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Date: 2 December 2010
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To: **All Members of the Avon Pension Fund Committee**

Bath and North East Somerset Councillors: Gordon Wood (Chair), David Bellotti (Vice-Chair), Tim Ball, Gabriel Batt and Victor Clarke

Co-opted Voting Members: Ann Berresford (Independent Member), Carolan Dobson (Independent Member), Councillor Mike Drew (South Gloucestershire Council), Councillor Mary Blatchford (North Somerset Council), Councillor Tim Kent (Bristol City Council), Bill Marshall (HFE Sector) and Steve Paines (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Rowena Hayward (Trade Unions), Paul Shiner (Trade Unions) and Keith Kirwan (Parish and Town Councils)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 10th December, 2010

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 10th December, 2010** at **2.00 pm** in the **Council Chamber - Keynsham Town Hall.**

A buffet lunch for Members will be available at 1.30pm.

The agenda is set out overleaf.

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 Riverside Offices Keynsham (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. **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 - Riverside - Keynsham, Guildhall - 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.

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

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

6. **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, 10th December, 2010

at 2.00 pm in the Council Chamber - Keynsham Town Hall

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

   Members who have an interest to declare are asked to state:

   (a) the Item No in which they have an interest;
   (b) the nature of the interest; and
   (c) whether the interest is personal <u>or</u> personal and prejudicial.

   Any Member who is unsure about the above should seek the advice of the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

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: 24TH SEPTEMBER 2010 (Pages 5 - 12)

8. UPDATE ON ACTUARIAL VALUATION (Pages 13 - 18)

9. HUTTON COMMISSION AND UPDATE ON REGULATIONS - VERBAL REPORT

10. ADMINISTRATION STRATEGY (Pages 19 - 44)

11. INVESTMENT PANEL MINUTES (Pages 45 - 50)

12. RECOMMENDATIONS FROM INVESTMENT PANEL (Pages 51 - 54)

13. APPOINTMENT OF UNCONSTRAINED GLOBAL EQUITY MANAGER (Pages 55 - 62)

    Members are invited to consider passing the following resolution in respect of

Appendix 1 for the reasons set out in the public interest test document preceding it.

“That, 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 be excluded from the meeting for the discussion of Appendix 1 to the report for 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.”

14. FRC STEWARDSHIP CODE (Pages 63 - 70)

15. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2010 (Pages 71 - 128)

16. PENSION FUND ADMINISTRATION - BUDGET MONITORING AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 30 OCTOBER 2010 (Pages 129 - 154)

17. ANNUAL REVIEW OF INTERNAL CONTROL REPORTS (Pages 155 - 158)

18. AVC MONITORING REPORT (Pages 159 - 166)

19. WORKPLANS (Pages 167 - 176)

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 24th September, 2010, 2.00 pm

Bath and North East Somerset Councillors: Gordon Wood (Chair), David Bellotti (Vice-Chair), Tim Ball, Gabriel Batt and Victor Clarke

Co-opted Voting Members: Ann Berresford (Independent Member), Carolan Dobson (Independent Member), Councillor Mike Drew (South Gloucestershire Council), Councillor Mary Blatchford (North Somerset Council), Bill Marshall (HFE Sector) and Councillor Tim Kent (Bristol City Council)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Keith Kirwan (Parish and Town Councils)

Advisors: Tony Earnshaw (Independent Advisor) and Dave Lyons (JLT Benefit Solutions)

Also in attendance: Andrew Pate (Strategic Director - Resources), Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Rowena Hayward, Steve Paines and Paul Shiner.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that Cllr David Bellotti had become Chair of the Investment Panel for the remainder of the current Municipal Year.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 25TH JUNE 2010

These were approved as a correct record and signed by the Chair.

8 AUDITED STATEMENT OF ACCOUNTS AND THE ANNUAL GOVERNANCE STATEMENT 2009/10

The Finance and Systems Manager (Pensions) presented the report. He said that the Committee was being asked to approve the accounts before they went for final approval at the next meeting of the Corporate Audit Committee. There had been two significant changes since the draft accounts were approved in June:

1. The insertion of a note to the Net Assets Statement regarding a Non Adjusting Post Balance Sheet Event, namely the announcement in the Budget of 22nd June that pensions increases would in future be based on the CPI instead of the RPI, which would reduce the Fund's pensions obligations by an estimated 5-8%.

2. The addition of note 18 concerning outstanding commitments totalling £73m relating to investments in property that would be drawn down in tranches by the relevant investment managers.

The District Auditor commented that the auditors had given an unqualified opinion on the accounts, but had noted two non-significant unamended errors and one presentational error. The Corporate Audit Committee would take the final decision as to whether these errors would be amended. Mr Hackett noted that the quality of working papers had improved.

In response to a question from a Member, the District Auditor replied there had been a large reduction in the audit fees for the Fund this year because there had been a change of approach to the audit and because the Audit Commission had changed its fees structure. The Director of Resources and Support Services commented that next year there was likely to be a much greater reduction in the audit fees for the Council than for the Fund, because of the abolition of the Comprehensive Area Assessment.

RESOLVED

1. To approve the final audited Statement of Accounts for 2009/10.

2. To note the issues raised in the Annual Governance Report.

9 ANNUAL REPORT AND ACCOUNTS 2009/10

The Investments Manager presented the report. She said that the sections dealing with the governance, risk management and scheme administration had been expanded and the shareholder voting record of the Fund was now included in the Annual Report.

A Member suggested that because there was concern about a “pensions time bomb” from increasing longevity, the Annual Report should address this and give a clearer picture of the relationship between the assets and liabilities of the Fund. The Investments Manager felt this involved technical actuarial issues that might be difficult to explain in a report intended for a lay audience. Another Member agreed that any such statement would need to be carefully worded. In any case he felt that the Avon Pension Fund, with 80% of liabilities covered, was in a better position than many funds. Another Member suggested that there might be a simple statement that the deficit had widened because of a number of factors including disappointing investment returns. The Director of Resources and Support Services advised that the Annual Report needed to be finalised now. Members agreed with his suggestion that the wording in the Review of the Year should be amended giving a more general picture of the funding situation.

A Member noted a discrepancy in the figures given for the funding level at 31st March 2010 on page 31 of the Annual Report (“approximately 80%”) and on page 5 of the Funding Strategy Statement (“[83%]”). The Investments Manager explained that the Funding Strategy Statement contained some information that would only be confirmed once the valuation was complete.

RESOLVED

1. To approve the draft Avon Pension Fund Annual Report 2009/10.

2. To note the arrangements for distribution of the Avon Pension Fund Annual Report 2009/10.

10 OVERVIEW OF THE LGPS FUNDS - PRESENTATION BY WM PERFORMANCE SERVICES

David Cullinan of WM Performance Services made a presentation to the Committee about the trends and performance across the universe of LGPS funds. He distributed a set of slides, a copy of which is attached as an appendix to these minutes.

Members discussed the presentation, in particular whether there was evidence that active fund managers secured better returns. The LGPS evidence suggested that active manager has not added value over the longer term. Mr Cullinan explained that this could also be influenced by the selection process of individual funds (i.e. the timing of hiring and firing managers).

A Member commented that as the longevity of Avon Fund pensioners was above average, the Fund had to achieve better than average returns, yet over the last ten years there had been no reward (in terms of higher returns) of taking on the risk of investing in equities. The challenge for the Fund was to seek out investments where there was the opportunity of high but less volatile returns and he noted that the Government had recently announced that local authorities would be able to borrow, which could provide opportunities for the Fund.

Members thanked Mr Cullinan for his presentation.

11 FUNDING STRATEGY STATEMENT 2010

The Investments Manager presented the report. She drew attention to the comments received from the employing bodies, which were attached as Appendix 2 to the report. She believed that no changes to the Strategy were necessary as a result of comments received.

RESOLVED

To approve the Funding Strategy Statement for general publication and distribution to the Fund's employing bodies, subject to the insertion of information which can only be included when the actuarial valuation is complete.

12 PENSION FUND ADMINISTRATION - EXPENDITURE FOR 4 MONTHS TO 31ST JULY 2010 AND PERFORMANCE INDICATORS FOR THE 3 MONTHS ENDING 31ST JULY 2010

The Finance and Systems Manager (Pensions) commented on the expenditure figures. An underspend of £392,000 was forecast for the full year, mainly because of an underspend on investment manager fees due to the later than expected appointment of a Global Equity Manager.

The Pensions Manager commented on the performance figures.

- The data cleansing exercise had revealed leavers and deaths from some time ago which had provide complex and time consuming to process. A drop in performance in finalising death cases to 60% against the target of 90% had resulted. Despite this, the total number of outstanding cases was less than 5% well below the target of 10%. The processing of transfers was back on track and above target. However, the Government's announcement that in future pension increases would be based on CPI rather than RPI meant that "" transfers would have to be stockpiled until revised factors were received from the Government Actuary's Department.

- Hits on the Fund's website had more than doubled. The Director of Resources and Support Services suggested that staff are visiting the website because of concerns about redundancy and noted that they had been encouraged to visit it for information about the Hutton review of public sector pensions.

- Members were pleased to note the low level of sickness of pensions staff during the period.

RESOLVED

1. To note the expenditure for administration and management expenses incurred for the 4 months ending 31st July 2010.

2. To note the Performance Indicators and Customer Satisfaction feedback for 3 months to 31st July 2010.

13 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2010

The Assistant Investments Manager presented the report and summarized the key facts. The value of the Fund's assets had fallen by £149m (-6.1%) because equity markets had declined in reaction to fears of a double-dip recession. Over twelve months, however, the value of the assets had risen by £377m (18.6%). In terms of relative performance, the Fund was in line with the average of the WM Local Authority Fund universe. The report from JLT Benefit Solutions had noted that the Fund had benefited from the diversification of asset classes.

The Financial Reporting Council had published the first Stewardship Code for institutional investors, which would replace the Combined Code. The purpose of the Code was to improve the quality of corporate governance through the promotion of better dialogue between shareholders and company boards and more transparency about the way in which investors oversee companies they own. It was intended to bring a report about the Code to the December meeting of the Committee.

Mr Lyons summarised the key facts in the JLT report. Jupiter's, three-month performance had outperformed the benchmark, but relative longer-term performance had been disappointing. Jupiter managed an SRI-portfolio, which differed significantly from the benchmark, so that the volatility of returns was expected to be high. Conditions in the past quarter had been very favourable for the smaller companies in Jupiter's portfolio. There had been strong growth in emerging markets and Genesis Global Asset Managers had outperformed the benchmark by 1.6% in the last quarter. He drew attention to the graph on page 18 of the JLT report, which demonstrated that the Fund of Hedge Funds had contributed to a reduction in volatility of returns. A Member commented that the chart only showed the last year and that hedge funds had been very volatile two years ago.. Mr Lyons commented that going forward this chart would reflect three year data. The JLT report included qualitative assessments of Schroders and Partners for the first time.

Members commended Mr Lyons for the quality of the JLT report.

RESOLVED

I. That the last two sentences of paragraph 6.3 of the report be amended as given below by the deletion of the word struck out and the insertion of the words in bold type

> *"As part of the valuation process, the Committee ~~will~~ **needs to** approve the **Fund's** Funding Strategy Statement (FSS) which sets out the parameters for the valuation. The **proposed** FSS was discussed in depth at the Committee workshop held on 23 July 2010 and is included elsewhere on this agenda."*

2. To note the information set out in the report as amended

14 RECOMMENDATIONS FROM THE INVESTMENT PANEL

RESOLVED that 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 be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of schedule 12A of the Act as amended.

A note about the meeting of the Panel on 16 September 2010 had been circulated to Members before the meeting.

The Chair of the Investment Panel, Cllr Bellotti, summarised the discussions with TT International about why they had increased their holdings in BP after the Deepwater Horizon oil spill had occurred. The Panel had also considered the high proportion of the Fund invested passively by BlackRock, and had reviewed the property portfolios, meeting managers from Schroders and Partners.

Whilst discussing the allocation to passively managed investments, Members expressed doubt about whether there was evidence that active managers added value. Mr Lyons suggested that there was evidence that some active managers had skills in certain areas. However, they were often not given the opportunity to develop their skills over a market cycle. The Independent Advisor said that the balance between active and passive investment needed to be kept under review. The Chair suggested that this might be work that could be undertaken by the Investment Panel.

RESOLVED

1. To approve the revised Investment Management Agreement guidelines for Partners.

2. To approve the delegation of future annual reviews of the property portfolio to Officers in consultation with the Investment Panel, with any changes of a strategic nature being referred to the Committee for approval.

15 ADMITTED BODIES REPORT - VERBAL UPDATE

The Committee returned to open session.

The Investments Manager gave a verbal update as to progress made on funding issues with some of the Fund’s admitted bodies.

RESOLVED to note the update and receive further reports at future meetings.

16 WORKPLANS

The Investments Manager presented the report. She said that additional meetings of the Investment Panel would be arranged before March 2011.

The Pensions Manager said that the Fund employers' annual conference would take place in February 2011. He would send details to members.

RESOLVED to note the workplans for the period to 31 March 2011.

The meeting ended at 4.03 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 December 2010**	**AGENDA ITEM NUMBER**
TITLE:	**ACTUARIAL VALUATION 2010**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 The actuary has calculated the contribution rates effective 1 April 2011 for the majority of the employing bodies within the Fund. Those outstanding are for bodies where special circumstances apply.

1.2 In due course (before 31 March 2011) the actuary will prepare the actuarial valuation report which will be circulated to all employing bodies. In the meantime, the employing bodies have been notified of their revised rates.

1.3 The aim of the 2010 valuation was to maintain stable employer contribution rates where possible, and the Funding Strategy Statement (FSS), which was approved by the Committee in September 2010, set out the parameters as to how this objective would be met.

1.4 By utilising the flexibility allowed within the FSS, the outcome has been that employer contribution rates have remained relatively stable and it is anticipated that this puts the Fund in a good position to maintain stability of rates in the future.

1.5 This report examines the outcome of the valuation process for the whole fund and highlights the principal changes which have occurred since the 2007 valuation (see section 5).

2 RECOMMENDATION

2.1 **That the Committee notes the outcome of the 2010 Actuarial Valuation.**

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for the actuarial costs of the triennial valuation.

4 BACKGROUND

4.1 The Local Government Pension Scheme (LGPS) Regulations require LGPS funds to have an actuarial valuation every three years. The 2010 valuation has a base date of 31 March 2010 with new employer rates effective from 1 April 2011.

4.2 This valuation is taking place amid significant cost pressures within the public sector. In addition The Hutton Commission is reviewing the provision of public service pensions which could result in significant changes to the scheme structure in the future; however, the timing of any implementation is as yet uncertain.

4.3 Therefore the actuary has structured the valuation having regard to the FSS, the budgetary pressures facing all scheme employers and the potential for future changes in the scheme to generate savings in the medium term.

5 ACTUARIAL VALUATION OUTCOME

5.1 The aim of the 2010 valuation is to maintain stable contribution rates where possible. The Fund monitors its funding level during the intervaluation period and at 31 March 2010 the funding level, after updating the 2007 valuation for market changes, had deteriorated to an estimated 73%. However, the government's decision in June 2010 to index pension increases to CPI rather than RPI (effective from April 2011) had a significant impact on the liabilities. Therefore the basis for the 2010 valuation was not as bad as was initially expected.

5.2 The key initial outcomes of the valuation are as follows:

	2010	2007	Change
Deficit	£552m	£459m	+24%
Funding Level	82%	83%	-1%
Value of assets	£2,459m	2184	+13%
Value of Liabilities	£3,011m	2643	+15%
Average employers contribution rate	**17.2%**	**16.6%**	**+0.6%**
Average future service rate	11.8%	11.7%	+0.1%
Average past service rate	5.4%	4.9%	+0.5%
Past service recovery period (years)	20	20	

5.3 If the deficit recovery period was held at 20 years then the average employers' contribution rate would have increased by 0.6%. However, the 2010 FSS, which sets out the plan for meeting all liabilities and recovering the deficit, allows where possible, an extension in the deficit recovery period which enables employer contribution rates to remain as stable as possible. The FSS also stated that any future cost savings that fall to the employer as a result of changes to the scheme must initially be used to bring the recovery period back to the 2007 position. **At the overall Fund level, the deficit recovery period consistent with an average employer contribution rate of 16.6% is c. 22 years.**

5.4 The main drivers of the valuation outcome are:

Assets

The investment return over the 3 years to 31 March 2010 was 3.2% per annum compared to an expected return in the 2007 valuation of 6.5% p.a.. This shortfall in investment returns increased the deficit by c. £303m.

Liabilities -

(i) RPI / CPI change

Indexing pensions to CPI rather than RPI reduced projected inflation by 0.5% which reduced liabilities by c. £161m.

(ii) Change in real yields

Real yields, derived from the market are used for the discount rate. Compared to 2007 the nominal yield on UK gilts has remained stable at 4.5% (it was 4.4% at 31 March 2007). However, index linked yields have fallen significantly from 1.3% to 0.7%. The result is that the implied inflation rate (the difference between index linked and gilt yields), used to discount the future value of the liabilities, has risen from 3.1% to 3.8%. However, this implied inflation rate is affected by distortions in the index linked market as there is a demand/supply imbalance in the market due to pension funds and other long term investors seeking to match their inflation related liabilities. As a result, there is an argument that the market derived inflation rate overstates long term inflation and the actuary introduced an Inflation Risk Premium (IRP) of 0.3% to reflect this distortion.

Overall the reduction in real yields, including the IRP adjustment, increased liabilities by c. £97m.

(iii) Longevity

The actuary analysed the life expectancy experienced by the Fund and also used other LGPS fund data and the Continuous Mortality Index data to assess the adequacy of the 2007 longevity assumptions as life expectancy continues to improve. For example, in 2007 the average life expectancy of a male aged 65 was 21.2 years; this has increased to 22.0 years in 2010. In 2007 for a male aged 45 then, the average life expectancy at age 65 was 22.2 years; in 2010 this has increased to 23.4 years for a male aged 45 now.

The longevity assumption is made up of two elements, the current life expectancy (or baseline assumption) and an assumption of future improvement (or deterioration) around the baseline assumption. The baseline life expectancy is based on the Fund's actual mortality experience and the improvement assumption is based on the trend experience over the last ten years of a reduction in death rates of 3-4% p.a.. The actuary also compared the Fund's mortality experience to other LGPS funds and industry wide data. This showed a similar experience which gives greater assurance that the Fund's experience is not out of line with the general trend in life expectancy.

In the absence of any outside influence (including affordability) the Actuary's preferred long term improvement rate should be 1.5% p.a. given the Fund's observed trends (in line with the Continuous Mortality Investigation model of mortality; 1.5% p.a. refers to the death rate, i.e. death rates will reduce by 1.5% p.a.). However, once the final results were assessed and affordability was taken into account, it was recognised that stability of rates would be difficult to achieve if the full improvement rate was incorporated. Given this, the actuary advised that the 1.5% improvement rate should only be applied to past liabilities which should provide greater stability given actual observed trends over time. It is also expected that changes to the scheme structure will more equitably share future increases in longevity costs between employers and employees.

As a result, the increase in life expectancy has added £113m to the liabilities.

(iv) Other demographic factors

Other demographic factors (such as ill health retirement and proportions married) were analysed and the actuarial assumption was altered to reflect the Fund's experience. This led to a reduction in liabilities of c. £81m as the 2007 assumptions overstated the cost of these factors to the Fund.

6 COMMUNICATION WITH EMPLOYING BODIES

6.1 The 2010 actuarial report will be published by 31 March 2011. In the meantime, the employing bodies have been notified of their revised rates and officers are holding meetings with employers where required.

7 ACTUARIAL VALUATION UPDATE

7.1 Since 31 March 2010 the funding level is estimated to have fallen to around 78% adopting consistent assumptions with the 2010 valuation. The impact of the change in real yields (the main driver for liabilities as demographic assumptions are unchanged) in isolation is to increase liabilities by around £100m which more than offsets the rise in asset values of c.2% over the same period.

7.2 The table below shows the change in the financial assumptions:

	31 March 2010	31 September 2010
UK Gilt yield	4.5%	3.9%
Index linked real yield	0.7%	0.5%
Inflation adjustment	0.8%	0.8%
Implied CPI inflation	3.0%	2.6%

8 HUTTON COMMISSION

8.1 This will be discussed elsewhere on the Committee agenda. The Fund as administering authority is preparing its response to the final “Call for Evidence” from the Commission and will circulate this to Committee members for comments prior to submission. All employing bodies have been alerted to the Commission’s latest “call for Evidence” exercise.

9 RISK MANAGEMENT

9.1 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

10 EQUALITIES

10.1 An equalities impact assessment is not necessary as report for information only.

11 CONSULTATION

11.1 N/a

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 Report is for information only.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	Mercers 2010 valuation papers

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGEN ITEM NUMB
MEETING DATE:	10 DECEMBER 2010	
TITLE:	NEW PENSIONS ADMINISTRATION STRATEGY: PREPARING FOR CHANGE	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 - Draft Pensions Administration Strategy

1 THE ISSUE

Legislation in 2008 introduced the requirement for every local authority pension fund to have a Pensions Administration Strategy in place by October 2008. Subsequently however the legal requirement and the deadline were removed, however the government did announce that it was felt to be *good practice* to have one.

APF has therefore drafted its Pensions Administration Strategy (**Appendix 1**) and has consulted on it with Fund Employers who have provided their input which is included in the document.

The Committee is asked to approve the draft Strategy to become effective from April 2011.

2 RECOMMENDATION

2.1 That the Committee approves the draft Pensions Administration Strategy for the Avon Pension Fund to be effective from 1st April 2011.

3. FINANCIAL IMPLICATIONS

3.1 Employers who participate in the Avon Pension Fund are charged for the cost of administration of the Fund by an allowance of 0.5% in their pension contribution rate. This is a flat-rate amount and takes no account of the amount of administration work necessary for each Employer which is impacted upon its level of performance. The new Strategy will allow the Fund to make an additional monetary charge to Employers (following consultation) to cover its costs where the amount of administrative work carried out is disproportionate to other employers.

3.2 Any statutory fine levied on the Fund for a breach of its responsibilities which is a direct result of poor administration by an Employer will be passed on to that Employer.

4. THE ISSUE: NEW PENSIONS ADMINISTRATION STRATEGY DOCUMENT

4.1 **PURPOSE / CONTENT**:

4.1.1 The purpose of the new Administration Strategy is to assist both Employers and the Fund to develop best practice to meet challenges that we know are coming and will affect the administration of the Fund. The Strategy will allow Employers and the Fund to work more closely together. It brings together areas which are already in train in one document to produce a coherent and understandable Strategy for both the Fund and Employers to work to.

4.1.2 Key elements which are fundamental to the success of the Strategy are improved communications, comprehensive training and pushing ahead with technological advances for data transfer.

4.1.3 Employers and the Fund will be accountable against agreed performance targets which will be set out in Service Level Agreements. A **Stewardship Report** will be produced for Employers by the Fund and discussed at regular Performance / SLA review meetings **(**Annex 3 of the Administration Strategy details the Performance Criteria to be reported in Stewardship Report).

