit cap must make provision of this and be included in the legislation.

One area not raised is imposing a restriction on members drawing their pension on redundancy and immediately obtaining employment elsewhere. This should be reviewed when assessing the full picture on redundancy payments.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 September 2015**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 30 June 2016** **Appendix 2 – Pensions Benefits Workplan to 31 December 2015** **Appendix 3 – Committee Workplan to 31 March 2016** **Appendix 4 – Investments Panel Workplan to 31 March 2016** **Appendix 5 – Training Programme 2015 - 2017**	

1 THE ISSUE

1.1 Attached to this report are updated workplans for the Investments and Pensions Benefit teams which set out the various issues on which work will be undertaken in the period through 2015-16 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.

1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.

1.3 The provisional training programme for 2015-17 is included as Appendix 5.

1.4 The workplans are consistent with the 2015 -18 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.5 The workplans are updated quarterly.

2 RECOMMENDATION

2.1 That the workplans and training programme for the relevant periods be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 The workplans and training plan will be updated with projects arising when these are agreed.

4.3 The provisional training programme for 2015-17 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

6 EQUALITIES

6.1 An Equalities Impact Assessment has not been completed as the report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

INVESTMENTS TEAM WORKPLAN TO JUNE 2016

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to Ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars Training programme for new members in place	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects delegated to Panel for implementation or further investigation further. • Review of FX hedging programme • Liability hedging – preliminary work to start in 2H14/15 • Use of tactical ranges and "others" • RI Policy Review	 In progress In progress Panel reports 4Q15 Committee 2Q16
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	4Q15
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually 3rd quarter
Investment Forum	To discuss funding and investment strategies and issues	4Q15 as part of Employers Conference
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	Commenced 2Q15
Establish Pensions Board	Training plan	From July 2015
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Commence 1Q16 (dependent on corporate solution)
2015 Interim Valuation	As at 31 March 2015; preparatory work 2Q15	Commence 2Q15 Committee workshop 4Q15
2016 Actuarial Valuation	As at 31 March 2016; review Funding Strategy Statement	Preparatory work starts 2Q16
Pooling of investments	Participate in exploring options for pooling	On-going

	Proposals required in 1Q16	
Statement of Investment Principles	Revise following any change in Fund strategy/policies.	On-going
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter

Appendix 2

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 December 2015

Project	**Proposed Action**	**Report**
Employer Self Service rollout	Employer Self Service roll-out and training of all remaining employers to enable full electronic data delivery. Due completion March 2016	Ongoing
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live On-boarding and set up of Avon Fire & UWE Market to other employers during 2015/16 once complete.	4Q15 4Q15 Commence 1Q16
Move to Electronic Delivery of generic information to members	Continue to move to electronic delivery to all members (other than those who choose to remain with paper). Campaign to increase the sign up of members to Member Self Service *(My pension online)*	Ongoing Ongoing
Successfully Implement New Fire Scheme Pension Reform	To follow through Project Plan to effectively implement and communicate the New Fire Scheme. Including staff training & member presentation sessions	Completed Completed
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent) concerning pension refund payment.	Ongoing Completion due 16/17
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance.	Report to Committee - September 2015
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing Report to Committee December 2015
2014/15 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2015	Completed
Review Workflow & Data Processing	Implement new Task Workflow Arrangements. Introducing new software – Process Automation	Completion due 4Q15

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Appendix 3

Committee Workplan to 31 March 2016

DECEMBER 2015
Review of Investment Performance for Quarter Ending 30 September 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 30 September 2015 and Risk Register Action Plan
Report on Investment Panel Activity
Interim Actuarial Valuation 2015
Review options for Ill health insurance for smaller employing bodies
LGPS Pooling of Investments - Update
Workplans
Planned Workshops: Interim Valuation (12 October 2015)

MARCH 2016
Review of Investment Performance for Quarter Ending 31 December 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 31 December 2015 and Risk Register Action Plan
Budget and Service Plan 2016/19
Audit Plan 2015/16
Scheme and Admitted Employer update
Managing Liability Risk
Report on Investment Panel Activity
Review of AVC arrangements
Workplans
Planned Workshops: Actuarial policies – admissions, exits, covenant assessment (February 2015)

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Appendix 4

INVESTMENT PANEL WORKPLAN to March 2016

Panel meeting / workshop	Proposed agenda
Panel Meeting 8 September 2015	• Review managers performance to June 2015 • Managing liabilities – preliminary report • Review of decision to hedge FX exposure
Panel Meeting 18 November 2015	• Review managers performance to September 2015 • Framework for allocating to “Other Bonds” and “Other Growth” assets • Use of tactical ranges within strategic asset allocation (flexibility to protect portfolio, take advantage of opportunities) • LDI – follow up
Meet the managers workshop (TBA)	• Meet the managers workshop o Genesis o Pyrford o RLAM o Unigestion
Panel Meeting 1Q16 (TBA)	• Review managers performance to December 2015 • AVC Review • Managing liabilities – recommendation to Committee Workshop: Meet the managers

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Appendix 5

Committee training programme 2015-17

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure Overview of Fund LGPS Scheme Advisory Board The Pensions Regulator Codes Agenda for June Committee meeting	Committee Workshop	Morning of June 2015 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee Workshop	Morning of 25 September 2015 Committee meeting
3	Actuarial Valuations	Valuation methodology Recap on 2013 valuation 2015 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	½ day October 2015
4	Covenants, admission and exit policies	Covenant assessment process Admission and exit policies and funding basis used	Committee Workshop	½ day in February 2016
5	Investment strategy	Asset allocation & Statement of Investment Principles Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Investment Panel Workshop	Morning of 11 September 2015 Panel meeting (and on adhoc basis)
6	Managing liabilities	Understanding objective Potential solutions Impact on bond portfolio Impact on funding level Proposed framework Recommendation: Objective and proposed framework	Investment Panel meetings Committee Meeting	 June 2016
7	Responsible Investing	Objective and rationale Current policy	Committee Workshop	Morning of June 2016 committee meeting

Training Programme and the CIPFA Knowledge & Skills Framework (2015/16)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new committee training); introductory workshops
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting)
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation e.g. Liability investing
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2015 interim valuation workshop; covenant and funding policies workshop