4.1.4 Summary reports on Employers performance will be included in future quarterly Administration Reports to the Committee starting late in 2011 once sufficient data has been compiled.

4.1.5 A fundamental part of the Strategy in improving the Service will be the continuing development of **electronic data transmission** and "stretch" targets in 2012 have been set for all Employers to achieve this by bulk batch submission -smaller Employers who will do this by individual electronic forms will have six months longer to comply.

4.2 TIMETABLE/PROGRESS

4.2.1 The Fund produced a Draft Strategy Document which was issued to Fund Employers in September for consultation with a deadline for comments of 12 November 2010.

4.2.2 A consultation meeting was held with Employers' key representatives in October 2010 and the document now brought to Committee incorporates their suggested amendments and those subsequently received from other employers. Very little feed back was received from Employers outside the Consultation Meeting; Employers were generally supportive; Minor changes raised on accountability have been incorporated in the Strategy Statement where appropriate.

4.2.3 A series of meetings with Employers will take place starting in the New Year to agree new or revised SLAs as appropriate and to work with Employers to develop their electronic transmission of data.

4.3 APROVAL

The Committee is asked to approve the draft Pensions Administration Strategy which will then be “rolled out” to Fund Employers in January 2010 and become effective from 1st April 2011.

4. RISK MANAGEMENT

4.1 This report contains only recommendations to note – no risk assessment is therefore necessary.

5 EQUALITIES

5.1 No equalities impact assessment is required.

6 CONSULTATION

6.1 Consultation has taken place with all Fund Employers as described in this report.

7 ISSUES TO CONSIDER IN REACHING THE DECISION

7.1 The issues to consider are contained in the report.

8 ADVICE SOUGHT

8.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Steve McMillan, Pensions Manager Tel: 01225 395254
Background papers	None

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Bath & North East Somerset Council

AVON PENSION FUND

APPENDIX 1 to Report on Pensions Administration Strategy

Avon Pension Fund

Pensions Administration Strategy Statement 2011

"Preparing for Change"

Prepared 15 October 2010

Administration Strategy Statement 2011

Contents

Pensions Administration Strategy Statement 2011

INTRODUCTION

The Local Government Pension Scheme (LGPS) (Administration) Regulations 2008 enables Pension Fund Administering Authorities to introduce an Administration Strategy (“the Strategy”) for the sole purpose of improving the administrative processes within their LGPS Fund. These regulations are quite specific regarding the disclosure of information and performance statistics as part of this process but provide less guidance in terms of strategy.

The Avon Pension Fund (“the Fund”) has therefore developed this Strategy which recognises that both employing bodies (“Employers”) and the Avon Pension Fund (the “Fund) have a joint role to play in delivering an efficient service and that any overall improvements can only be achieved in partnership. The Strategy recognises the many administrative challenges faced by the Fund and Employers and contains proposals to streamline processes and improve the services to members and Employers. In this respect the Strategy is far broader than that contained in the legislation.

1. AIMS

The aim of this Strategy is to move towards a seamless pension service, employing appropriate technology and best practice which both significantly improves the quality of information overall and the speed with which it is processed to provide better information for Employers and stakeholders and a more efficient service to members. The Strategy also recognises the challenges inherent in forthcoming proposals not least the single Notional Fund, auto enrolment and the Hutton Review which will add further to the administrative burden.

2. LEGISLATIVE FRAMEWORK

The Fund and its Employers must have regard to this Strategy when carrying out their Scheme functions. The Strategy is made in accordance with Regulation 65 of LGPS (Administration) Regulations 2008 which allows administering authorities to prepare a Pension Administration Strategy following consultation with its Employers to facilitate best practices and efficient customer service in respect of the following:

- the establishment of levels of performance which the administering authority and its Employers are expected to achieve in carrying out their Scheme functions

- ensuring the Fund and its Employers comply with statutory requirements in respect of those functions

- improving the communication between the administering authority and its Employers of information relating to those functions.

The Strategy can also set out circumstances in which the Fund may consider giving written notice to any of its Employers under regulation 43(2) for additional costs on account of that Employer’s unsatisfactory performance in carrying out its Scheme function.

Levels of performance achieved must be included within the Fund's Annual Report along with other matters arising from the Strategy that are considered appropriate.

All relevant regulations are set out fully in Annex 1.

3. KEY OBJECTIVES

The key objectives of this Strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)

- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other stakeholders

- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure manner

- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda

- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement

- Potential risks to the Fund and Employers, in particular compliance risk, leading to financial penalties arising from the administration, are identified, mitigated and monitored

- Effective governance arrangements are established for the monitoring and improvement of the Administration Strategy

- Administrative services are delivered in a cost effective and efficient manner utilising appropriate technology and best practice, in order to maintain costs at below or average levels

4. ACHIEVING THE OBJECTIVES

There are presently over 100 employers in the Fund differing in size, structure and capability which represents a significant logistical challenge to the management of information, processes and services within the Fund. It is clear that because of these differences a "one size fits all approach" would be unlikely to deliver workable solutions; however standard ways of operating applicable to different employer groups would bring benefits. It is also clear that the number of Employers will continue to grow as will the demands for accurate information, to improve liability management at both the local and national level. The Pensions Regulator is already in the process of setting national standards for the quality of pensions records in the private sector and it is likely to be only a matter of time before this is adopted across the public sector.

There are four key elements necessary to achieving the Fund's administrative objectives:

- A Communications Policy that:
    - (i) ensures members have accessible and timely information on all aspects of their pensions benefits and informs and enables decisions in respect of their pensions
    - (ii) enables Employers to make effective decisions in the management of risks and liabilities as well as facilitates engagement in the wider pensions debate
- Investment in skills and knowledge development both within the Fund and as appropriate with Employers to ensure not only efficient administration but active engagement in the issues facing the LGPS in the future
- The effective use of technology for accessing, storing and disseminating information between the Fund and its Employers in a seamless and secure way
- Set performance standards which support the effective working of the Fund and Employers towards a higher standard of service and continuous improvement

(a) Communications

Since 2005 the Fund has been required to produce a Communications Policy Statement under Regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended). The intention of the legislation is to ensure that Funds have effective communication processes in place for all stakeholders of the LGPS. To this end, the Funds' communications strategy is already well developed providing a wide range of solutions for all parties. However, the introduction of the New Look Scheme in 2008 added a layer of complexity to the benefits structure. This is set to continue with the prospects of further scheme changes which in turn will give rise to a greater demand for information and engagement.

The following priorities for communication have been identified to complement the range of activities already in place;

- To develop secure web-based facilities to enable, controlled access to information and data, sending and receiving of data, providing greater self service for members and employers
- To further improve the content and timeliness of web-based information to raise the awareness of members and Employers on LGPS issues
- To continue to organise and develop an appropriate meetings structure to support the effective engagement of employers in ongoing and emerging issues.
- To ensure the effectiveness of distributing the pensions message across the broad spectrum of stakeholders
- To maintain the level of investment in the full range of communication materials to ensure maximum stakeholder awareness and engagement
- To establish lead officers for pensions issues within large and medium-size Employers to act as the main communications liaison between the Employer and the Fund
- To use feedback to identify areas for improvement

The Communication Policy Statement is attached as Annex 2

(b) Training

The Fund has always endeavoured to keep stakeholders informed of new developments providing training courses and workshops for Employers and the Fund's staff alike when new Regulations are implemented or are under consideration. It is widely anticipated that there will be significant changes to the LGPS in the coming years which will have wide-ranging implications for members, Employers and not least the administration of the Scheme.

With this in mind, it is important that both Employers and the Fund ensure that their staff have the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations and administrative processes.

Notwithstanding future changes, there is an existing need to improve the quality of member records and the administrative processes by improving the quality of information received from Employers.

The aims of the training strategy are therefore:

- to maintain a high standard of customer service for members and Employers
- to ensure that relevant staff within each Employer have sufficient knowledge and skills to effectively discharge administrative processes
- to ensure that Employers are fully aware of the risks involved in poor administration and maintenance of employee pension records and if they fail to discharge of their discretionary functions
- to support the implementation of new technology within the Fund enabling greater self service for the Employer and streamlined administration
- to continually develop the technical skills and competencies of the Fund's staff and retain knowledge in the application of historic regulations
- to identify and develop staff to become the future managers and professionals of the Fund as part of a workforce development plan
- to ensure that members of the Committee also receive adequate training to properly discharge their function.

To achieve this:

- the Fund will work with Employers' Human Resources, Payroll and other staff to identify relevant skills and knowledge gaps and develop an appropriate training programme
- Organise workshops and forums for Employers to debate new issues as they emerge
- Continue to invest in specific technical training and professional development of Fund staff

This training strategy will ensure that both the Fund and Employers have a common understanding of their obligations under their Local Government Pension Scheme, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide training for Employers' relevant staff to build up and maintain a level of professional expertise which together with the Employer's own systems and processes will enable Employers to deliver information required by the Fund to efficiently administer the Scheme.

(c) Embracing technology

The Fund has recently begun the process of upgrading its administration software system and will be developing this further in 2011 to enable integrated self service for members and Employers. Members are already able to review their records and submit changes on-line. This will move to a real time environment and the range of transactions members will be able to undertake extended. Similarly Employers will be able to submit record changes individually and in bulk to update the Fund's member database. This latter move will realise the Employer savings and only requires the provision of data output in a specified format file.

Such developments are a natural progression in an era when there is growing demand for accurate data driven by valuation requirements, Employer outsourcing and latterly the government, whose Notional Fund will require at least annual updates.

However, it is also recognised that not all Employers will be in a position to take advantage of these facilities and particularly for smaller Employers a simplified solution is necessary. The Fund will therefore develop a range of electronic forms for data transmission which will again integrate fully with the Fund's administration system.

Finally the Fund will endeavour to move all financial transactions to electronic means eliminating the need to produce cheques well before the intended deadline for their removal.

The aims of the embracing new technology are therefore:

- to achieve efficiencies in the processing of records and the quality of data through the use of integrated systems
- to enable members and Employers greater access for self service without the need for Fund intervention in the communication process
- to reduce processing costs by making all transactions electronic

We will achieve this by:

- working closely with both our Employers and software providers through structured contracts and Service Level Agreements to agree required inputs and timescales for delivery
- ensuring all transactional communication channels are secure and managed in compliance with Pension Regulator guidelines
- the Fund adopting good practice guidelines and complying with industry standards for Information Security Management
- developing the technical support team to strengthen its capabilities and enhance its project management skills

Proposed Electronic Data Interface ("EDI") Programme

Employers are encouraged to make best use of technology in capturing and transmitting data to the Fund on member changes (leavers, joiners and other changes) electronically and currently a significant number do so and benefit from cost-savings through a reduction in manual intervention.

The Fund is proposing that all large to medium employers have data output reports in place to provide data electronically by April 2012. Due to the significant difference in the size and make up of Fund Employers, it is acknowledged that EDI will probably not be appropriate for some smaller employers and the Fund is working with its software supplier to develop on-line electronic forms for secure submission through the Fund's own website for individual or small groups of members' data. These are expected to be available in 2011.

The Fund will work with all Employers to achieve this very important enhancement helping them through each step of the process. The table below illustrates proposed deadline dates for completion of this development and will be agreed with individual employers. This may require a small investment by some employers in producing specified output reports from their payroll systems

Employer Size	Data to be submitted electronically	Date
Small	Starter, changes, leavers, retirements and death in service notifications by E-Form	October 2012
Medium	Starters, changes, leavers, retirements and death in service notifications by bulk file transfer	April 2012
Large	Starters, changes, leavers, retirements and death in service notifications by bulk file transfer	April 2012

(d) Performance

The development of an Administration Strategy carries with it a legislative requirement to set performance standards and publish both the targets and achievement against those targets. The purpose of doing so is to secure continuous improvement of the administration function. Annex 3 details the performance measures and proposed targets which will be monitored and results reported to the Avon Pension Fund Committee; this will be scrutinised by and the Committee will take action where appropriate. Information is also published in the Pensions Fund' Annual Report. It should be noted that many of these targets are set to ensure compliance with *statutory* requirements that already exist.

New Service Level Agreements ("SLAs") will be agreed with Employers to set and monitor performance at the local level and will include all the targets for both the Fund and the Employer. The aggregated performance will be reported to the Avon Pension Fund Committee on a quarterly basis.

Stewardship Report

Assessment of the levels of administrative performance requires that agreed performance standards are regularly monitored and the results fed back to Employers. This will be achieved by the introduction of a Stewardship Report for each Employer to keep them fully informed of the efficiency of service delivery to the Scheme Members. The Stewardship Report will contain only the key areas of performance and will be a working document. It will measure the efficiency of service processes covering early leavers, retirements (redundancy, efficiency, flexible and ill health, normal and late), estimates and deaths in service between the Employer and the Fund to enable effective benefit processing and payment. Starters and changes will not initially be included in the Stewardship Report but will be developed with the intention of including them at a later date. The Report will also include, if appropriate, details of any complaints from members or employers and discretions not exercised or kept up-to-date by employers.

Review meetings to consider the findings will be held regularly with Employers and will identify problem areas and devise an action plan to improve service delivery. Information from the Stewardship Report will be made available to the Avon Pension Fund Committee and details of performance review will be included in the Fund's Annual Report.

(i) Performance failures

As stated at the outset, the purpose of this Strategy is to secure improvement across the Administrative processes of the Fund. Both the Fund and each Employer need to play their part in ensuring this. However in areas of continuous poor performance the Fund has the ability to introduce financial penalties and will ultimately do so but only as a matter of "last resort".

Where in the opinion of the Fund, it incurs additional costs because of an Employer's poor performance in carrying out its functions, the Fund will:

a) give written notice to the Employer that it will be invoiced for an extra monetary amount in respect of these costs (in addition to its standard pension contributions)

b) specify the basis on which the extra amount is calculated and the provisions of the Strategy which are relevant.

If an Employer feels that an additional allocation of costs is not warranted it would have access to the Avon Pension Fund Committee on which Employers have an Employer representative.

(ii) Opportunity to improve

It is the Fund's intention that a poorly-performing Employer will be given the opportunity to improve its poor performance before additional costs are imposed upon it. However, if in the opinion of the Fund, that Employer fails to improve, the Fund will after consultation with the Employer issue an invoice payable by the Employer within 30 days of issue. The amount of the invoice will represent the cost to the Fund of the Employer's poor performance, plus any additional work by the Fund's staff charged at a staff charge out rate of £50 per hour *(to be reviewed annually at the start of each new financial year).*

(iii) Passing on "Statutory" Fines and charges

Where the Fund incurs a fine or charge for a breach of its statutory duties which is as a result of the Employer's performance failure (such as failing to provide the Fund with a change in a member's circumstances or supplying inaccurate or inadequate information for an employee member), the Fund reserves the right to require the Employer to reimburse it within 28 working days of the payment of the fine or charge.

Role of the Committee

The Avon Pension Fund Committee is widely representative of all the Employers in the Fund (reflecting best practice) and as such has a duty to ensure that the Administration of the Fund is carried out efficiently and cost effectively. Its roles and responsibilities are set out in its *Terms of Reference* which form part of the Fund's Governance and Compliance Statement which is available on the Fund's website.

The Committee already receives quarterly reports in respect of the Fund's administrative processes and this will be enhanced with information regarding Employers' delivery under the Administration Strategy. The summary results reported will be scrutinised by and the Committee who will take action where appropriate.

The Committee annually reviews all Administrative targets and the costs of service delivery and will continue to do so in order to inform future changes to the Administration Strategy.

5. IMPLEMENTATION AND REVIEW

The Strategy sets out the key objectives of all the major areas of pension administration within the Fund and takes effect from 1st April 2011. Prior to implementation a full consultation exercise has been undertaken with Scheme Employers.

This Strategy will be subject to a full review after an initial period of 2 years. When the Strategy is reviewed, further consultations with Scheme Employers will be considered where appropriate.

Annex 1

Legislative Framework for the Statement

Regulation 65 of LGPS (Administration) Regulations 2008

<u>Pension Administration Strategy</u>

65.—(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy")

(2) The matters are—

(a) procedures for liaison and communication with employing authorities in relation to which it is the administering authority ("its employing authorities");

(b) the establishment of levels of performance which the administering authority and its employing authorities are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its employing authorities comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its employing authorities to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its employing authorities under regulation 43(2) on account of that authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its employing authorities have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

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

where it does so, the following paragraphs apply.

- An administering authority must keep its pension administration strategy under review; and make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.
- In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its employing authorities and such other persons as it considers appropriate.
- An administering authority must publish its pension administration strategy; and where revisions are made to it, the strategy as revised.
- When an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its employing authorities and to the Secretary of State.
- An administering authority and its employing authorities must have regard to the current version of any pension administration strategy when carrying out their Scheme functions.

Pension fund annual report

34(1) (g) An administering authority must, in relation to each year beginning on 1st April 2008 and each subsequent year, prepare a document ("the pension fund annual report") which contains—

- an annual report dealing with the extent to which the authority and the employing authorities in relation to which it is the administering authority have achieved any levels of performance set out in the pension administration strategy in accordance with regulation 65(2)(b), and
- such other matters arising from its pension administration strategy as it considers appropriate;

Additional costs arising from employing authority’s level of performance

43.—(1) This regulation applies where, in the opinion of the appropriate administering authority, it has incurred additional costs which should be recovered from an employing authority because of that employing authority’s level of performance in carrying out its functions under these Regulations or the Benefits Regulations.

(2) The administering authority may give written notice to the employing authority stating—

(a) the administering authority’s reasons for forming the opinion mentioned in paragraph (1);

(b) the authority’s opinion that the employing authority’s contribution under regulation 42(1)(d) should include an amount specified in the notice in respect of the additional costs attributable to that authority’s level of performance;

(c) the basis on which the specified amount is calculated; and

(d) where the administering authority has prepared a pension administration strategy under regulation 65, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraph (a), (b) or (c).

Statements of policy about exercise of discretionary functions

66.—(1) Each employing authority must prepare a written statement of its policy in relation to the exercise of its functions under regulations 12 (power of employing authority to increase total membership of active members), 13 (power of employing authority to award additional pension), 18 (flexible retirement) and 30 (choice of early payment of pension) of the Benefits Regulations.

(2) Before the expiry of the period of three months beginning with the commencement date, each employing authority must send a copy of its statement to each relevant administering authority and must publish its statement.

(3) An employing authority must—

(a) keep its statement under review; and

(b) make such revisions as are appropriate following a change in its policy.

(4) Before the expiry of the period of one month beginning with the date any such revisions are made, each employing authority must send a copy of its revised statement to each relevant administering authority and must publish its statement as revised.

(5) In preparing, or reviewing and making revisions to, its statement, an employing authority must have regard to the extent to which the exercise of any of the functions mentioned in paragraph (1) in accordance with its policy could lead to a serious loss of confidence in the public service.

(6) In this regulation, a relevant administering authority, in relation to an employing authority, is any authority which is an appropriate administering authority for that employer's employees.

Statements of policy concerning communications with members and employing authorities

67.—(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the 1997 Regulations.

(2) The authority—

(a) must keep the statement under review,

(b) make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3); and

(c) if revisions are made, publish the statement as revised.

(3) The matters are—

(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers.

Annex 2

Communications Policy Statement – 2010

Introduction

Avon Pension Fund (the Fund) has published this Communications Policy Statement (the Policy), under Regulation 67 of the Local Government Pension Scheme (LGPS) (the 'Scheme') (Administration) Regulations 2008 (as amended) in order to ensure that the Fund has clear, timely and effective communication in place with all stakeholders.

In order for this Policy to be effective, it is necessary to utilise all available communication methods in order to meet the particular needs of different stakeholders.

KEY OBJECTIVES

The Key objective of this Communications Policy Statement is to ensure that the Fund offers clear and timely communication to stakeholders of the LGPS. The standards within which the Fund aims to communicate with Members are outlined in our Service Charter (see Annex 4) which is at the end of this Policy. The standards within which the Fund and Scheme Employers will communicate are specified in Service Level Agreements.

Who we communicate with:

1. Scheme Members (Active, Deferred and Pensioner Members)
2. Employing Authorities (referred to as "Employers")
3. Prospective Scheme Members
4. Prospective Employers
5. Advisers (such as the Fund Actuary)
6. Representatives of Scheme Members
7. The Avon Pension Fund Committee

METHODS OF COMMUNICATIONS

1. **Scheme Members**

It is essential that Scheme Members are provided with appropriate information regarding the LGPS and their own benefits held within it. This is to enable members to make informed choices and decisions in respect of their LGPS benefits.

The Fund provides:

Scheme Literature
Scheme guides are the main reference point for most Scheme Members. The Fund offers Active Members and prospective Active Members both a Short Guide to the LGPS and a fuller more detailed Guide. Each Deferred Member is provided with a Deferred Member guide with the Statement of Benefits the Fund issues to them when they cease pensionable employment. These guides are available on the Avon Pension Fund website, and in hard copy format from the Fund (also available in Braille and audio versions].

Website
The Avon Pension Fund website www.avonpensionfund.org.uk is the Fund's main information resource meeting the needs of the different types of Scheme Members. The website is updated regularly with comments and articles about new legislation affecting the LGPS. The site provides a link to other pension related sites and contains downloadable forms for Scheme Members to inform the Fund of any personal material changes.

Member Self Service
Via the Fund's website, all Scheme Members can securely access their pension details held on the Fund's pension database. This facility allows Scheme Members to check their personal details and advise the Fund of changes and produces estimates of their potential LGPS benefits. Pensioner Members have the facility to view and/or print their Pensions Payment Advice slips and/or P60s.

Newsletters
The Fund produces newsletters for both Active and Pensioner Members normally twice a year. The newsletters contain articles which are relevant to the majority of readers and include changes to the LGPS Regulations, and a summary of the Fund's Annual Report and Accounts. Active & Pensioner Members can choose to receive a copy electronically or view on-line through Member Self Service and instead receive an email notification that an online version is available.

Pension Clinics and Seminars
Pension Clinics are held regularly at the request of Scheme Employers. The Fund's Pension Officers will visit Employers' sites and discuss benefits on a "one-to-one" basis with Active Members.

Pension Officers are also available to participate in pre-retirement seminars organised by Scheme Employers.

Benefit Statements
Each year all Active and Deferred Members are sent an Annual Benefit Statement. Statements are sent by post to the home address or, alternatively, can be viewed or printed through Member Self Service. Members may also request an estimate of benefits at any time.

2. Employers

To assist Employers participating in the LGPS, the Fund has a range of communication materials and methods which it aims to increase their understanding of pension issues and help them fulfil their responsibilities as Scheme Employers. By working together we are able to provide a better service to our members.

Employers Website
The Avon Pension Fund website has a section for Scheme Employers. This is used to distribute detailed information on procedures which must be followed to administer the LGPS; and holds resources such as Employers' guides, pension forms and links to LGE circulars and bulletins. Employers are requested to download the forms as and when required to ensure up-to-date documentation is always used.

Secure Portal
The Fund has a 'secure portal' which facilitates the transfer of data between the Fund and Employers electronically, encrypted to internet banking standards.

Employer Guide
The Fund maintains an Employer guide. The guide is a key resource and explains the statutory requirements of both the Employer and the Fund. The Fund also produces a short reference document 'The Role of the Scheme Employer as a Pensions Administrator' aimed at front-line HR and Payroll clerks.

Report and Accounts
The Report and Accounts are produced annually and a printed copy is sent to all Scheme Employers. It is also available to view electronically on the Fund's website.

Employer Meetings
The Fund hosts an **Employer user group** meeting three times a year to keep Employers up-to-date with LGPS developments and provide a forum to discuss common issues and good practice. Each Employer is invited to the meetings.

An **Investment Forum** is held each year which focuses on investment strategy and actuarial developments. Workshops will be held on specific relevant pensions topics when required.

The Fund invites each Employer to its **Annual Employers' Conference** which includes presentations on topical pension issues including Regulation changes.

Employer Training
The Fund offers training to all Scheme Employers on the LGPS and their role in administering the Scheme. Training covers the full range of administrative and Regulatory activities.

3. Prospective Scheme Members

All prospective Scheme Members must be given basic information about the LGPS. The Fund requires Employers to give a Pension Pack containing a short guide to the LGPS to all employees when they become eligible to join the Scheme.

The Funds website has a section 'Thinking of Joining' which summarises the main benefits provided by the LGPS.

4. Prospective Employers

The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information which facilitates a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as schools which become Academies and contractors providing a service to a Scheme Employer.

5. Other Bodies

Advisers
Fund Advisers play a key role in supporting the work of the Avon Pension Fund Committee. The Fund's management team meets regularly with its advisers (such as the Fund Actuary) and to secure information and advice over a wide range of issues relating to the Fund.

6. Representatives of Scheme Members

Material available to Scheme Members is available on request to their authorised representatives.

7. The Avon Pension Fund Committee

The Avon Pension Fund Committee meet quarterly to monitor activities of the fund and its administration taking decisions as necessary; in this respect the Committee exercises a wide range of powers over Fund administration under its Terms of Reference. The Investment Sub Committee meets more regularly to review investment performance and examine opportunities for improvement in investment strategy. All reports of these bodies are made available to the public in advance on request and at meetings. The reports and minutes of these meeting are also available on the website.

POLICY REVIEW

The Fund will review the Policy every two years as part of the Pensions Administration Strategy. The review will include any legislative changes and feedback received from Members and Scheme Employers. An earlier review will be undertaken if new LGPS Regulations or overriding pensions legislation require it. Following each review the Fund will revise the Policy as necessary and publish to all Employers.

Annex 3

Performance Criteria (to be reported in Stewardship Report) - Joint Delivery to Members

Employer Service Information and Performance Standards – OPERATIONAL & FINANCIAL

Element	**Employer**	**Target (working days)**	**The Fund**	**Target (working days)**	**Average % within target**
Early Leavers	Employer to send the Fund completed leaver form - electronically by 01.04.2012*	Within 15 days of month end after date of leaving	The Fund to advise member of deferred benefits	Within 10 days of being in receipt of all necessary information	
Actual **retirement** forms	Employer to send the Fund completed leaver form - electronically by 01.04.2012*	On or before retirement date	The Fund to pay benefits to member	Within 20 days of being in receipt of all necessary information	
Estimate Requests	Employer request for estimate to the Fund	n/a	The Fund to provide Employer with estimate	Within 10 days of receipt of all necessary information	
Death in Service	Employer to send the Fund completed form - electronically by 01.04.2012*	Within 5 days of being notified	The Fund to advise member benefits	Within 10 days of receipt of all necessary information	
Year End Data submission Employer each year to supply schedules showing contribution and pensionable pay information in the format specified by the Fund in LGPS 51 and LGPS 52 format (after LGPS 51 has been reconciled to LGPS50s)	Supply to the Fund electronically	By 15th May (6 weeks after year end)			

Year End Data queries Responding to Year end/ Valuation queries resulting from APF reconciliation of member data submitted	Response to queries on reconciling the year end returns to the Fund	within 1 month of being raised			
Annual Benefit Statements			Issue *Statements* for those active members whose data is updated reconciled and complete	By 31st December each year	

SMALLER Employers have until 01.10. 2012 to move to electronic submission by on-line forms

Service Charter

Annex 4

OUR STANDARDS OF SERVICE TO MEMBERS

New Active Members

- **Membership Certificate**
  We will issue a Membership Certificate to a new member within one month of receiving a completed notification from the Member's Employer.
- **Transfers In**
  We will acknowledge the Member's request for transfer details, then calculate the estimated benefits that a transfer value will buy for the Member in the LGPS and issue a quotation within 10 days of receiving details from the Member's previous scheme and any additional essential information required from the HMRC. We will request payment of the transfer value within 5 days of receiving confirmation from the Member that the transfer is to be made. We will confirm the actual benefits purchased by the transfer value to the member within 10 days of receiving payment from the Member's previous scheme and confirmation (where necessary) of the member's accrued GMP from HMRC.

Existing Active Members

- **Benefit Estimates**
  We will issue a quotation within 10 days of receiving the member's special request for an estimate of prospective benefits.
- **Annual Benefit Statement**
  Provided pay details are received from employers promptly after the close of each financial year and provided we hold all of the relevant information, we will send each year an Annual Benefit Statement to each Member at their last known home address showing the estimated current value of their accrued benefits, the value of their prospective benefits at normal retirement age and the estimated current value of their death-in-service benefits.
- **Paying Extra Contributions**
  We will provide information within 10 days of receiving a request from a Member wishing to pay extra contributions to buy additional pension benefits.
- **Retirements**
  We will send details of the benefits payable and pay the member's tax-free cash lump-sum within 20 days of receiving all of the information required from the Member's Employer and/or the Member.
- **Deaths**
  We will send details of the benefits payable within seven days of receiving all of the information required from the late Member's employer and we will pay the lump-sum death grant within 10 days of receiving Grant of Probate (or other appropriate documentation) or authorisation from two delegated officers.
- **Early Leavers**
  We will send details of the benefit options available within 10 days of receiving all of the information required from the Employer.
- **Refunds**
  We will pay a refund within 5 days of receiving the Member's formal request for payment.
- **Transfers Out**
  We will issue a quotation, guaranteed for 3 months, within 10 days of receiving the Member's request and confirmation of the Member's accrued GMP/S2P from HMRC. We will pay a transfer value within five days of receiving confirmation from the Member that the transfer is to be made and all of the information we require to make payment.
- **Newsletter**
  We will send a Newsletter to each of our current members at least twice a year.

Deferred Members

- **Benefit Statements**
  We will provide a Benefit Statement within 10 days of receiving the Deferred Member's special request for details of the current value of their deferred benefits (as increased in line with factors issued by the Secretary of State).
- **Periodic Benefit Statement**
  We will provide each deferred member with a current address with a Benefit Statement periodically showing the current value of their preserved benefits (as increased in line with factors issued by the Secretary of State).
- **Deferred Benefits into Payment**
  Provided we hold an address which has been confirmed we will write to the Deferred Member requesting an original birth certificate plus the Member's National Insurance number before we send details of the benefits that are due and any options that may be available. If we cannot confirm the address we will make every effort to trace the deferred member.

Pensioner Members

- **Changes in personal particulars**
  We will update a pensioner's payroll record with any changes to personal details within 5 days of receiving the written notification. However, due to the nature of payroll administration, any such changes may not take effect until a subsequent payroll has been run. Confirmation of changes to bank details will be advised on the next available pay advice.
- **Newsletter**
  We will send a Newsletter to each of our pensioners at least twice a year.
- **Change of Tax code**
  We will update a pensioner's payroll record with a revised tax code within 2 days of receiving notice of the change from HMRC. However, due to the nature of payroll administration, any such changes may not take effect until a subsequent payroll has been run.
- **Deaths of pensioners**
  We will acknowledge receipt of a notification of the death of a pensioner and start action to put into payment any dependants' benefits within 5 days of receiving the notification.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 December 2010**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL MINUTES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 11 November 2010		

1 THE ISSUE

1.1 The minutes are a record of the Panel's debate before reaching their conclusions and agreeing any recommendations to the Committee. This ensures the Committee is informed of the activities of the Panel.

1.2 The *draft* minutes of the Panel meeting held on 11 November 2010 are in Appendix 1.

2 RECOMMENDATION

2.1 That the Committee notes the *draft* minutes of the Investment Panel meeting held on 11 November 2010.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 MINUTES

4.1 The draft minutes of the Investment Panel meeting are in Appendix 1.

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 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report is for information only.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 11th November, 2010, 1.30 pm

Members: Councillor David Bellotti (Chair), Councillor Gabriel Batt, Councillor Gordon Wood, Ann Berresford, Councillor Mary Blatchford and Andy Riggs (In place of Bill Marshall)
Advisors: Tony Earnshaw (Independent Advisor) and Dave Lyons (JLT Benefit Solutions)
Also in attendance: Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

15 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

16 DECLARATIONS OF INTEREST

There were none.

17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Bill Marshall, for whom Andy Riggs substituted.

18 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

20 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

21 MINUTES: 16 SEPTEMBER 2010

These were approved as a correct record and signed by the Chair.

22 EXCLUSION OF PUBLIC

RESOLVED that, 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 be excluded from the meeting for the following three items of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

23 REVIEW OF HEDGE FUND MANAGERS

The Investments Manager presented the report. She reminded Members of the framework for the review of hedge fund portfolios, which had been adopted by the Avon Pension Fund Committee at its meeting on 25 June 2010. Stage one was a review of the investment and operational performance of the five Fund of Hedge Fund managers. The Panel's comments on this stage would be fed into the workshop to be held in 1Q11. The workshop will also cover the strategic investment in hedge funds, the allocation to the underlying investment strategies and regulatory issues.

At this meeting the 2 of the hedge fund managers presented to the Panel with the other 3 presenting at the Panel's next meeting. To aid the Panel, JLT prepared a preliminary report on the hedge fund managers which was circulated as an exempt appendix to the agenda report.

Prior to the presentations Mr Lyons highlighted the key findings of the report to help focus the discussion with the managers.

Following discussion, it was **RESOLVED** to identify issues with the individual hedge fund managers to be incorporated into the review of the Fund's hedge fund investments.

24 MEET THE MANAGER - GOTTEX FUND MANAGEMENT

Richard Leibovitch (Chief Investment Officer, co-PM of Gottex Market Neutral Funds), Chris Hawkins (Managing Director, co-PM of Gottex Market Neutral Funds) and Michael Lorraine (Director Institutional Sales, Gottex Fund Management) presented to the Panel. Copies of their presentation were presented to Members.

The presentation covered the following:
(i) investment philosophy and process
(ii) Allocation to investment strategies and how they have actively managed the allocations
(iii) investment performance over last 3 years
(iv) Management of operational processes
(v) changes introduced to investment and operational processes to manage the challenges of the last 3 years

The Chair thanked the team from Gottex for presenting to the Panel.

25 MEET THE MANAGER - MAN

Anthony Lawler (Head of Portfolio Management), Jonathan Howard (Senior Portfolio Manager) and Paul Dackombe (Head of Institutional Clients – UK) of MAN presented to the Panel. Copies of their presentation were presented to Members.

The presentation covered the following:
(i) investment philosophy and process

(ii) Allocation to investment strategies and how they have actively managed the allocations
(iii) investment performance over last 3 years
(iv) Management of operational processes
(v) changes introduced to investment and operational processes to manage the challenges of the last 3 years

The Chair thanked the team from MAN for presenting to the Panel.

26 ALLOCATION TO UK EQUITIES

The Panel returned to open session.

The Investments Manager presented the report. The Avon Pension Fund Committee had decided at its meeting on 24 September 2010 that the Investment Panel should consider a further switch between the UK and overseas equities. This followed a discussion by the Committee of the sector and stock concentration within the UK equity indices.

At present the allocation within the equity portfolio was 45% UK equities to 55% overseas equities. Any potential switch would be implemented via the passively managed equity portfolios.

The report set out the impact in terms of the risk return profile of the Fund if the allocation to UK equities was incrementally reduced to 30%. There was discussion around the diversification benefits from increasing the allocation to global equities. Global equities increase the volatility from currency; however, the Fund is appointing a manager to hedge currency risk so the Panel concluded that this risk would be adequately managed. JLT advised that the diversification benefit of increasing the allocation to global equities to 70% would be to reduce volatility by around 0.1%. Appendix 1 of the report compared allocation to sectors and the top 10 stocks within the FTSE All Share and MSCI World indices. In particular, the global indices have higher allocation to technology and industrial sectors.

After discussion, the Panel **RESOLVED** to recommend to the Avon Pension Fund Committee that the allocation between UK and global equities should be switched from 45:55 to 30:70.

27 GLOBAL EQUITY TENDER

The Assistant Investments Manager gave a verbal report to Members. A full open tendering exercise had been undertaken. There had been 59 responses, which the evaluation process reduced to four following discussions with Officers and the Independent Advisor. Clarification meetings had been held with the 4 managers, following which three were invited to attend the selection panel on 24 November 2010.

The meeting ended at 5.17 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 December 2010**	**AGENDA ITEM NUMBER**
TITLE:	**RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 The Investment Panel is responsible for exploring investment issues including the investment management arrangements and the performance of the investment managers, and making recommendations to the Committee.

1.2 The Panel has held one meeting since the September 2010 committee meeting and the recommendations from the Panel are set out in this report. **The minutes of the Investment Panel meetings provide a record of the Panel's debate before reaching any recommendations. These can be found in an earlier agenda item**.

1.3 At its meeting on 24 September 2010 the Committee requested the Panel consider further the allocation between UK and overseas equities. This was a result of the discussion regarding the Fund's investment in BP and the risk arising from sector and stock weightings within the UK equity index. The Panel's discussion and recommendations are set out in this report.

2 RECOMMENDATION

That the Committee agrees the recommendation from the Investment Panel to:

2.1 **reduce the allocation to UK equities from 45% to 30% of the equity portfolio and increase the allocation to overseas equities from 55% to 70%;**

2.2 **implement the switch within the passively managed equity portfolio.**

3 FINANCIAL IMPLICATIONS

3.1 There is no impact on investment management fees as the proposed switch would be implemented within the Fund's passive portfolio managed by BlackRock.

4 BACKGROUND TO THE RECOMMENDATION

4.1 At the Committee meeting on 24 September 2010, the Investment Panel were asked to reconsider the allocation between UK and overseas equities that are managed on a passive basis. This was as a result of the discussion about the Fund's exposure to BP and the more general risks associated with the sector and stock concentration within the UK equity index.

4.2 The Panel have discussed this issue in detail in previous meetings and have received reports from JLT setting out the issues in the past. Therefore the debate focussed on (i) the comparison of sector and stock weightings between the UK and global indices and (ii) the implications on the Fund's risk/return profile of incremental switches from 45:55 UK:Overseas equities to 30:70 ratio.

4.3 The Panel discussed the following:

(1) JLT advise that the long term returns from UK and overseas equities are assumed to be similar at c. 8.5% p.a. having taken into account long term historical evidence. Therefore any switch between UK and overseas equities should not effect the overall return potential of the Fund.

(2) The main risk of overseas equities is the increase in volatility from currency exposure. The absolute volatility of the current allocation of 45:55 UK:Overseas is 16.0% which rises to 16.2% at an allocation of 30:70; however, the Fund will be hedging its currency exposure in the future therefore this risk is being managed.

(3) Having stripped out the currency risk, JLT advise that absolute volatility would be reduced by around 0.1%-0.15%. This is because the portfolio would benefit from greater diversification of holdings within the portfolio. The UK index is more concentrated by sector and at the stock level than the global indices. For example, the top 10 stocks in the FTSE All Share Index account for 38% of the capitalisation of the index compared to 9% for the MSCI World index. Technology and industrials account for less than 10% of the FTSE All Share Index but account for around 21% of the MSCI World index.

4.4 The Panel concluded that the allocation to UK equities should be reduced from 45% to 30% of the equity portfolio and the allocation to global equities be increased from 55% to 70%, as the scale of the switch is sufficient to reduce absolute volatility.

4.5 The Panel agreed that the switch should be implemented via the Fund's passive portfolio. This would not alter the monies allocated to any one manager.

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 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues being considered are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	JLT reports prepared for Investment Panel meetings Investment Panel reports and minutes.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 DECEMBER 2010**	**AGENDA ITEM NUMBER**
TITLE:	**GLOBAL EQUITY MANAGER APPOINTMENT**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary of Appointment Decision		

1 THE ISSUE

1.1 On 26 March 2010 the Avon Pension Fund Committee resolved to appoint an unconstrained Global Equity Manager to manage 6% of the Fund's assets (equivalent to 10% of the equity assets).

1.2 The appointment was delegated to the Investment Panel. The Panel met on the 24 November 2010 to make the selection.

1.3 This report updates Members on the completion of the selection process and the decision to appoint Schroder Investment Management (Schroder).

2 RECOMMENDATION

2.1 **That the Committee notes the appointment of Schroder as unconstrained global equity manager.**

3 FINANCIAL IMPLICATIONS

3.1 The monies allocated to the appointed manager are to be raised by realising assets within the Fund's passively managed equity portfolio.

3.2 The Fund's 2010/11 budget incorporated a provision for the associated management and consultancy fees.

4 THE SELECTION PROCESS

4.1 On 25 June 2010 the Committee resolved to agree the tender process for the global equity manager and to delegate the appointment of the global equity manager to the Investment Panel.

4.2 Due to the size of the mandate (c. £136m) the fees exceed the Official Journal of the European Union (OJEU) limit and therefore a full OJEU procurement exercise was followed. An Open procurement process was followed using the Council's online procurement portal. The online system generates an audit log of the whole process.

4.3 The Fund commissioned its investment consultant, JLT, to manage the tender process. The open tender was conducted and all investment managers that expressed an interest were invited to submit a bid.

4.4 The selection process was as follows:

(1) Officers agreed tender specification and evaluation criteria with JLT (see below)

(2) JLT developed the tender questionnaire based on the evaluation criteria. It was designed to help identify investment managers with a greater likelihood of being able to consistently deliver the requirements of the mandate over the medium term.

(3) The Fund received 64 tenders. The tenders were evaluated based on the pre-determined criteria. These were then discussed with the officers and the Fund's independent advisor.

(4) Having completed further due diligence, the Officers along with the Independent Advisor and Investment Consultant shortlisted 3 products. These 3 managers were invited to a selection panel meeting at which the selection panel (made up of Investment Panel members, advised by officers, investment consultant and independent advisor) clarified the information provided in the submissions and selected the manager to appoint.

4.5 The **specification** as set out in the tender documentation was as follows:

- Management of long only global equities of approximately £136 million at current levels

- Performance target is to outperform the MSCI All Country World Index (or FTSE All World Index) by +2 to 4% per annum, net of fees, over rolling three year periods
- The Pension Fund is working towards achieving the UN PRI standard and therefore will take this into consideration when evaluating the tender

4.6 The **evaluation criteria** used to assess submissions is set out below. The percentages show the weighting given to each element.

Criteria	Weight
Investment Process	30%
Corporate Governance and Responsible Investment	5%
Risk Management and Portfolio Construction	20%
Resources	10%
Corporate Structure	10%
Performance	5%
Fees	10%
Client service	10%

5 DECISION TO APPOINT

5.1 After assessing the submissions, the Selection Panel agreed to appoint Schroder. Reasons for this include:

- Clear philosophy and approach
- Approach well aligned with Fund’s goals
- Strong evidence of ability to achieve the Fund’s performance target

Further details on the reasons for this and on the management approach and process Schroder will take are in the exempt appendix 1.

5.2 This appointment is subject to completion of a legal agreement between the Fund and Schroder and the mandatory 10 day ‘standstill period’ following OJEU procurement exercises.

5.3 The portfolio will be managed on a segregated basis meaning that the Fund’s custodian (BNY Mellon) will be responsible for the safekeeping of the Fund’s assets.

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. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. 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 This is reporting the outcome of a consultation process.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, 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

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-10-019

Meeting / Decision: Avon Pension Fund Committee
Date: 10 December 2010

Author: Liz Feinstein
Report Title: GLOBAL EQUITY MANAGER APPOINTMENT Exempt Appendix Title: Appendix 1 – Summary of Appointment Decision

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 committee resolve to exclude the public. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

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 investment managers which is commercially sensitive to the investment managers. 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 appendices contain the investment processes / strategies of the investment manager. The information to be discussed is also 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.

The Council considers that the public interest has been served by the fact that significant amounts of information regarding the tender process and reasons for choosing Schroder have been made available by way of the main report.

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:	**10 DECEMBER 2010**	**AGENDA ITEM NUMBER**
TITLE:	**FRC STEWARDSHIP CODE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Statement of Compliance with FRC Stewardship Code		

1 THE ISSUE

1.1 This paper summarises the contents of the UK Stewardship Code, the background to its formation, and its relevance to the Fund.

1.2 A statement of the Fund's compliance with the Code is included in Appendix 1 and Members are requested to approve it.

2 RECOMMENDATION

2.1 **That the Committee approves the appended Statement of Compliance with the FRC Stewardship Code.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 BACKGROUND

4.1 In response to the financial crisis, the Government established the Walker Review to examine the role of UK banks and other financial institutions. In order to improve the extent and effectiveness of shareholder engagement with companies, the review recommended that the Financial Reporting Council (FRC) have responsibility for a new Stewardship Code, setting out best practise with respect to shareholder engagement.

4.2 In July 2010 the FRC published the Stewardship Code which was largely based on the principles set out in the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP). The ISC (SIP) was the industry standard for best practice and from 2005 onwards the Fund required its investment managers to adopt the ISC (SIP) in its own SIP.

4.3 The FRC has also taken over responsibility for the UK Corporate Governance Code, formerly the Combined Code. With the publication of the Stewardship Code, the FRC now has responsibility for both of the UK best practice codes on shareholder and corporate responsibilities.

5 THE STEWARDSHIP CODE

5.1 The Stewardship Code is a set of best practice principles that are intended to frame both shareholder engagement with companies, and the disclosure of such activity. It is intended that shareholders adhere to the principles with the same 'comply or explain' approach used with the UK Corporate Governance Code.

5.2 The principles in the Stewardship Code are very similar to those of the ISC (SIP). The principles are as follows –

Institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

3. Monitor their investee companies.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

5. Be willing to act collectively with other investors where appropriate.

6. Have a clear policy on voting and disclosure of voting activity.

7. Report periodically on their stewardship and voting activities.

5.3 Importantly, the FRC requires asset managers and other institutional investors (including pension funds) to report under the Code. The FRC ask that institutional investors publish a statement on their website on the extent to which they comply with the Code and to inform the FRC when they have done so.

5.4 The FRC has asked that such a statement consists of a description of how the principles of the Code have been applied and an explanation where elements of the Code have not been complied with. The Local Authority Pension Fund Forum (LAPFF) has issued guidance to member pension funds on reporting under the Code. The guidance included a 'model' statement, which has been adapted to reflect the Fund's own arrangements and practices, and is included as an appendix to this report.

5.5 This statement complements the Fund's SIP which sets out the Fund's policies on responsible investment, voting, and compliance with best practice governance principles (among other things). The Fund's SIP will be updated in due course to reflect the adoption of the FRC Stewardship Code.

5.6 As the Fund invests via external asset managers, the Fund's compliance with the Stewardship Code largely reflects the extent to which the Fund's external investment managers comply with the Code. The statement sets out the requirements the Fund has of its external asset managers with respect to the Code.

5.7 The Fund's appointment of an independent vote monitoring service provider will strengthen the Fund's compliance with the FRC Stewardship Code with regard to monitoring and disclosure of voting activity.

5.8 The Fund also achieves compliance with the Code through it's membership of the Local Authority Pension Fund Forum.

5.9 The FRC has stated that it will undertake annual monitoring of the take-up and application of the Code, as well as regular reviews of its content and impact. This is due to commence in the second half of 2011.

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. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. 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 This is reporting the outcome of a consultation process.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager 01225 395306
Background papers	FRC Stewardship Code LAPFF guidance on FRC Stewardship Code
Please contact the report author if you need to access this report in an alternative format	

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

The Fund's investment managers have all previously adopted the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP) which set out best practice for how shareholders and their agents should discharge their responsibilities with regard to corporate governance. As a result, each of the 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. The Fund's SIP will be updated to require the external managers to adopt the Stewardship Code.

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 and this policy 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' from service 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 activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, 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.

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.

The voting records of managers are reported to the Committee at the quarterly meeting. The Fund intends to make a summary quarterly report of voting activity available via the Fund's website in the future.

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.

Avon Pension Fund
10 December 2010

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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**10 December 2010**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Quarter Ending 30 September 2010**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Appendix 3 – Background information on Manifest		

1 THE ISSUE

1.1 This report contains performance statistics for the quarter ending 30 September 2010. The report focuses on the strategic investment policy, the managers' performance, a funding update, and portfolio rebalancing.

1.2 Most of the detail is contained in the appendices. The Fund's investment consultant, JLT, have prepared a report (Appendix 2) covering the performance of the investment strategy, the performance of the investment managers and the market commentary.

1.3 The Committee agreed in March 2010 to appoint an agent to assist the Fund in monitoring the voting activity that the investment managers undertake on behalf of the Fund. This appointment was delegated to Officers and following a tender process, Manifest has been appointed to provide this service.

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 Notes the information as set out in the report.

2.2 Notes the appointment of Manifest to monitor the Fund's voting activity.

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013.

3.2 Section 6 of this report discusses the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 JLT's report in Appendix 2 provides a full commentary on the performance of the strategic benchmark (pages 11-15), the investment managers (pages 16-40) and a commentary on investment markets (pages 4-10). In the section on the Fund (page 13), three year rolling returns are included to provide a longer term perspective.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in the following table for the periods to 30 September 2010:

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	8.1%	10.8%	*2.6%*
Strategic benchmark *(Fund relative to benchmark)*	7.8% *(+0.3%)*	11.2% *(-0.4%)*	1.0% *(+1.6%)*
Customised benchmark *(Fund relative to benchmark)*	8.3% *(-0.2%)*	10.4% *(+0.4)*	3.4% *(-0.8%)*
WM Local Authority Average Fund *(Fund relative to universe)*	8.2% *(-0.1%)*	11.0% *(-0.2%)*	0.8% *(+1.8%)*

4.4 The Fund's assets rose in value by £187m (8.1%) in the quarter giving a value for the Fund of £2,492m at 30 September 2010. This investment return was driven mainly by the rally in equity markets.

4.5 More importantly over the last twelve months the Fund's assets rose by £260m or 10.8%, driven by positive returns across all asset classes.

4.6 The initial estimate for the Fund's return in October is +1.3%.

4.7 **Against its strategic benchmark** (60% equities, 20% bonds, 10% property, 10% hedge funds) the Fund marginally underperformed over the year. The main reason for this was because the actual returns from property are lower as the Fund is still investing its property portfolio.

4.8 **Against its customised benchmark** (which measures the relative performance of the managers), the Fund marginally underperformed in the quarter. This was a result of underperformance by Jupiter and Invesco. Most of the other managers were in line with, or ahead of, their benchmarks.

4.9 Over the year the Fund marginally outperformed the customised benchmark mainly due to the outperformance of Jupiter, Royal London, Genesis and two of the hedge funds.

4.10 Over the last three years the Fund has generated a return of 2.6% p.a. underperforming the customised benchmark return by -0.8%. This is attributable to manager performance. Asset allocation has been a positive contributor.

4.11 **Compared to the WM Local Authority Fund universe**, the Fund underperformed marginally over the year but outperformed by 1.8% p.a. over 3 years.

4.12 The report by JLT identifies no areas of significant concern regarding the managers, but did note the SRI constraints on Jupiter may be at the cost of continued relative underperformance (notwithstanding the significant outperformance in Q2 2010) and significant volatility relative to the benchmark. This will addressed as part of the forthcoming review of the Fund's SRI policy.

4.13 During the quarter the Investment Panel received presentations from two of the Fund of Hedge Fund managers, the purpose being to review performance, understand the manager's investment process and operational risk management, review the outlook for their strategies and discuss future investment strategy. In January the Panel will meet the remaining three Fund of Hedge Fund managers. From these meetings, the Panel will identify any particular performance or operational issues and draw conclusions about the hedge fund portfolio which will be considered by the Committee at its workshop on the hedge fund portfolio to be held in March 2011.

4.14 Following the merger of MAN Group and GLG in 3Q10, some staff restructuring has occurred within the FoHF division and as a result the portfolio manager responsible for co-ordinating the Fund's portfolio left the company on 10 November 2010. This was discussed at the Panel meeting with MAN Group (on 11/11/10) and assurance was provided by MAN that this should not have an adverse impact on performance, given the team approach to constructing and managing the portfolios. However, the officers will closely monitor the impact of the integration of the two organisations.

4.15 The selection meeting for the new global equity manager was held on the 24 November 2010. This is covered in another agenda item.

5 INVESTMENT STRATEGY

5.1 JLT's report did not highlight any new strategy issues for consideration. The report does highlight the risk return profile of the Fund on pages 17, 18 & 19 and the impact on risk/return by each of the managers. In particular JLT conclude that the volatility of the various portfolios/funds is in line with expectations and that the Fund has benefited from diversification by asset classes as the Fund volatility is lower than the equity managers and passive BlackRock portfolio despite these making up a large proportion of the Fund's assets

5.2 Background work for the Fund's review of its investments in hedge funds is underway and will conclude in Q1 2011 with a Committee workshop on Wednesday 2 March 2010.

6 ACTUARIAL VALUATION UPDATE

6.1 The Fund's triennial valuation is considered in detail in a report earlier in the agenda. Since 31 March 2010 the funding level is estimated to have fallen to around 78% adopting consistent assumptions. The impact of the change in real yields (the main driver for liabilities as demographic assumptions are unchanged) in isolation is to increase liabilities by around £100m which more than offsets the rise in asset values of c. 2.0% over the same period.

6.2 The table below shows the change in financial assumptions:

	31 March 2010	31 September 2010
UK Gilt yield	4.5%	3.9%
Index linked real yield	0.7%	0.5%
Inflation adjustment	0.8%	0.8%
Implied CPI inflation	3.0%	2.6%

7 CASH MANAGEMENT

7.1 Cash is not included in the strategic benchmark. However, cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The segregated portfolios, TT, Jupiter and BlackRock utilise money market funds offered by the custodian, BNY Mellon. The cash within the pooled funds is managed internally by the manager. The cash managed by BlackRock in the property portfolio is invested in the BlackRock Sterling Liquidity Fund. 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.

7.2 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 and are invested in line with the Fund's Treasury Management Policy which was approved on 18 December 2009.

8 REBALANCING POLICY

8.1 The rebalancing policy requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 2%, and the valuation metric, in this case the equity gilt yield ratio, confirms that the relative valuation between equities and bonds is favourable. The implementation of this policy is delegated to officers.

8.2 There was no rebalancing undertaken this quarter. As at 27 October 2010 the Equity:Bond allocation was estimated at 75.2:24.8.

9 LAPFF ACTIVITY

9.1 The Fund is a member of the Local Authority Pension Fund Forum (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.

9.2 LAPFF's current activity includes:

(1) **BP engagement following Gulf of Mexico Oil Spill** - LAPFF met with the BP chair, Carl-Henric Svanberg, in September. The discussion ranged from the company's business strategy, future plans and approach to developing new frontiers; to health and safety governance and reputation management. These issues have also been addressed by LAPFF at previous meetings with BP dating back to 2006.

(2) **Engaging over labour standards** – LAPFF and a group of investors sought to engage with 10 companies with significant US operations over proposed employment legislation in the US. The legislation intended to make it easier for employees to be represented by a union if they wish to. The legislation has yet to be enacted and changing political fortunes in the US make it appear unlikely to be put into action. However, LAPFF engagement highlighted an issue at one company with alleged anti union practices. LAPFF are seeking to provide support in developing independent monitoring of any alleged breaches of the company's freedom of association policy.

(3) **Progress on Stewardship Code compliance** – In mid-October the Financial Reporting Council (FRC) officially launched the Stewardship Code for institutional investors. LAPFF report that the FRC hoped to have over 50 investors signed up by the official launch, with around three quarters being asset managers. In reality the FRC exceeded their initial expectation, as 50 asset managers complied plus 12 asset owner signatories at launch.

A paper on the FRC Stewardship Code which includes a compliance statement for the Fund is covered elsewhere in the agenda.

10 VOTE MONITORING APPOINTMENT

10.1 Following a recommendation from the Investment Panel, the Committee resolved to appoint a vote monitoring service in their meeting on 26 March 2010. A vote monitoring service will enable the Fund to more closely monitor the voting activity the managers undertake on its behalf and enhance the transparency and reporting of such voting to scheme members. In this way, the service supports the Fund in achieving compliance with the FRC Stewardship Code as discussed elsewhere on the agenda.

10.2 As the contract is to provide operational support to the Fund rather than expert advice the appointment was delegated to officers.

10.3 A tender process in line with the Council's procurement policy was run via the Council's e-procurement platform 'Pro Contract' which provides a full audit trail. Officers identified and invited 7 suppliers to tender. Of these, 5 registered interest and 2 submitted a full tender.

10.4 Following an evaluation of the submissions against the specification and evaluation criteria set out in the tender document, Manifest was appointed as the monitoring agent, subject to legal agreement. Background information on Manifest is included at Appendix 3.

10.5 Manifest will provide the following:

(1) Monitoring the voting activity of the equity managers (for both segregated and pooled equity portfolios, UK and overseas) against benchmark.

(2) A quarterly monitoring report for the Avon Pension Fund Committee, and an additional version of the report in a format suitable for public disclosure (i.e. website).

(3) An annual summary of voting activity and high level review of voting issues for the Avon Pension Fund Committee, which will be in a format suitable for public disclosure (i.e. website).

10.6 An allowance for this service was included in the 2010/11 budget.

11 RISK MANAGEMENT

11.1 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 the return of the strategic benchmark and 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.

12 EQUALITIES

12.1 This report is primarily for information and therefore an equalities impact assessment is not necessary.

13 CONSULTATION

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

14 ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 The issues to consider are contained in the report.

15 ADVICE SOUGHT

15.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager (Tel: 01225 395306)
Background	LAPPF Member Bulletins Data supplied by The WM Company

papers	
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND VALUATION – 30 SEPTEMBER 2010													
	Passive Multi-Asset		**Active Equities**			**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**	**Property**	**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	Black-Rock	Black-Rock 2*	TT Int'l	Jupiter (SRI)	Genesis	Invesco	State Street	Royal London		Schroder Partners			
EQUITIES													
UK	455.7	20.7	121.4	97.1								694.9	27.1%
North America	109.5	10.6										120.1	4.4%
Europe	117.5	7.7					29.7					154.9	5.9%
Japan	33.6	7.3					26.7					67.6	2.4%
Pacific Rim	44.6						27.3					71.9	2.9%
Emerging Markets					138.6							138.6	5.6%
Global ex-UK						148.1						148.1	5.9%
Global inc-UK	139.2											139.2	5.6%
Total Overseas	***444.4***	***25.6***			***138.6***	***148.1***	***83.7***					***840.4***	***32.7%***
Total Equities	**900.1**	**46.3**	**121.4**	**97.1**	**138.6**	**148.1**	**83.7**					**1535.3**	**59.7%**
BONDS													
Index Linked Gilts	157.5											157.5	6.3%
Conventional Gilts	154.1	55.6										209.7	6.2%
Sterling Corporate	3.9							132.0				135.9	5.5%
Overseas Bonds	76.2											76.2	3.1%
Total Bonds	**391.7**	**55.6**						**132.0**				579.3	**21.0%**
Hedge Funds									214.2			214.2	8.6%
Property										127.5		127.5	9.7%
Cash	1.6	11.5	1.7	4.4					0.5	2.4	13.9	36.0	1.0%
TOTAL	**1293.4**	**113.4**	**123.1**	**101.5**	**138.6**	**148.1**	**83.7**	**132.0**	**214.7**	**129.9**	**13.9**	**2492.3**	**100.0%**

N.B. (i) Valued at BID (where appropriate)
(ii) In-house cash = short term deposits at NatWest managed on our behalf by B&NES plus general cash held at Custodian
(iii) BlackRock 2 * = represents the assets to be invested in property, temporarily managed by BlackRock

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Review
for period to 30 September 2010

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Bekki Jones, BSc (Hons), IMC

Investment Consultancy Analyst

Dave Lyons, BA (Hons), IMC

Divisional Director

November 2010

Section One – Executive Summary

- This report is produced by JLT Benefit Solutions to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Highlights

- The total Fund's assets rose in value by £187m over the third quarter of 2010, to £2,492m as at the end of September 2010.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 8.1%, underperforming the customised benchmark by 0.2%. Over the last year, the Fund produced a return of 10.8%, which was ahead of the customised benchmark return of 10.4%. Over 3 years, the Fund has produced a return of 2.6% p.a., underperforming the customised benchmark by 0.8% p.a.
- The positive absolute performance over the quarter was driven by all managers producing positive absolute returns. The returns from the equity funds were the primary drivers of the positive returns followed by bonds.
- Over the year performance remains positive, however the one year return was reduced following the negative return witnessed in the second quarter and the exclusion of a robust third quarter performance in 2009 from the calculations.
- The small relative underperformance over the quarter resulted from the underperformance of a few managers, in particular Jupiter and Invesco. The assets with BlackRock and TT performed broadly in line with their benchmarks. Overall, the Fund underperformed despite outperformance from MAN, Signet, Lyster Watson and RLAM.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed and progressed by the Investment Panel. We note that the Invitation to Tender stage of the Fund's search for a global equity investment manager closed on 11 August 2010, and the assessment of submissions received is currently underway.
- Manager Performance: We have identified no areas of significant concern regarding the managers. However, we note that the SRI constraints on Jupiter may be at the cost of continued underperformance relative to the benchmark (notwithstanding that their performance in the second quarter was very strong in relative terms) and continued volatility from this investment. This links in to wider considerations regarding the Fund's approach to Socially Responsible Investment which will be reviewed further in the near future. The performance and role of the fund of hedge fund managers is now being considered as part of the review of the fund of hedge fund investments that has recently been commenced by the Investment Panel. Besides these observations, we see no reason not to invest with any of the active managers during any rebalancing process, although given that the SRI policy is to be reviewed, this would imply that no new investment should be made with Jupiter until firmer conclusions have been drawn as to future policy.

Section Two – Market Background

- The table below summarises the various market returns to 30th September 2010, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	13.6	12.5
Overseas Equities	8.3	10.5
USA	5.7	11.8
Europe	13.3	2.3
Japan	0.1	1.2
Asia Pacific (ex Japan)	12.6	20.3
Emerging Markets	12.1	23.3
Property *	2.5	23.9
Hedge Funds *	1.0	9.2
Commodities	2.8	5.8
High Yield	2.9	19.0
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	5.8	7.8
Index-Linked Gilts (>5 yrs)	4.1	9.5
Corporate Bonds (>15 yrs AA)	6.2	12.7
Non-Gilts (>15 yrs)	6.9	12.4
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	0.4	4.6
Consumer Price Index (CPI)	0.4	3.1
Earnings Inflation **	0.3	2.6

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	5.3	-1.5
Against Euro	-5.5	5.5
Against Yen	-0.6	-8.1
Yields as at 30 Sept 2010	**% p.a.**	
UK Equities	3.17	
UK Gilts (>15 yrs)	3.85	
Real Yield (>5 yrs ILG)	0.48	
Corporate Bonds (>15 yrs AA)	4.95	
Non-Gilts (>15 yrs)	4.97	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	-0.3	-0.2
Index-Linked Gilts (>5 yrs)	-0.2	-0.2
Corporate Bonds (>15 yrs AA)	-0.4	-0.5
Non-Gilts (>15 yrs)	-0.4	-0.5

** is subject to 2 months lag

Statistical highlights

- The Chancellor, George Osborne has announced a series of public spending cuts in order to combat the huge budget deficit in the UK. The most controversial of these were the changes to welfare benefits. Mr Osborne also announced that most government departments would need to cut their budgets by 25%.

- The rate of CPI inflation decreased marginally over the quarter from 3.2% to 3.1% and has been above its 2% target for 10 consecutive months. The Bank of England base rate remained unchanged at 0.5%.
- There has been much talk of further quantitative easing in both the UK and the US. This speculation has led the $US to depreciate considerably against the Yen with the Japanese authorities stepping in with their own programme of quantitative easing to try to combat the issue.
- Equities, in the main, rebounded during the third quarter following a disappointing Q2. In Sterling terms, Japan was the only region not to post a strong return over the quarter. The FTSE All-Share Index posted the strongest return over the quarter (+13.6%) closely followed by Europe (ex UK) (+13.3%), Asia Pacific (ex Japan) (+12.6%) and Emerging Markets (+12.1%).
- All fixed interest assets produced positive returns over the third quarter.

UK market events – Q3 2010

- **Government Debt:** At the end of September 2010 UK national debt stood at £952 billion, or 64.6% of GDP, the highest for any month since 1993. The government is believed to be working on a plan to tackle Britain's £149bn budget deficit by hiving off state-owned property assets to the private sector. The Office for National Statistics estimates that government property is worth about £370bn. However, there is no comprehensive register of the entire portfolio and some City experts believe the estate could be worth around £500bn.
- **Unemployment:** The unemployment rate in the UK fell by 20,000 to 2.45 million during the three months to August 2010.The rate of unemployment fell by 0.1% to 7.7%, according to the Office for National Statistics. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 5,300 between August and September 2010 to reach 1.47 million. This is the second consecutive monthly increase in the number of claimants.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey rose to 54.9 in October 2010 from 53.5 in September 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 3.1% in September 2010, unchanged from August 2010. RPI annual inflation was 4.6% down from 4.7% in August 2010. RPIX inflation, which excludes mortgage interest payments was 4.6% in September, again down from 4.7% in August 2010 .The equivalent annualised EU CPI figure was 2.0%. The largest downward pressures to the change in CPI inflation came from air transport, fuel and lubricants prices and second-hand car prices while the largest upward pressures came from clothing and footwear as well as from meat and fruit prices.
- **Gross Domestic Product:** In the third quarter of 2010, GDP grew by 0.8%, compared with 1.2% in the previous quarter. The growth in the third quarter is due to growth in each of the component aggregate series, namely services, construction and production. Manufacturing made the largest contribution to the growth, where output rose 1.0 per cent compared with an increase of 1.6 per cent in the previous quarter.
- **Interest Rate:** Despite inflation remaining well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been in place since March 2009. While many economists still believe rates are set

to remain at 0.5% well into 2011, stubbornly high inflation - currently just over 3% - could prompt a rate increase sooner than expected. The Bank of England has presented an upbeat growth outlook, with forecast inflation remaining above target next year, but is clearly conscious of the fragility of the recovery.

Europe market events – Q3 2010

- **European Sovereign Debt Crisis:** Europe's progress in resolving its sovereign debt crisis has eroded slightly due to domestic political resistance and worries over a debt-restructuring proposal. However, Germany's suggestion that a 440 billion euro ($614 billion) European bailout fund be replaced with a debt restructuring mechanism is being viewed by financial markets as raising the threat of default. There is also mounting concern that the eurozone crisis is on the verge of breaking out again, with Ireland's government having now called in the European Union and the International Monetary Fund to bail it out, prompted by a sharp spike in the cost of insuring Irish sovereign debt, which followed heightened speculation about Ireland's ability to stay on top of its public finances while also bailing out its crisis-hit banks.
- **Ireland:** The country is reeling from the fiscal impact of a property crash, which this year will result in the largest primary deficit in the European Union at 11.9 per cent of gross domestic product. Moreover, Fitch has downgraded Ireland’s debt rating, with a further downgrade more than likely in the next two years according to the credit rating agency. The agency has also changed its outlook on the Irish debt from stable to negative which it says, “implies a slightly greater than 50 per cent probability of a further downgrade over a 12-24 month horizon". The negative outlook reflects uncertainly regarding the timing and the strength of the economic recovery and medium-term fiscal consolidation effort. On November 11, the yield on Ireland’s 10-year government bond, which moves inversely to its price, hit 9.24%, a record 6.83-percentage point premium over the borrowing rate of Europe’s safest borrower, Germany. This was an unsustainable rate for a small, highly indebted country like Ireland.
- **Greece:** Benchmark Greek 10-year bond yields have risen to 11.30 per cent from 8.77 per cent since October 13. Greece’s debt agency (PDMA), which switched to monthly auctions of short-term debt in September, went for a smaller issue as government borrowing costs have risen in the past month. Greek banks have been locked out of markets and are reliant on ECB funding amid concerns over their Greek government bond holdings and fears of a sovereign default.
- **Spain:** Spain’s Socialist government is implementing the deepest budget cuts since 1980, including wage reductions and tax increases, to stem a surge in borrowing costs and slash the deficit by half in two years. GDP was unchanged from the previous three months after two quarters of expansion according to the National Statistics Institute in Madrid. The unemployment rate was recorded at 20.8%, the highest in the euro region.
- **Germany:** Germany remained the most important driver of Eurozone growth, with the latest PMI consistent with a quarterly rate of growth of GDP of approximately 0.6% to 0.7%, although well down from the 2.2% spurt seen in Q2 (and below a PMI-based estimate of 0.8% in Q3), but still robust by historical standards. Growth was underpinned by construction and infrastructure investments and a moderate increase in household spending, historically the German economy's weakest link. The good news came from unemployment rate figures, which decreased, to 6.7% from 7.6%.

- **Unemployment:** The EU27 unemployment rate was at 9.6% in September 2010, unchanged compared to August 2010. The unemployment rate was 9.3% in September 2009. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.4%) and Austria (4.5%) and the highest in Spain (20.8%), Latvia (19.4% in the second quarter of 2010), Estonia (18.6% in the second quarter of 2010) and Lithuania (18.2% in the second quarter of 2010).
- **Double Dip Recession:** The European economy continues to be at risk of sliding back into a recession as governments cut spending to reduce their budget deficits. Growth in Europe's services and manufacturing industries slowed more than economists forecast in August and German investor confidence slumped to the lowest in past 16 months.
- **Services and Manufacturing Sectors:** The Eurozone service sector recovery continued to lose momentum in October 2010 and was down to 53.3 from 54.1 in September 2010, the lowest level since February and had barely changed from the earlier flash estimate of 53.2. The final Markit Eurozone Services Business Activity Index fell to its lowest level since February. Manufacturing output has shown signs of improving with the seasonally adjusted PMI increasing to 54.6 in October 2010, up from 54.1 in September 2010.
- **Inflation:** The inflation rate in Euro Area was reported at 1.80 percent in September of 2010.
- **Gross Domestic Product:** GDP increased by 0.3% in the Eurozone during the third quarter of 2010.
- **Interest Rate:** The European Central Bank has maintained its decision to keep the base rate at a record low of 1.0% since May 2009.

US market events – Q3 2010

- **Unemployment:** The rate of unemployment in the US rose from 9.6% in August 2010 to 9.7% in September 2010.
- **Manufacturing and Industrial Production:** Industrial production decreased 0.2 percent in September 2010 after the increase of 0.2 percent in August 2010. The index for manufacturing decelerated sharply in the third quarter after having jumped at an annual rate of 9.1 percent in the second quarter. Factory output gained 3.6 percent in the third quarter.
- **Inflation:** Inflation rate in United States was reported at 1.10 percent in September of 2010.
- **Gross Domestic Product:** US real GDP increased by 2.0% over the third quarter of 2010, against a 1.7% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.
- **US Housing Market:** Home sales have plunged since June, when most of the purchases driven by tax credits closed, and most real estate agents expect them to remain below the levels of a year ago for several months to come.

Emerging Markets market events – Q3 2010

- Japan lost its place as the world's second-largest economy to China in the second quarter. China has been a major force behind the world's emergence from recession. China's economy will almost certainly be bigger than Japan's at the end of 2010 because of the huge difference in each country's growth rates. China is growing at about 10% a year, while Japan's economy is forecasted to grow between 2% and 3% this year. Chinese inflation jumped to its highest level (4.4%) in just over two years in October from 3.6 percent the month before, prompting new fears that the economy could be overheating as a result of the government's massive stimulus measures.

- The newly elected president of Brazil, Dilma Rousseff will face an uphill task of combating economic inflation, currency appreciation and a widening current account deficit. The current account gap has been widening and is fast approaching 3% of GDP (up from 1.5% of GDP last year), Moreover, foreign direct investment, which reached record levels in 2008 at $45 billion has declined and will not be able to finance the deficit any longer. The São Paulo stock exchange on September 24th concluded the biggest share issue to date, of Petrobras ($67bn) an oil and gas company based in Brazil.
- India's quarterly estimate of GDP for 2010-11 released at the end of August 2010 places the growth in real GDP at 8.8% in the first quarter of the current fiscal year with agriculture recoding a growth rate of 2.8%; industry 10.3% and services 9.7%. The growth in private consumption demand at 3.8% and in investment demand at 7.6% are showing signs of regaining earlier momentum. Inflation in food, which was the cause of worry for the past year, has declined to 10.60% in August 2010 from its peak of 16.22% in February 2010.

Market events – Global summary – 1 year

- The major market event over the 12 month period to 30 September 2010 was the sovereign debt problem in Greece and the possibility that the Greek government may default on its debt. Fears then spread to the possibility of contagion into the economies of Spain, Portugal, Italy and Ireland, with 'fear mongers' even citing the UK as a possible victim given its huge current deficit. A €750bn bailout package spearheaded by the German Chancellor, Angela Merkel, was put together to alleviate the problems of Greece and provide support for any other EU countries which may fall into difficulty.
- In the UK, the Bank of England added a further £25bn to its quantitative easing ("QE") programme in November 2009, bringing the total value of QE to £200bn which since then been held steady. Recently there have been calls for an increase to the QE programme with, for example, the British Chambers of Commerce arguing that the threat of inflation is significantly less than the threat of the economic recovery stalling and has called for a further £50bn to be injected into the economy. In the US, the Federal Reserve has further extended its policy of Quantitative Easing ("QE") with a further $600bn.
- UK GDP has been positive in each quarter over the year to 30 September 2010 with the UK economy officially exiting recession following the release of the Q1 2010 data. Fears of a double dip recession have some what alleviated with the release of the Q3 2010 data indicating the economy grew by 0.8%, this being much better than expected. Eurozone GDP has remained positive throughout the year despite the problems of Greece, as has US GDP.
- More recently, currencies have been the topic of much debate, in particular the US and some Eurozone countries have accused the Chinese government of manufacturing an artificially low Yuan and thus giving Chinese exporters a competitive advantage over local producers. The extension of QE in the US has also led the $US to depreciate significantly against the Yen. Japanese authorities have stepped in with their own QE programme in an attempt to depreciate their own currency relative to the US dollar to aid exporters.

- The UK base rate has remained at an all time low of 0.5% throughout the course of the last 12 months.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively.

Equities

- Equities produced a strong absolute return over the year to 30 September 2010 despite an extremely poor Q2 2010.
- The market rally which began in March 2009 continued into Q4 2009 and Q1 2010. Global equities suffered a set back in the second quarter of 2010 due to a number of factors: the pace of economic recovery in both the Eurozone and the United States moderated, the European sovereign debt crisis dominating headlines, weaker than expected housing and unemployment statistics in the US and policy tightening in emerging economies such as China. Q3 2010 saw equities bounce back following better than expected second quarter corporate earnings.
- In both Sterling and local currency terms, Emerging Markets and Asia Pacific (ex Japan) produced the strongest returns, followed by the UK. Japanese equities produced the weakest returns in both Sterling and local currency terms.
- With the exception of the Europe (ex UK) region, Sterling investors will have benefited from currency movements if they were unhedged as Sterling weakened against all major currencies, except the Euro, over the year to 30 September 2010.

Bonds & credit

- The spread on long-dated AA rated corporate bond yields over long-dated gilts fell from approximately 1.4% at 30 September 2009 to 1.1% as at 30 September 2010.
- Gilt yields have remained low despite the consensus view at the beginning of the year that gilt yields had to rise to compensate for the raft of new issuance. Investors' fears regarding the downward pressure on gilt prices should the gilts within the quantitative easing programme be released into the wider market, as supply would outstrip demand, were not realised over the year to 30 September 2010.
- Gilt yields fell by approximately 0.2% over the one year period to 30 September 2010 as investors flocked to more secure investments, firstly due to fears over the possibility of a double dip recession and then due to the sovereign debt problems seen in the so called 'PIIGS' countries, Portugal, Italy, Ireland, Greece and Spain.
- Corporate bonds posted a strong absolute return over the year and correspondingly the long-dated AA rated corporate bond yield fell by approximately 0.5%.
- The return on corporate bonds continued to be driven by improved investor sentiment as the major global economies emerged from the recession.
- The real yield on index-linked gilts also fell over the 12 month period as the above target level of inflation led to an increasing excess of demand relative to supply.

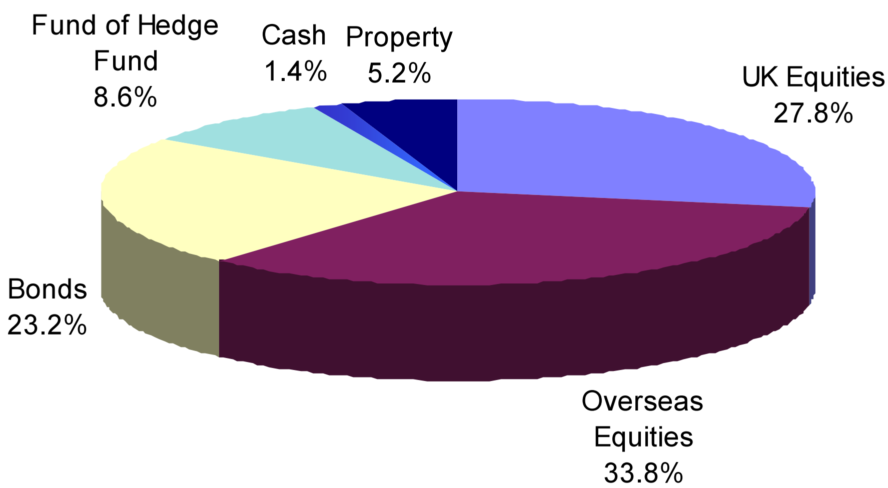
Alternative asset classes

- Property posted a positive return in each quarter over the year. The return over the year is primarily the result of capital appreciation although income has also played a notable role. The return on property has been driven by investors' belief that property prices bottomed out in mid 2009 and they have subsequently flocked back into property to take advantage of this belief. However, many investors believe that recent performance has been the result of excess demand rather than an improvement in any underlying fundamentals. This view is perhaps best demonstrated by the number of investors currently held in queues to enter investment managers' property funds.
- Hedge funds have also had a positive year but have underperformed the majority of regional equity indices, as one would expect. However, hedge fund returns have been achieved with significantly less volatility than equities. The Dow Jones Credit Suisse Hedge Fund Index has now recaptured all of the losses suffered during the recent credit crisis and has also seen significant inflows over 2010 to date. Fixed Income Arbitrage and Global Macro have been the leading hedge fund strategies over the year to date while Dedicated Short Bias strategies proved to the weakest strategy over the same period.
- Commodities have produced a modest positive return over the 12 month period to 30 September 2010. Gold prices rose by almost 30%, the price of oil rose marginally and foodstuffs such as sugar and coffee rose significantly.
- High yield bonds performed strongly with spreads relative to government bonds falling substantially, reflecting continued improving sentiment.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 September 2010, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset class allocation as at 30 September 2010



Asset Class	30 September 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	694,363	27.9	27.0
Overseas Equities	844,303	33.9	33.0
Bonds	579,430	23.2	20.0
Fund of Hedge Funds	214,195	8.6	10.0
Cash	35,449	1.4	-
Property	129,501	5.2	10.0
Reconciling differences and rounding	-4,899	-0.2	-
TOTAL FUND VALUE	**2,492,342**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £187m over the third quarter of 2010 to £2,492m, mainly as a result of positive absolute investment performance from all asset classes. UK Equities and Overseas Equities were the asset classes which produced the highest absolute returns, 13.6% and 8.3% respectively. These assets comprise approximately 62% of the Fund's assets.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There were some investments during the quarter, which included the further funding of property investments and into overseas equities.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2010		Net New Money £'000	30 September 2010	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	91,647	4.0	-	101,567	4.1
TT International	UK Equities	108,259	4.7	-	123,106	4.9
Invesco	Global ex-UK Equities	140,403	6.1	-	148,145	5.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	76,444	3.3	-	83,690	3.3
Genesis	Emerging Market Equities	123,064	5.3	-	138,629	5.6
Lyster Watson	Fund of Hedge Funds	9,530	0.4	-	9,874	0.4
MAN	Fund of Hedge Funds	92,143	4.0	-	95,591	3.8
Signet	Fund of Hedge Funds	45,059	2.0	-	46,328	1.9
Stenham	Fund of Hedge Funds	11,225	0.5	-	11,427	0.4
Gottex	Fund of Hedge Funds	50,712	2.2	-	51,433	2.1
BlackRock	Passive Multi-asset	1,180,980	51.2	5,000	1,293,335	51.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	120,337	5.2	-14,075	113,428	4.6
RLAM	Bonds	124,456	5.4	-	131,988	5.3
Schroder	UK Property	81,125	3.5	11,535	93,810	3.8
Partners	Property	32,825	1.4	1,903	34,192	1.4
Internal Cash	Cash	16,676	0.7	-4,363	15,799	0.6
Rounding		2	0.1	-	0	0.0
TOTAL		**2,304,887**	**100.0**	**-**	**2,492,342**	**100.0**

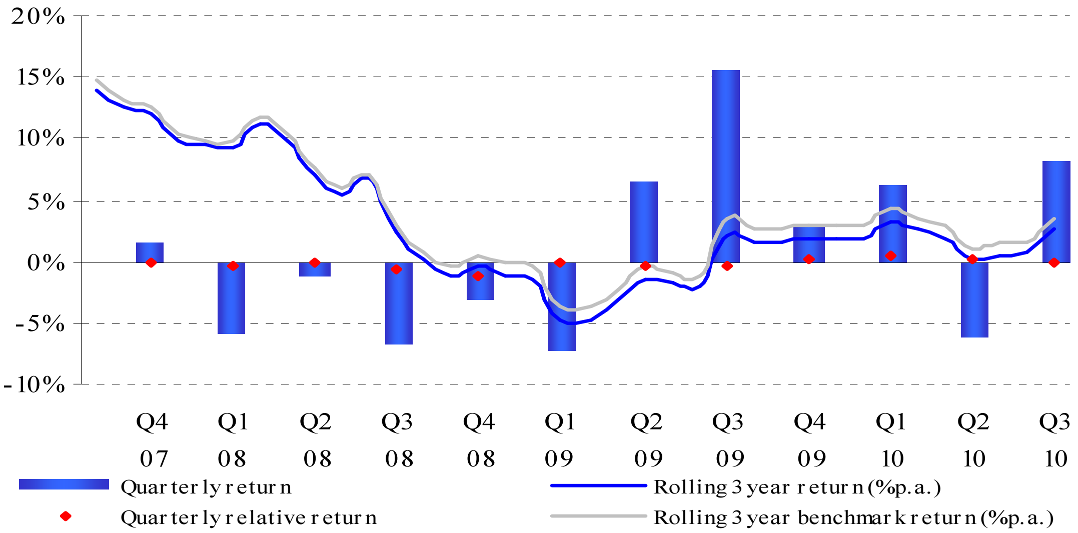
Source: Data provided by WM Performance Services

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance

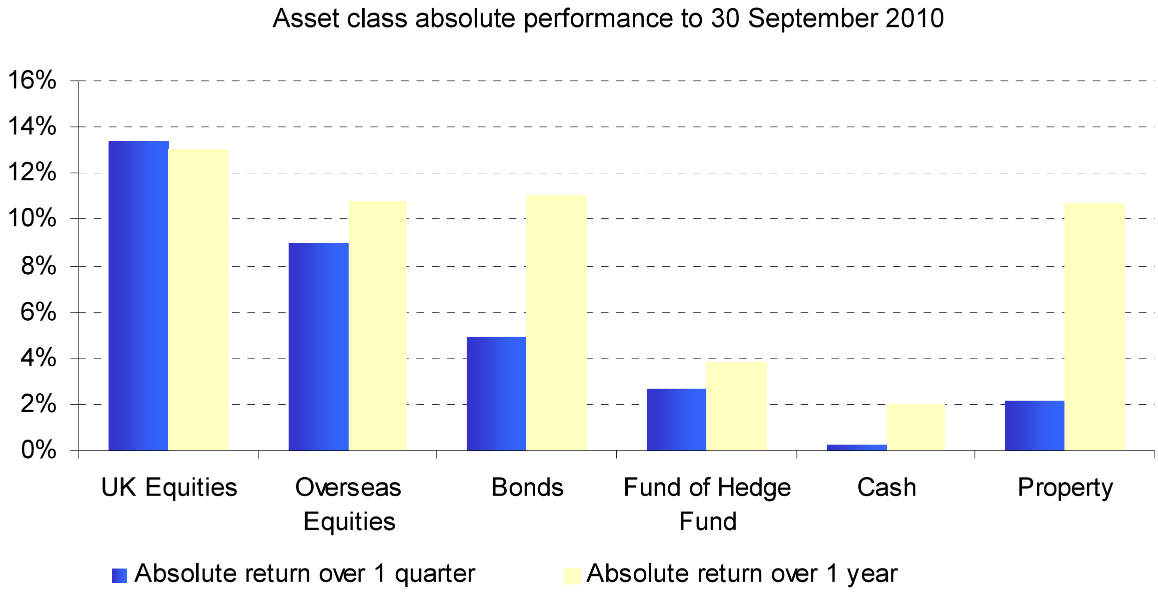


Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns in previous quarters, to provide a longer term view of investment performance.
- Over the last quarter (blue bars) the total Fund's assets produced a return of 8.1%, underperforming the customised benchmark by 0.2%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 10.8%, outperforming the customised benchmark by 0.4%.
- Over the last 3 years (blue versus grey line) the total Fund's assets produced a positive return of 2.6% p.a., underperforming the customised benchmark by 0.8% p.a.
- The driver of positive absolute performance over the last quarter was the positive absolute returns from all Fund's managers, across asset classes (see page 16), in particular those within equities, both UK and overseas and bonds.
- The slight underperformance over the quarter arose from negative relative returns from a few managers, most notably Jupiter and Invesco. BlackRock (multi asset), TT and Genesis performed broadly in line with their benchmarks. There were some outperforming managers (namely MAN, Signet, Lyster Watson and RLAM) however these were outweighed by the negative relative returns of Jupiter and Invesco.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter and year to 30 September 2010. Note that the returns from the BlackRock Multi-Asset portfolio and the second BlackRock portfolio, which hold a combination of asset classes, are aggregated within the relevant asset class returns.



Source: Data provided by WM Performance Services

- Over the third quarter of 2010, all asset classes produced positive absolute returns.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 13.4% and 9.0% respectively.
- Sterling depreciated against the Euro and Yen over the quarter, meaning a higher return on the Euro and Yen denominated overseas equities in Sterling terms. Sterling appreciated against the Dollar, meaning a lower return on the Dollar denominated overseas equities in Sterling terms. All major markets produced positive returns for the quarter in local currency terms. The highest local currency return came from the Asia Pacific region, and the lowest from the Japan region.
- Bonds produced positive absolute returns of 4.9% over the quarter, with the highest bond returns being produced by UK government bonds followed by UK index-linked bonds.
- The fund of hedge fund portfolio produced a positive return of 2.6%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 September 2010:

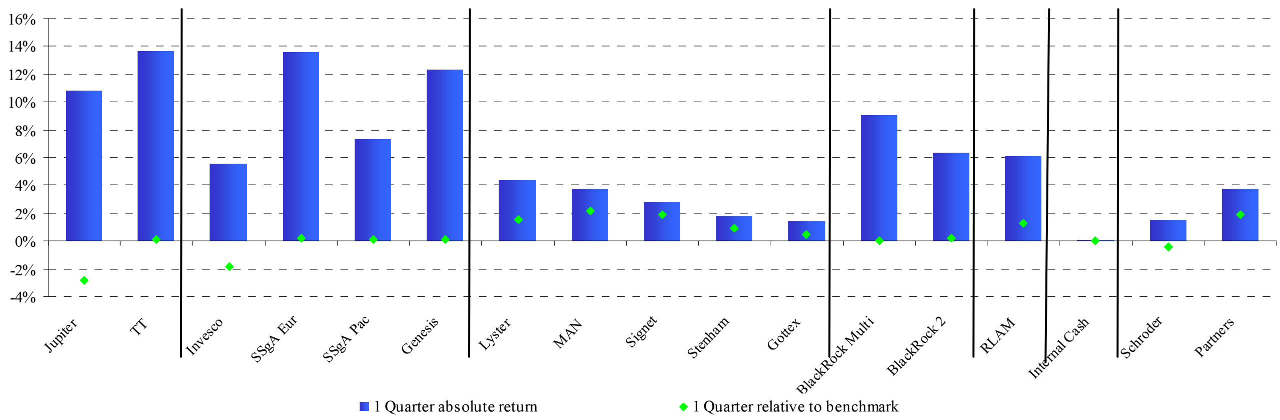
Asset Class	Weight in Strategic Benchmark	Q3 2010 (index returns)	1 year (index returns)
UK Equities	27%	13.6%	12.5%
Overseas Equities	33%	8.3%	10.5%
Index Linked Bonds *	6%	3.6%	9.5%
Gov Bonds – Fixed *	14%	3.6%	7.3%
Corporate Bonds *		5.5%	12.7%
Hedge Funds	10%	5.4%	9.6%
Property	10%	2.2%	22.6%
Total Fund	**100%**		

*Please note that these are 'all maturities' index returns and so may differ from the 'long maturities' index returns shown on the Market Background page in Section Two.

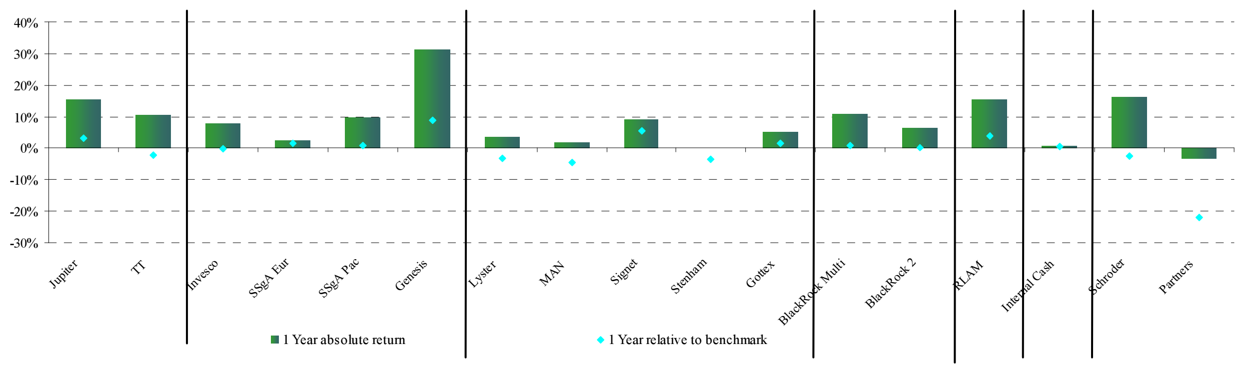
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of September 2010. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 30 September 2010



Absolute and relative performance - year to 30 September 2010

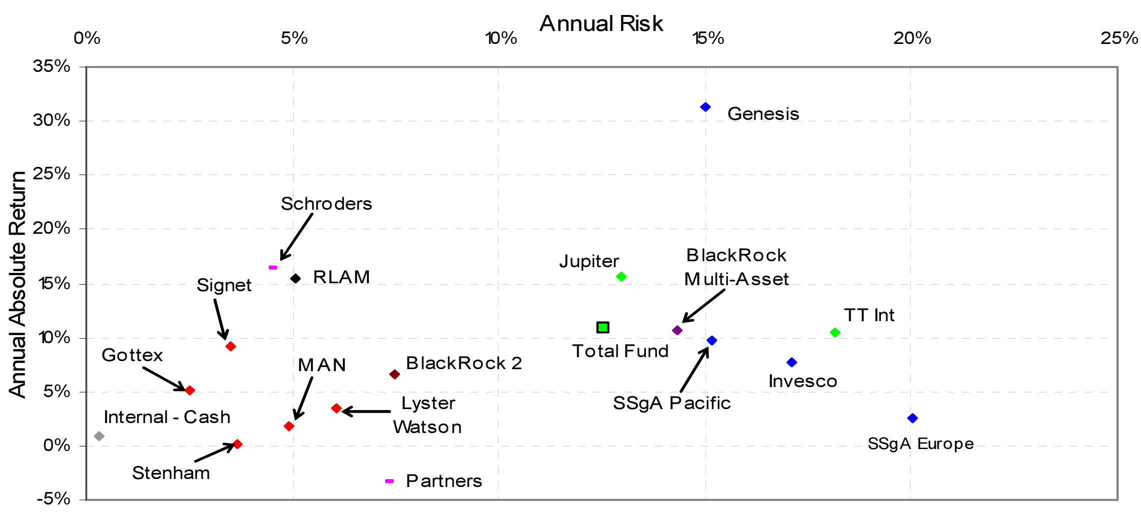


Source: Data provided by WM Performance Services

- All of the Fund's investment managers produced positive absolute returns over the quarter.
- Over the quarter, the strongest absolute performance came from the TT. In relative terms MAN performed the best over the quarter, outperforming their benchmark by 2.2% while the worst relative performance came from Jupiter, who underperformed their benchmark by 2.8%.
- Over the year, all of the absolute returns were positive, except for Partners who are still in the process of investing the mandate. Of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 31.3%, well ahead of its benchmark return of 22.3%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return (“Annual Absolute Return”) against the 1 year volatility of absolute returns (“Annual Risk”), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2010 of each of the funds, along with the total Fund.

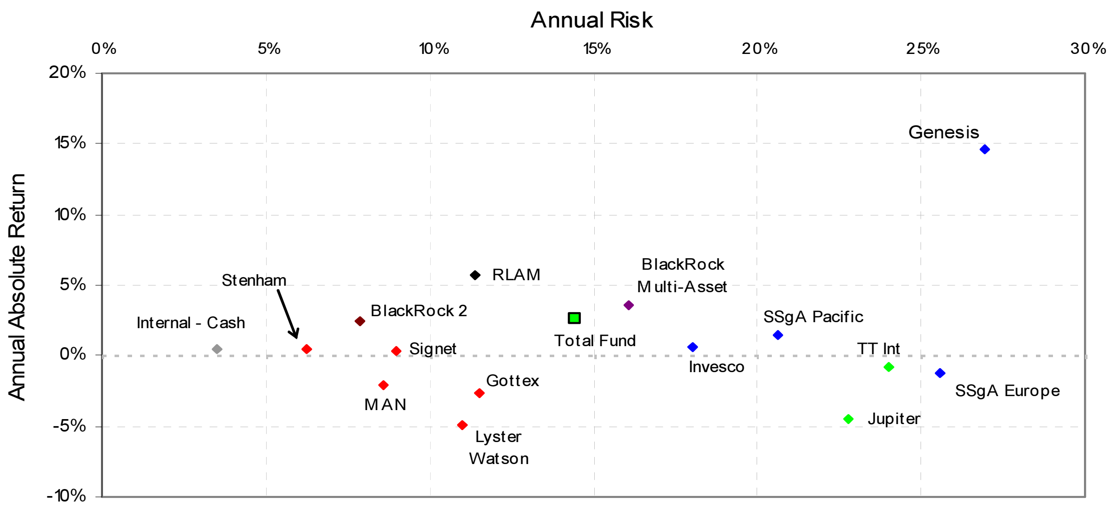


Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund
  - Pink: Property
- Note: Partners property fund is not included in the charts due to unavailability of data.

- The volatility of returns over the year has overall very marginally reduced compared to last quarter. The funds where volatility decreased notably compared with the last quarter were BlackRock Multi-Asset and Genesis while the others were broadly in line with the previous quarter. Overall the changes to the volatility in the hedge funds were marginal.
- There has again been a shift downwards in the annual returns compared to the last quarter. This was driven by the fact that these funds produced negative returns over the second quarter of 2010 and the exclusion of strong returns in the third quarter of 2009 from the 1 year calculations.
- The returns from the fund of hedge funds are again at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (i.e. to the extreme left).
- The very strong absolute return from Genesis over the last year has provided a very good risk adjusted return, compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

3 Year Risk v 3 Year Return to 30 September 2010



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund

- The returns from the fund of hedge funds are at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (i.e. to the left).
- The very strong absolute return from Genesis over the last 3 years has provided a very good risk adjusted return, compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

Section Five – Manager Performance

- This section provides a summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix B, which shows the benchmark and outperformance target for each fund.

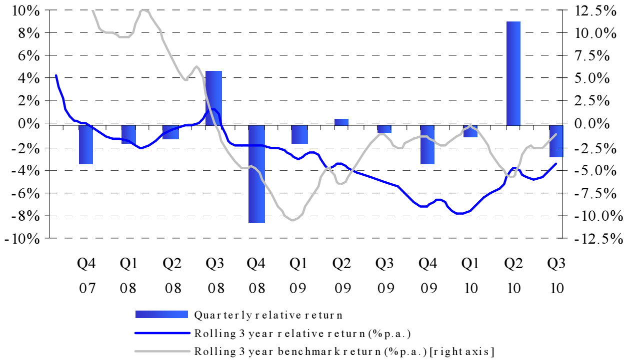
Summary of conclusions

- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI remains under ongoing consideration by the Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter underperformed over the quarter partly due to their underweight allocation to the Mining and Oil and Gas sectors; which produced positive absolute returns over the quarter, as such this position contributed to the negative relative returns over the period.
  - TT International marginally outperformed its benchmark over the quarter, with the overweight positions in Consumer Services and Basic Materials, and underweight in Financials and Consumers Goods.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to the benchmarks over the quarter. Invesco, however produced negative relative returns over the quarter, although, as has been noted in previous reports, their performance can be affected by the 'timing' of the pricing of the fund compared to the benchmark index, particularly in more volatile market conditions.
- Emerging Markets: Genesis marginally outperformed their benchmark over the quarter, and produced a positive absolute return. The absolute return was driven by equity markets themselves, which overall produced positive returns over the quarter; the relative return was driven by Emerging Market equity returns and stock selection. The latest quarter of outperformance was the sixth consecutive quarter of outperformance from the manager.
- Fund of Hedge Funds:
  - In September Stenham Asset Management acquired boutique discretionary management company Montier Partners, bringing total assets under management to $3.5 billion.
  - In October Man Group plc and GLG Partners announced that the recommended acquisition of GLG by Man was completed on October 14th, to create a multi-style, performance-focused alternative asset manager with funds of around $63 billion under management. GLG is now a wholly owned subsidiary of Man.
  - Hedge funds underperformed equities in this quarter as compared to the second quarter when hedge funds outperformed equities. This is as we would expect.

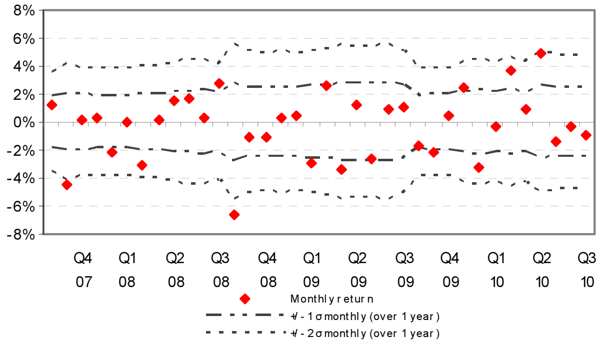
  - All the fund of hedge funds managers outperformed their benchmarks this quarter. The best performing fund of hedge funds manager in relative terms was MAN and the bottom performer was Gottex.
  - Over the year to 30 September 2010, only Signet and Gottex are ahead of their objectives.
  - For the first time in a year, MAN has outperformed its benchmark. The key driver of the outperformance was the high allocation to Commodities and Long/Short Asia Pacific.
- BlackRock Passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their fund.
- Property: Performance of the property funds over the quarter was positive in absolute terms. Partners outperformed their benchmark, whilst Schroders underperformed. Due to the short period since investment in the property funds, details are not provided in the charts following. These will be included in the future, once sufficient performance history is available. For the time being, a qualitative assessment is included for each of these two managers.
- Once again, we note that the Investment Panel's scheduled three year review of the fund of hedge fund managers has recently commenced.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

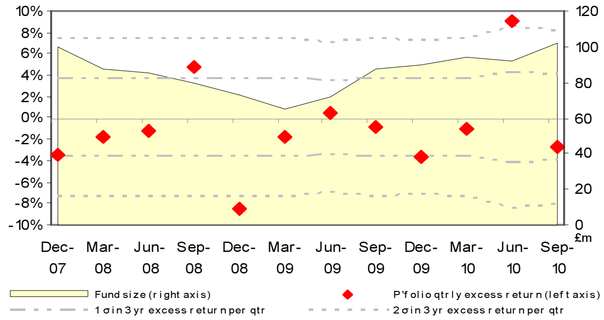
Relative returns [#1]



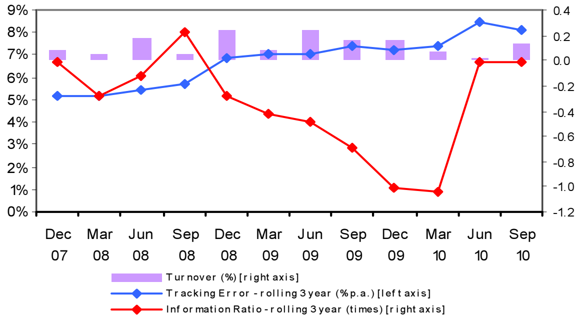
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



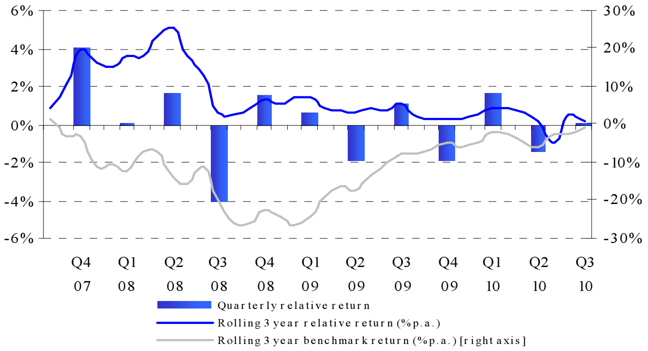
Source: Data provided by WM Performance Services, and Jupiter

Comments:

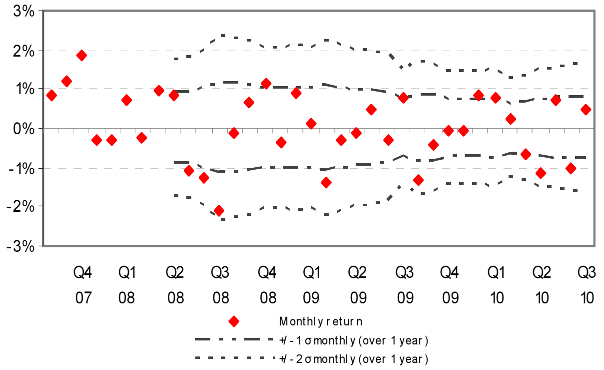
- Over the last quarter the Fund underperformed the benchmark by 2.8%, producing an absolute return of 10.8%.
- Over the last year the Fund outperformed the benchmark by 3.2%, producing an absolute return of 15.7%. Over the last 3 years the Fund underperformed the benchmark by 3.5% p.a., producing an absolute return of -4.5% p.a.
- Over the third quarter of 2010, small cap stocks underperformed mid and large cap stocks (11.5%: 13.8%: 13.2% respectively). The underperformance of small caps adversely affected Jupiter's relative performance.
- The Fund has a small exposure to cash (4.4%) which had a negative impact on absolute performance.
- The industry allocation is considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q3 2010, Jupiter were significantly underweight Mining and Oil and Gas, Basic Materials, Consumer Goods and Financials, with significantly overweight in Industrial, Utilities and Consumer Services.

TT International – UK Equities (Unconstrained)

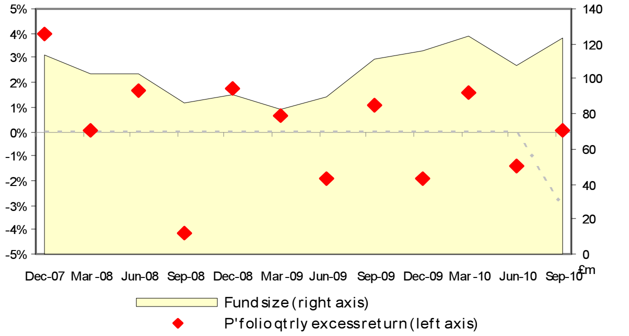
Relative returns [#1]



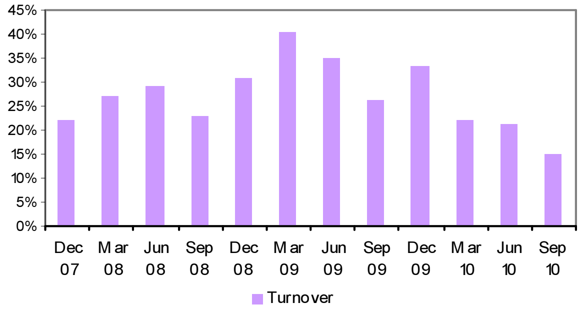
Monthly relative returns [#2]



Performance v fund size [#3]



Turnover [#4]

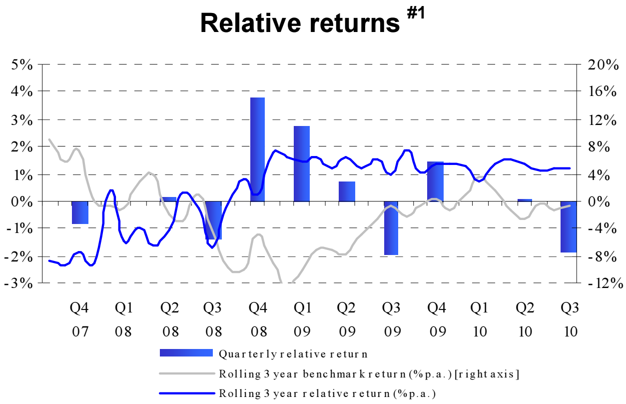


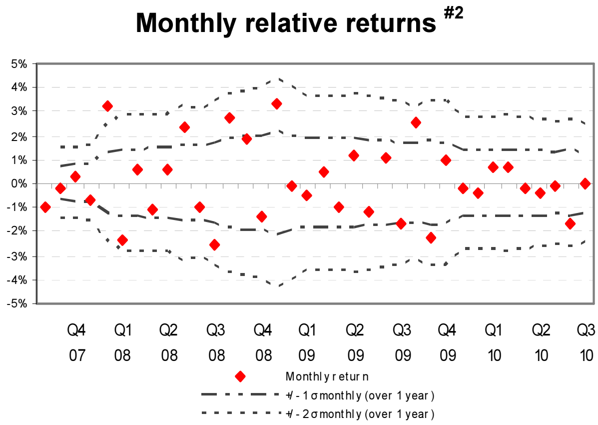
Source: Data provided by WM Performance Services, and TT International

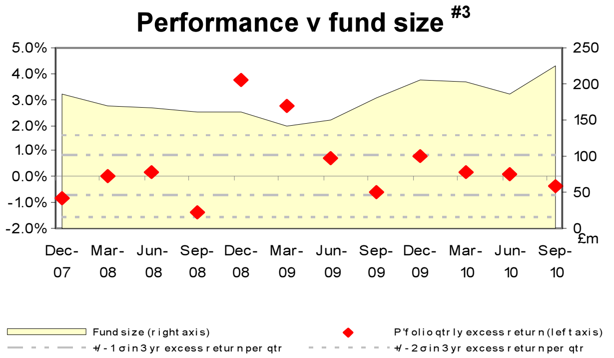
Comments:

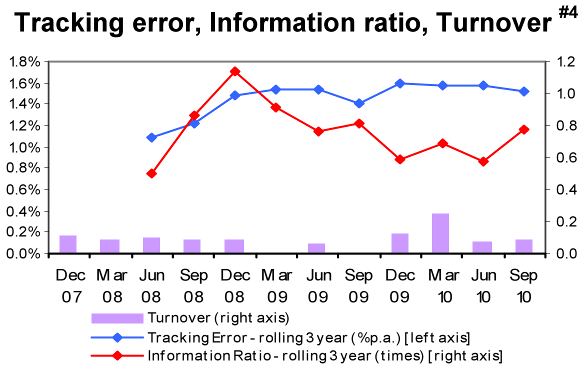
- Over the last quarter the Fund marginally outperformed the benchmark by 0.1%, producing an absolute return of 13.7%.
- Over the last year the Fund underperformed the benchmark by 2.1%, producing an absolute return of 10.4%. Over the last three years the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of -0.8% p.a.
- The Fund was overweight in the Consumer Services and Basic Materials sectors by 6.4% and 5.1% respectively and underweight in the Financials by 5.4%.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has fallen to 15.1% for Q310 as compared to 21.4% in the previous quarter.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This is driven by the fact that TT International's sector positions tend to reflect the benchmark more than Jupiter's (which are a product of their Socially Responsible Investment brief). This more pragmatic style may be more suited for investment when rebalancing to active UK equities, not least given the review of SRI and Corporate Governance planned for 2011.

Invesco – Global ex-UK Equities (Enhanced Indexation)







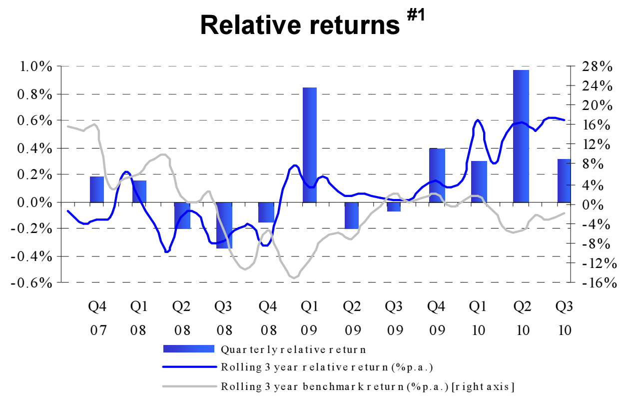


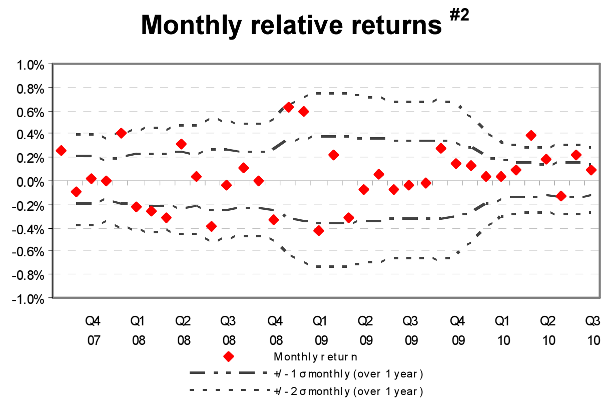
Source: Data provided by WM Performance Services, and Invesco

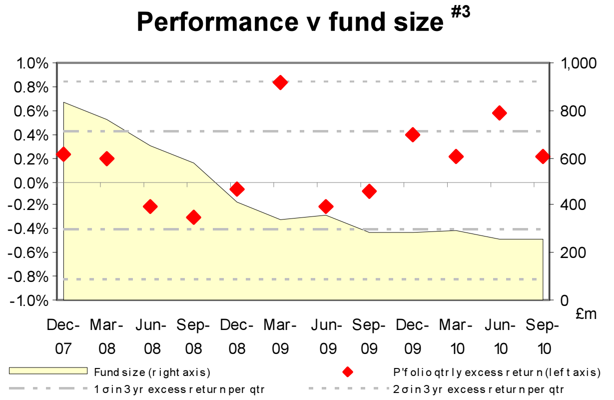
Comments:

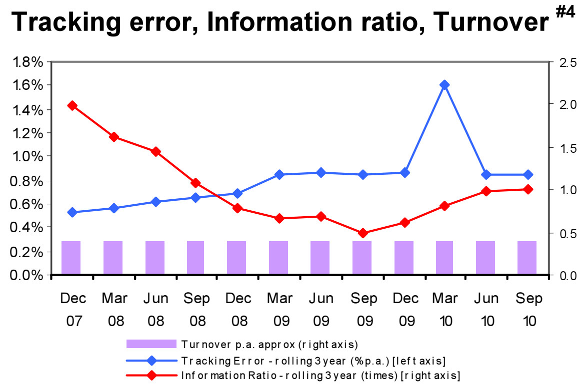
- Over the last quarter the Fund underperformed its benchmark by 1.9%, producing an absolute return of 5.5%.
- Over the last year the Fund underperformed the benchmark by 0.3%, producing an absolute return of 7.7%. Over three years, the Fund outperformed, by 1.2% p.a., producing an absolute return of 0.6% p.a.
- Over the last quarter, stock selection was the main contributor to the negative relative return while country selection and style marginally added positively to the relative return. The timing of the pricing of the Fund versus the benchmark also remains a factor in its short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the particularly volatile period in 2008 has rolled out of the calculations. As an enhanced indexation, fund the magnitude of the volatility is quite low. The larger deviations from the benchmark tend to be upwards, which is favourable.
- Turnover increased slightly over Q3 2010, however it remained low, as expected for this mandate. The number of stocks remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively in line with the benchmark industry allocations, with a maximum difference of a 2.1% overweight in Information Technology.

SSgA – Europe ex-UK Equities (Enhanced Indexation)









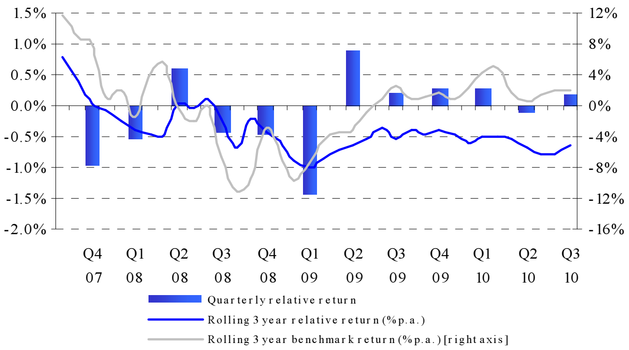
Source: Data provided by WM Performance Services, and SSgA

Comments:

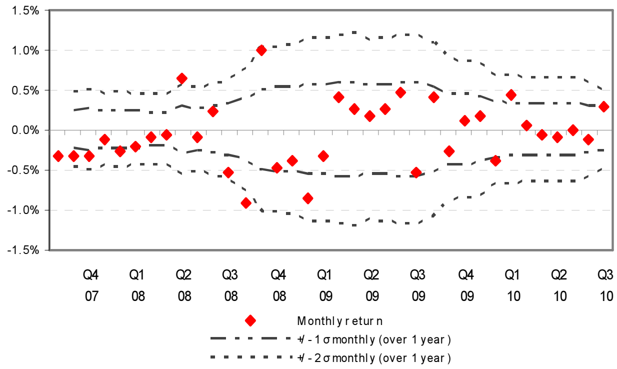
- State Street Global Advisors (SSgA) announced on 22 October 2010 that they were to acquire Bank of Ireland Asset Management (BIAM) for approximately €57 million inclusive of estimated net assets of the business of €14 million. This is not expected to have any impact on the investment mandate.
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 13.6%.
- Over the last year the Fund outperformed the benchmark by 1.5%, producing an absolute return of 2.6%. Over the last 3 years the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of -1.2% p.a.
- Stock selection has been the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns has declined over the last year. As an enhanced indexation fund the magnitude of the volatility is very low.
- Turnover and number of stocks remains consistent over the last 3 years. The tracking error has remained flat since the last quarter.
- Given its reasonable return and low risk this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities subject to the strategic benchmark constraints.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

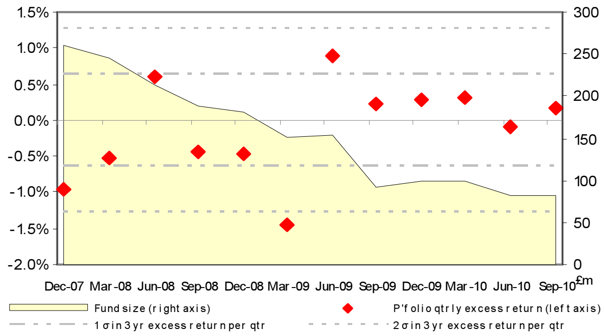
Relative returns #1



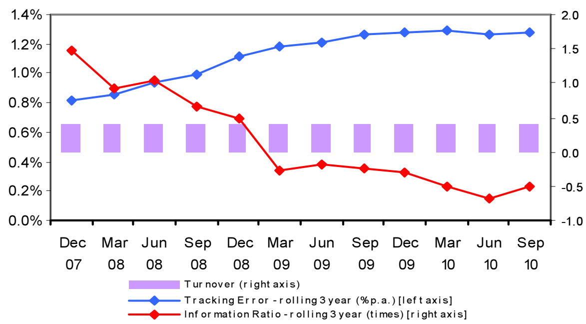
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



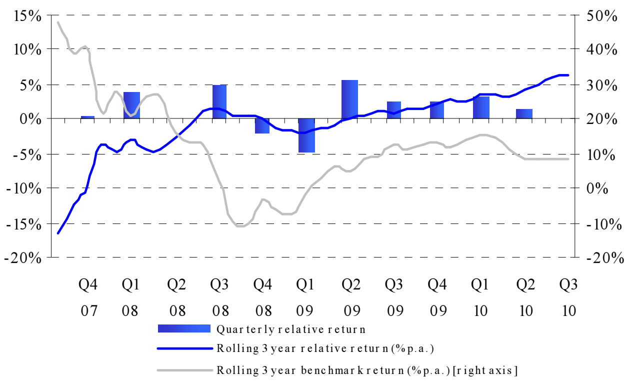
Source: Data provided by WM Performance Services, and SSgA

Comments:

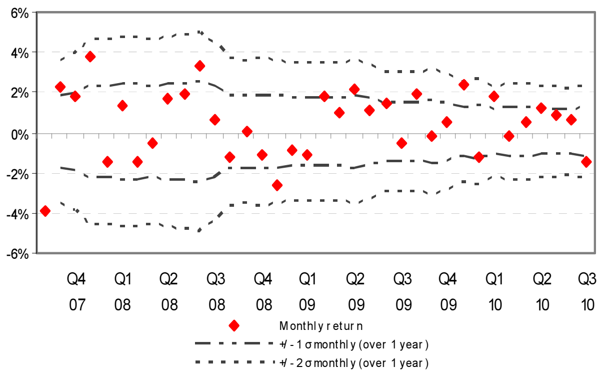
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 7.3%.
- Over the last year the Fund outperformed the benchmark by 0.7%, producing an absolute return of 9.7%. Over the last 3 years the Fund underperformed the benchmark by 0.7% p.a., producing an absolute return of 1.4% p.a.
- Similar to the other SSgA portfolio, stock selection has been the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- The industry allocation remains close to the benchmark allocation, as would be expected from an enhanced indexation fund.
- Given its reasonable return and low risk this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

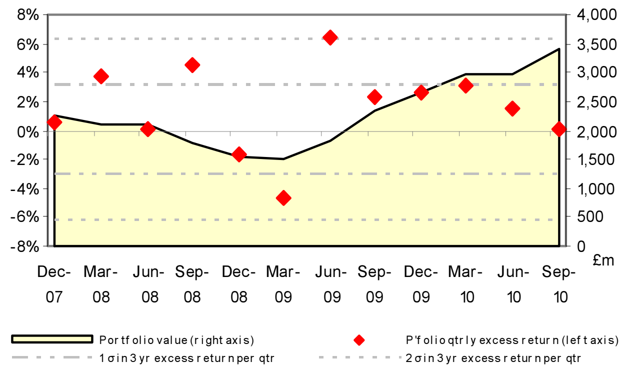
Relative returns #1



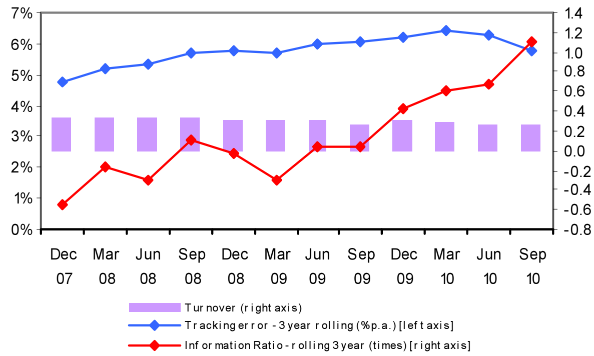
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



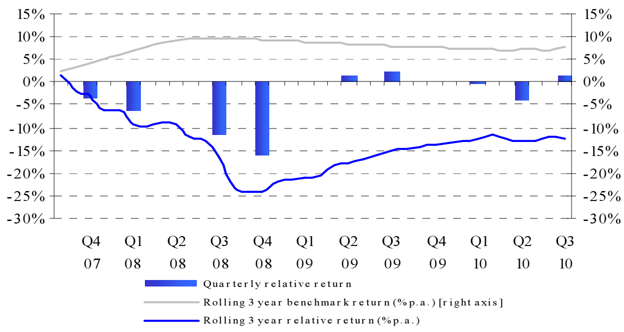
Source: Data provided by WM Performance Services, and Genesis

Comments:

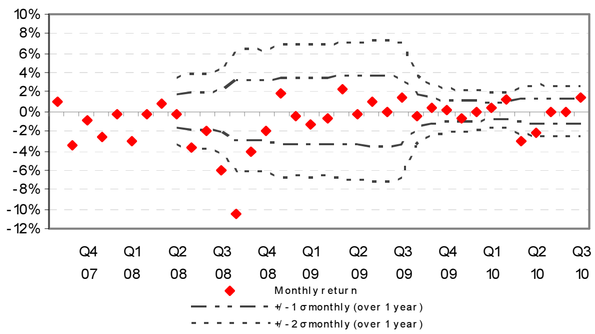
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 12.3%.
- Over the last year the Fund outperformed the benchmark by 9.0%, producing an absolute return of 31.3%. Over the last 3 years the Fund outperformed the benchmark by 6.5% p.a., producing an absolute return of 14.7% p.a.
- The Fund is overweight to South Africa, Russia and Brazil, and underweight India and China. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries. Note that the China underweight is partly due to the restrictions on non-local investors.
- The 3 year tracking error (proxy for risk) fell 49 bps (almost 0.5%) over the quarter. The 3 year information ratio (risk adjusted return) rose significantly over the quarter to 1.11 in Q310 as compared to 0.67 in Q210.
- On an industry basis, the Fund is overweight in Consumer Staples (+8.9%) and underweight Information Technology (-3.5%) and Energy (-3.7%).

Lyster Watson Management Inc – Fund of Hedge Funds

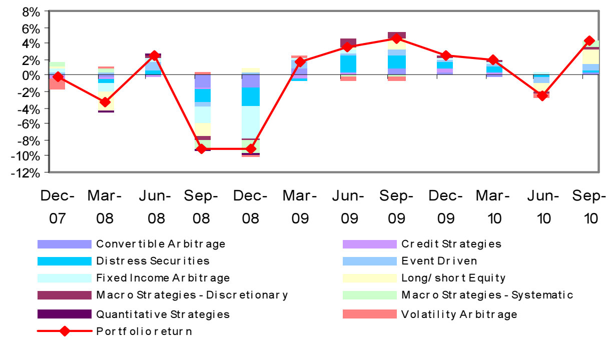
Relative returns [#1]



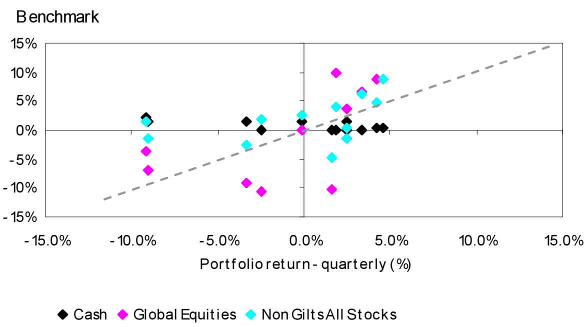
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



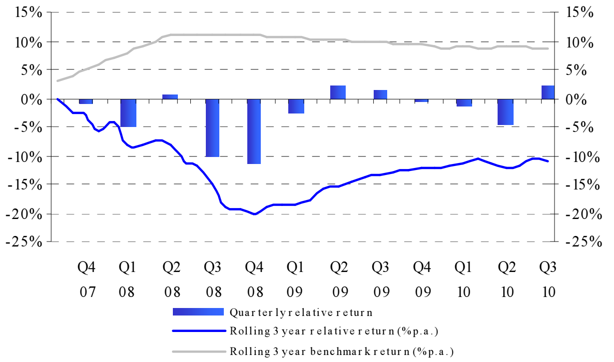
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

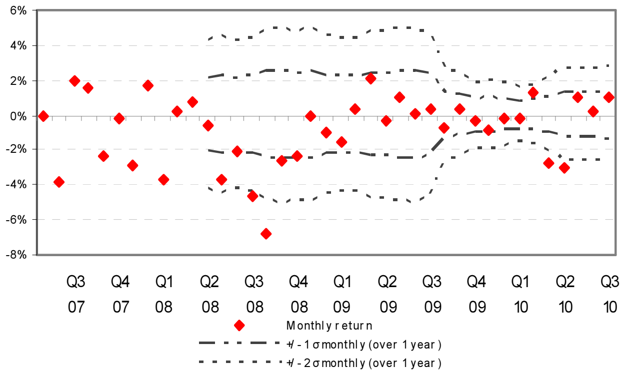
- Over the last quarter the Fund outperformed the benchmark by 1.5%, producing an absolute return of 4.4%.
- Over the last year the Fund underperformed the benchmark by 3.1%, producing an absolute return of 3.4%. Over the last 3 years the Fund underperformed the benchmark by 12.5% p.a., producing an absolute return of -4.9% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation of 41.4% to Distressed Securities and Long/Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

MAN – Fund of Hedge Funds

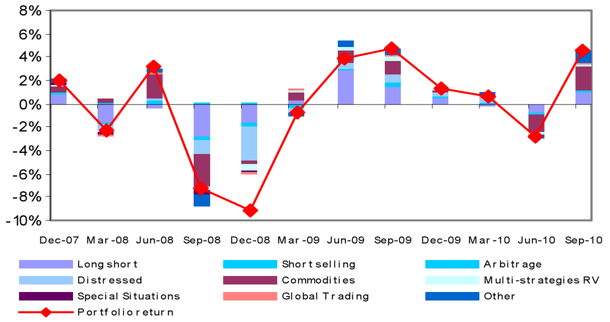
Relative returns #1



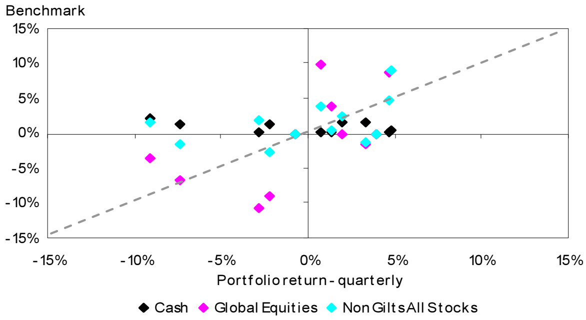
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



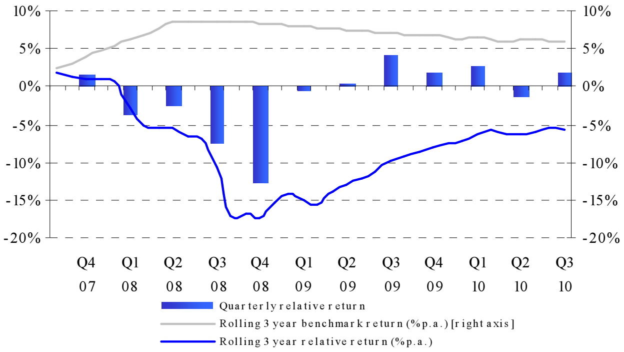
Source: Data provided by WM Performance Services, and MAN

Comments:

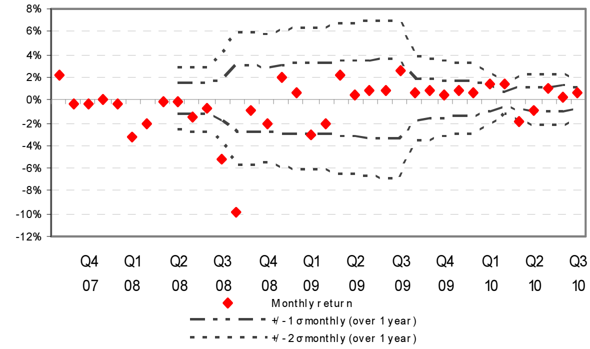
- Over the last quarter the Fund outperformed the benchmark by 2.2%, producing an absolute return of 3.8%.
- Over the last year the Fund underperformed the benchmark by 4.6%, producing an absolute return of 1.8%. Over the last 3 years the Fund underperformed the benchmark by 10.8% p.a., producing an absolute return of -2.1% p.a.
- The key driver of performance was the high allocation to Commodities and Long/Short Asia Pacific, while most strategies produced returns that where either slightly positive or broadly neutral baring Long/Short Japan and Special Situations which produced very marginal negative returns.
- The Fund has a diverse exposure to hedge fund strategies, although 62.4% is made up of Long/Short and Commodities strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Signet – Fund of Hedge Funds

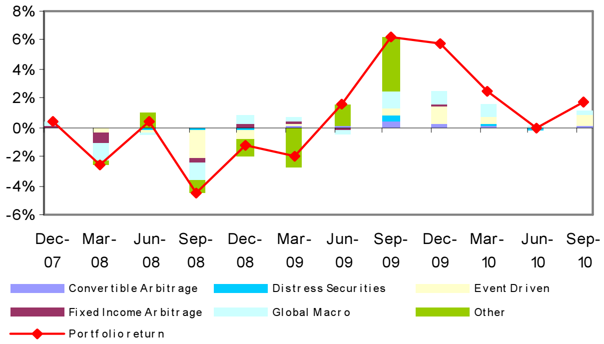
Relative returns [#1]



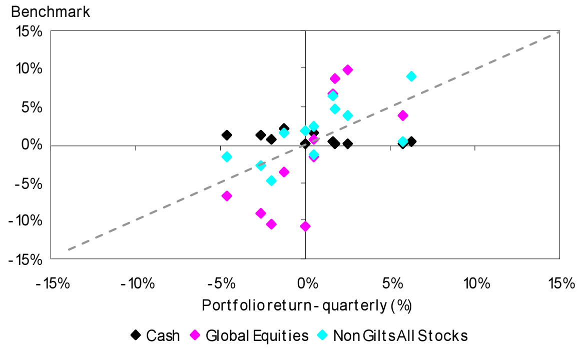
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



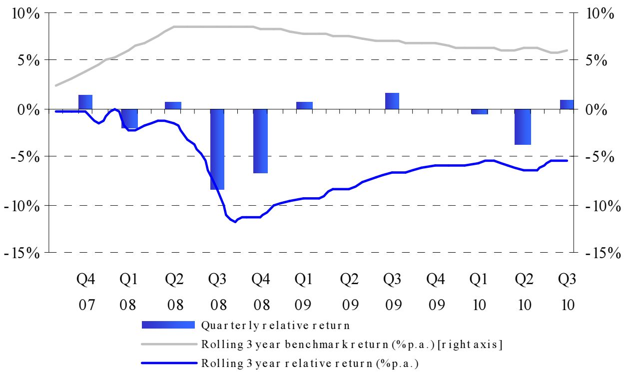
Source: Data provided by WM Performance Services, and Signet

Comments:

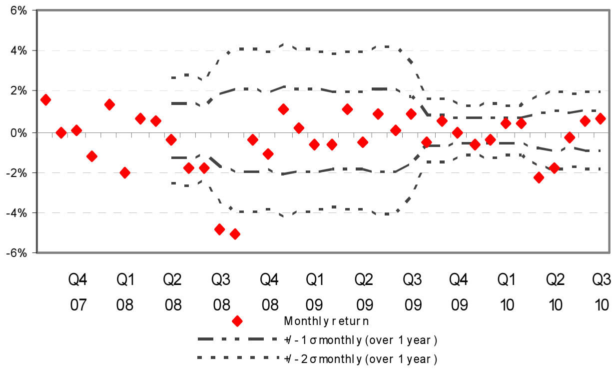
- Over the last quarter the Fund outperformed the benchmark by 1.9%, producing an absolute return of 2.8%.
- Over the last year the Fund outperformed the benchmark by 5.5%, producing an absolute return of 9.2%. Over the last 3 years period Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of 0.4% p.a.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

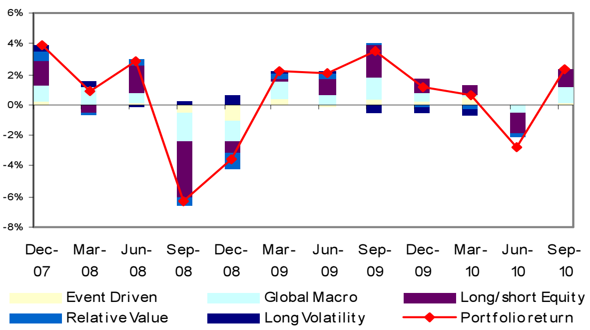
Relative returns #1



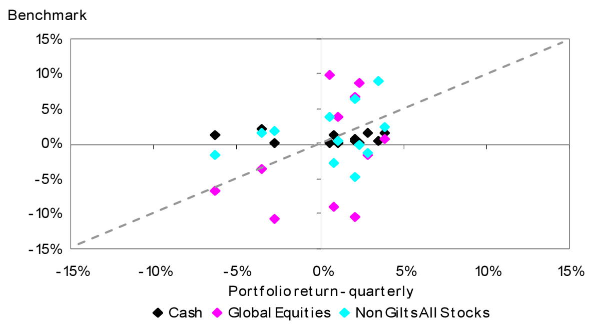
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



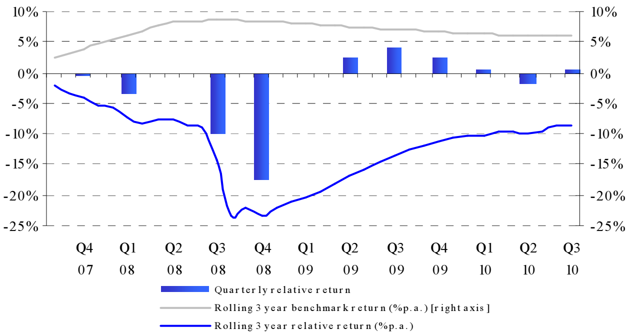
Source: Data provided by WM Performance Services, and Stenham

Comments:

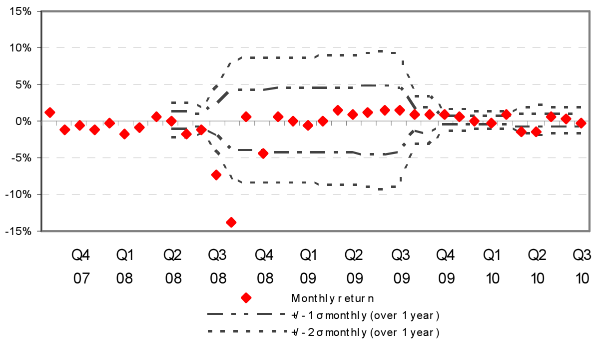
- In September 2010, Stenham Asset Management acquired boutique discretionary management company Montier Partners, bringing total assets under management (AUM) to $3.5 billion.
- Over the last quarter the Fund outperformed the benchmark by 0.9%, producing an absolute return of 1.8%.
- Over the last year the Fund underperformed the benchmark by 3.6%, producing an absolute return of 0.1%. Over the last 3 years, the Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of 0.4% p.a.
- The main contributors to the positive absolute performance were Global Macro and Long / Short Equity, however all the underlying strategies produced positive absolute returns.
- The allocation to the Global Macro and Long/Short Equity strategies made up 72% of the total Fund allocation. The allocation to cash decreased from 7.5% to 5.1% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

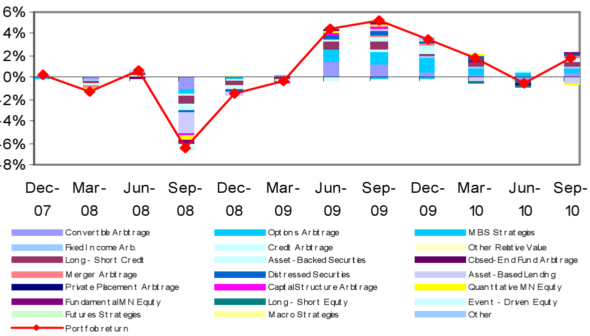
Relative returns [#1]



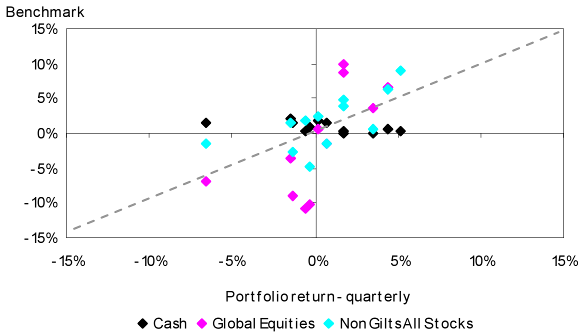
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



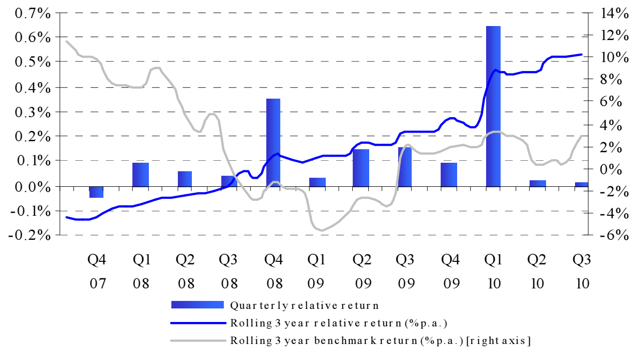
Source: Data provided by WM Performance Services, and Gottex

Comments:

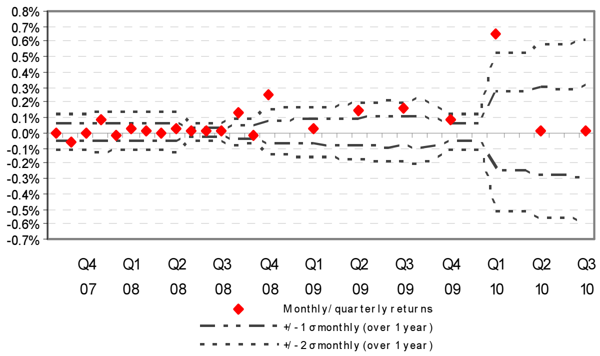
- Over the last quarter the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.4%.
- Over the last year the Fund outperformed the benchmark by 1.5%, producing an absolute return of 5.2%. Over the last 3 years, the Fund underperformed the benchmark by 8.7% p.a., producing an absolute return of -2.7% p.a.
- The key drivers of performance were Asset Backed Securities ("ABS"), Fixed Income Arbitrage, Convertible and Credit Arbitrage. Performance for the quarter was negatively impacted mostly by the Asset Backed and Asset-Based Lending strategies.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be Long-Short Credit, MBS, ABS and Convertible Arbitrage Strategies. There has been a gradual increase in allocation to Asset-Backed Securities over the past five quarters.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

BlackRock – Passive Multi-Asset

Relative returns #1

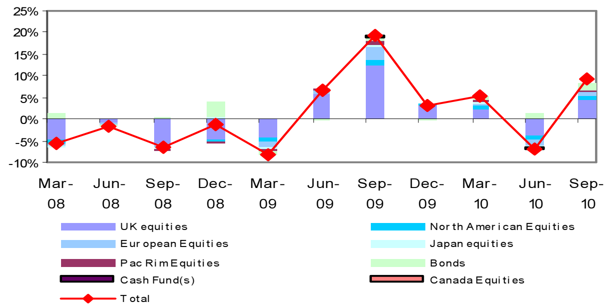


Monthly/Quarterly relative returns #2

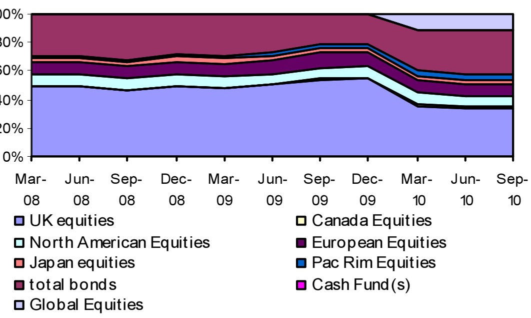


Note that return after Q4 2008 above are quarterly returns.

*Contribution to absolute return #6



Asset Allocation #5



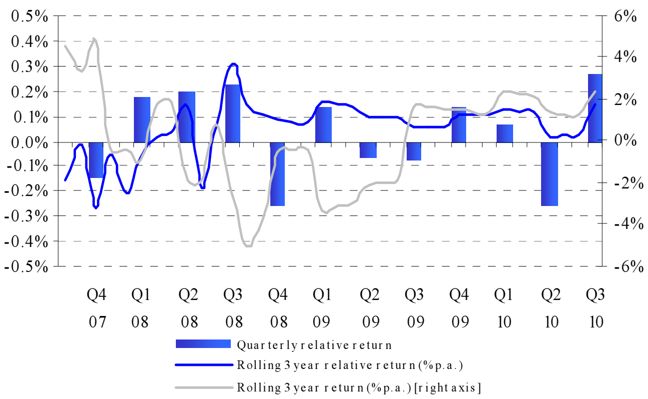
Source: Data provided by WM Performance Services, and BlackRock

Comments:

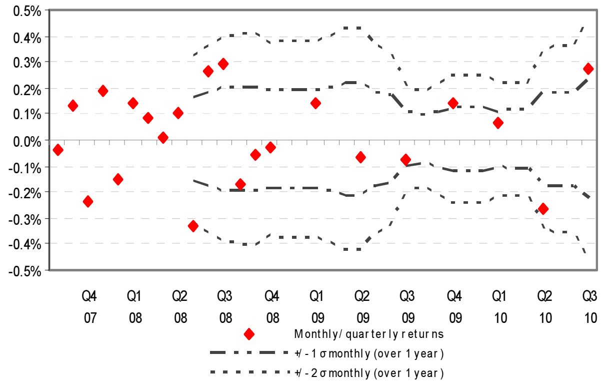
- Over the last quarter the Fund marginally outperformed the benchmark, producing an absolute return of 9.1%.
- Over the last year the Fund outperformed the benchmark by 0.8%, producing an absolute return of 10.7%. Over the last 3 years the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 3.5% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The portfolio has outperformed its benchmark for the last 11 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- Over the last quarter, changes to the asset allocation have been driven by investment market movements. Over the 1 year, there have been changes due to tactical and strategic asset allocation; the total allocation to bonds has increased, while the allocation to equities has reduced. For example, the reversal of the tactical corporate bond position in January 2010 resulted in an increase in government bonds within the BlackRock portfolio.

BlackRock No.2 – Property account (“ring fenced” assets)

Relative returns [#1]



Monthly relative returns [#2]



Note that return after Q4 2008 above are quarterly returns.

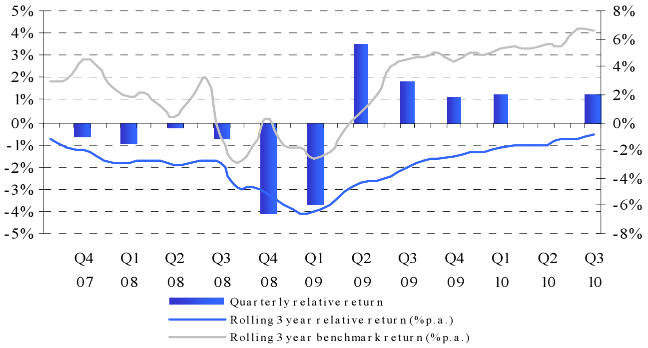
Source: Data provided by WM Performance Services, and BlackRock

Comments:

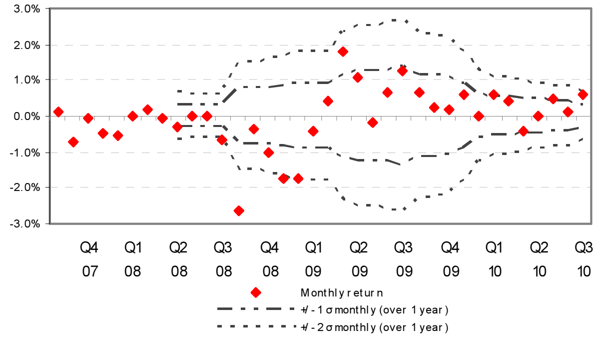
- Over the last quarter the Fund outperformed the benchmark by 0.3%, producing an absolute return of 6.3%.
- Over the last year the Fund produced a return of 6.6%, outperforming the benchmark by 0.2%. Over a rolling 3 year period the Fund produced as absolute return of 2.5%p.a., outperforming the benchmark return by 0.2%.
- The Fund has produced a relatively low absolute return due to high cash element (although gradually reducing over the quarters). Over the last year it has produced a return close to the benchmark.
- Being passively managed the relative performance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small, however, it has been increasing marginally over the last two quarters.
- There were no significant changes to the asset allocation over the quarter; however the allocation to Conventional Gilts as a percentage has increased. This has arisen as mostly equity investments were sold to fund the investments into property over the period. The allocation to cash has also reduced due to investments being made into property.

Royal London Asset Management – Fixed Interest

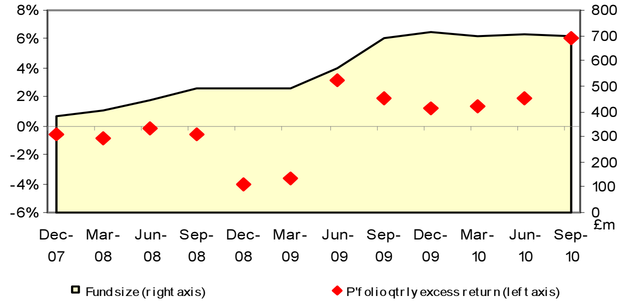
Relative returns #1



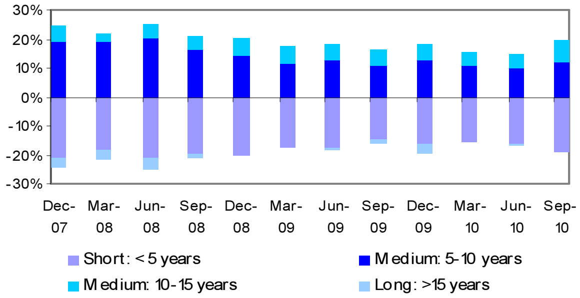
Monthly relative returns #2



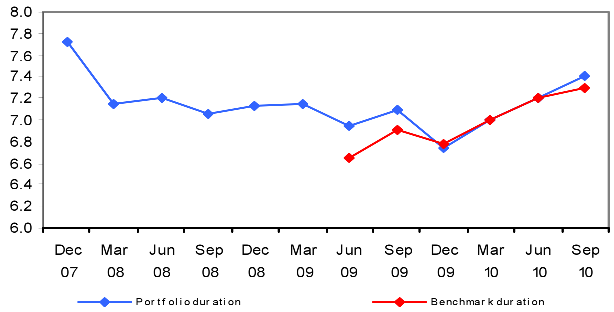
Performance v fund size #3



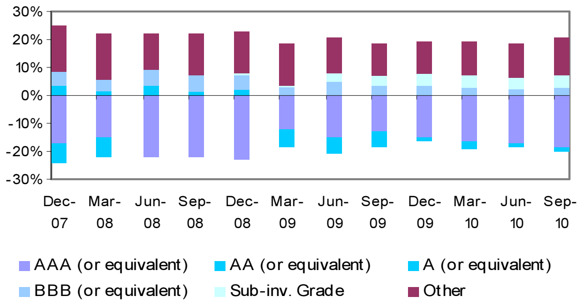
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund outperformed the benchmark by 1.3%, producing an absolute return of 6.1%.
- Over the last year the Fund outperformed the benchmark by 3.9%, producing an absolute return of 15.4%. Over a rolling 3 year period, the Fund underperformed the benchmark by 0.8% p.a., producing an absolute return of 5.7% p.a.
- The Fund outperformed the benchmark over the last quarter, with the portfolio being underweight to AAA, and in favour of BBB, sub-investment and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

Schroder – UK Property

- The mandate awarded to Schroder by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Due to the recency of the first investments into the portfolio, a full quantitative assessment of Schroder is not yet possible. However, we provide here a qualitative update and assessment of the manager.

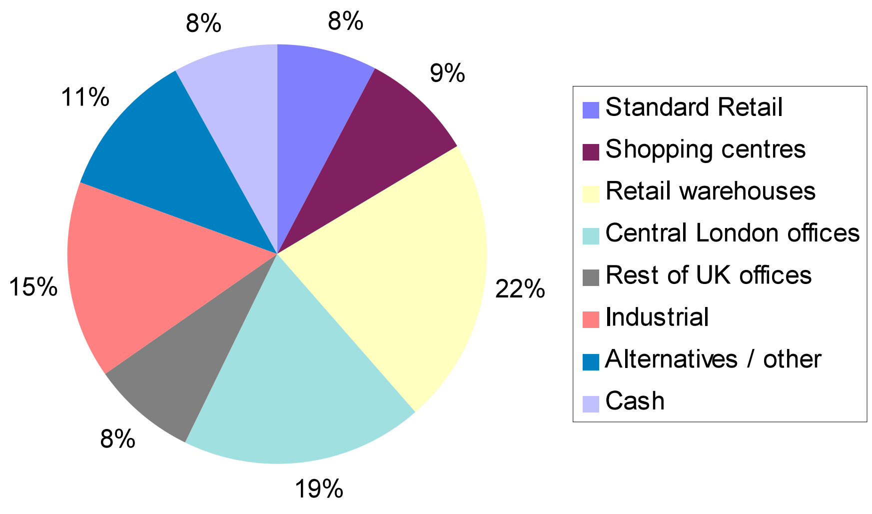
Portfolio update

As at 28 September 2010, approximately 95% of the Fund's £90million committed cash had been drawn by Schroder.

To date, the drawn down monies have been invested across 14 different underlying funds. Of these funds, 5 are "core" investments (comprising 57% of the total portfolio) and 9 are "value add" investments (the remaining 43% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 September 2010, was split between sectors as shown in the following chart.

Portfolio split by sector



In terms of relative positioning, the allocations above are, (compared with the benchmark, the UK IPD Pooled Property Index) underweight standard retail, non-London offices and industrial properties and overweight in the other sectors. The most significant overweights are to central London offices and alternatives.

With evidence that a two tier investment market is emerging, Schroder continues to review potential opportunities selectively. They feel that the best property funds remain in demand and command a premium on the secondary market. However, some closed-ended funds are now trading at discounts while certain open-ended funds are experiencing redemptions. In the short term their selectivity, and the staggered draw downs to unseeded funds (i.e. those with few or no initial underlying investments), may lead to above average levels of cash. However, as noted in the previous quarter by Schroder, the short term opportunity cost of holding cash will reduce as the market stabilises, while in the medium term they hope to benefit from the above benchmark returns these investments offer.

Recent investments have been made to retain the balance of core and value added funds within the portfolio following the additional £20 million allocation to the fund. In Q4 Schroder anticipates purchasing the remaining target allocation to the Hermes PUT, topping up the allocation to some other existing core funds and making the first investment in the Prudential M&G Pooled Pensions Property Fund.

Performance over Q3 2010

- Schroder produced a return of 1.5% over the three months to 30 September 2010, versus the benchmark return of 1.9%. The key drivers of the relative return over the period were:
- Performance attribution over the quarter is dominated by the positive contribution from established funds that are fully invested and have favourable sector allocations, including Central London offices, and negative contribution from recently purchased funds that have incurred transaction costs (Hermes PUT and Columbus UK Real Estate Fund) or funds that hold relatively high levels of cash (Hansteen UK Industrial PUT and the Legal & General Managed Property Fund).
- The costs associated with buying property (and therefore property funds) has weighed on short term returns as capital has been invested. A further £12 million of investments were made in the third quarter, representing approximately 14% of the end Q2 2010 portfolio value.
- Twelve month returns are still dominated by the weighted contribution of funds that have been held for the entire period. The strongest positive contribution has come from the Hercules Unit Trust reflecting units bought at a discount to NAV and the hardening of yields and moderately geared nature of the fund. Cash or cash rich funds have provided the strongest negative contribution to returns over the period.

Conclusion

Schroder's intention when they were appointed was to fully establish the Fund's portfolio over a period of around 18 months, and this appears to be on track. The portfolio is diverse, as one might expect for a multi-manager vehicle, although even at this early stage evidence of Schroder's outlook can be seen in the portfolio positioning. Schroder do note that the portfolio sector structure and property fund allocations will be reviewed again once the portfolio is fully invested.

We have no concerns with Schroder.

Partners – Overseas Property

- The mandate awarded to Partners by the Fund commenced in August 2009, although draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested.
- Partners invest in direct, primary and secondary private real estate investments on a global basis.

Portfolio update

To date, Partners have drawn down approximately £34.3 million of the Fund's intended commitment of approximately £90 million. The draw downs commenced in September 2009.

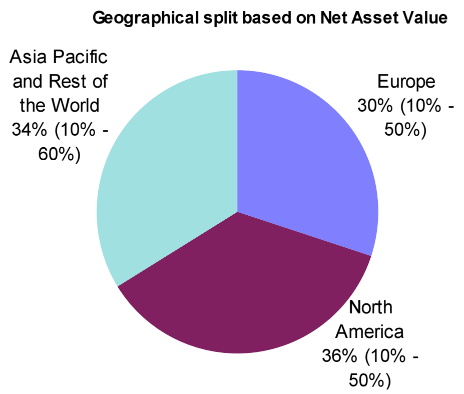
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different time periods of investment (vintage years).

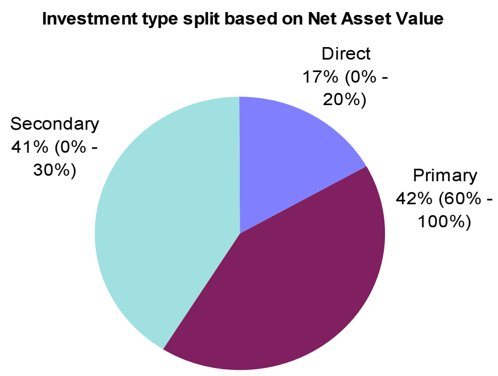
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 30 September 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	3.95	3.99
Distressed US Real Estate 2009	8.93	9.55
Global Real Estate 2008	18.16	17.36
Real Estate Secondary 2009	3.28	3.23
Total	**34.32**	**34.13**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 2010, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

The geographical allocation shown is consistent with Partners' current investment outlook, which favours Asia Pacific and Emerging Markets on the grounds that such economies will drive future global growth. Partners are have a broadly neutral view with respect to North America, and the current overweight to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, currently Partners are underweight primary investments and this allocation is below the lower bound of the investment restrictions in place for the longer term portfolio, with a commensurate overweight to secondary investments.

Changes proposed by Partners with respect to asset allocation investment guidelines increases the range of minimum and maximum permitted holdings for Primaries, Secondaries and Direct Investment holdings as compared to older guidelines. With a broader permissible range of allocating monies, Partners has reduced investment constraints and made the fund allocations more flexible.

Short term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. Additionally, the overweight to secondary investments reflects Partners' strong view that this market offers attractive value.

Performance over Q3 2010

Partners produced a return of 3.8% over the three months to 30 September 2010. Information for the portfolio's stated benchmark (the IPD Global Pooled Property Index) is not yet available. We do note that the Partners portfolio proved a good diversifier from global equities over this short period. Performance attribution for Partners is unavailable at this point, as benchmark data is not yet published and the Fund's investments are at such an early stage.

Conclusion

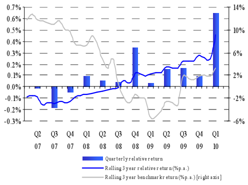
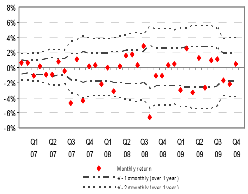
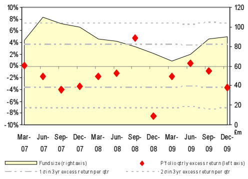
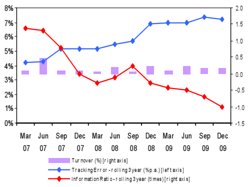
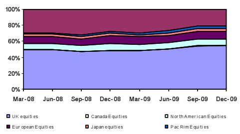
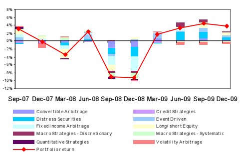
The early stages of investment in a private real estate portfolio are about establishing a diversified portfolio whilst aiming to mitigate the "J curve effect" (the tendency of such investments to deliver negative returns in early years, driven by initial costs, and positive returns in later years as the portfolio matures).

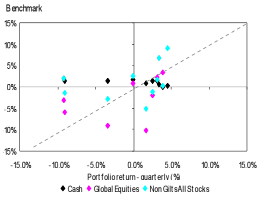
Although it remains very early days for Partners, they have stuck to their stated approach of building a diverse portfolio by region, type of investment (primary, secondary and direct), and by vintage year. The manager has employed a strategy whereby value opportunities are attained via the purchase of perceived high quality funds at discounts from distressed sellers, and growth is sought by overweighting Emerging Markets. This appears to be a sensible approach to mitigating the impact of the J-curve effect

We have no concerns with Partners.

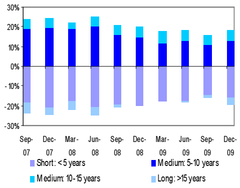
Appendix A – Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

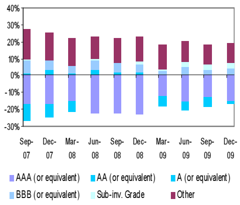
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.
#2		This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).
#3		This chart shows the relative performance on a quarterly basis. The dotted lines show the standard deviation of returns for a quarter - based on the latest quarter 3 year standard deviation. (See #2 above for further detail on interpretation). The total size of the underlying fund is overlayed in yellow (portfolio value in blue) to identify any trend in diminished performance with increasing fund (portfolio) size, as sometimes observed.
#4		This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.
#5		This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.
#6		These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7 

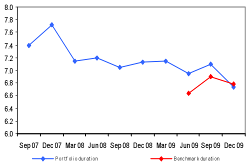
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8 

This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9 

This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10 

This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

Appendix B – Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. 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%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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Performance Report – Appendix 3

Background information on Manifest

Manifest has been appointed to supply vote monitoring services to the Fund. This document provides background information on the organisation.

Manifest specialise in providing corporate governance and global proxy voting services. It has over 150 pension fund clients, and currently runs vote monitoring services for 4 UK Local Authority Clients.

Manifest is registered in England and is an independently owned, private limited company which retains the same majority private ownership it has had since inception. As it is not an investment manager, Manifest is impartial and has no conflicts of interest in executing this service.

Manifest has 15 years experience of providing a proxy voting service for institutional investors and was the UK's first fully on-line proxy voting agency to offer electronic proxy vote management. In addition to proxy voting, Manifest provides a vote monitoring service whereby voting activity is monitored against the client's voting guidelines.

For more information see www.manifest.co.uk

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**10 DECEMBER 2010**		
TITLE:	**PENSION FUND ADMINISTRATION - EXPENDITURE FOR 7 MONTHS TO 31st OCTOBER 2010 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31st OCTOBER 2010**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 Summary Financial Account: current financial year to 31st October 2010
Appendix 2 Summary Budget Variances: current financial year to 31st October 2010
Appendix 3A Balanced Scorecard : 3 months to 31st October 2010 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31st October 2010 (narrative) *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31st October 2010 (narrative) *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 31st October 2010 (narrative) *(Pensions Clinics)*
Appendix 5 Changes in Fund Employers since 1st April 2010

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 current financial year to 31st October 2010. This information is set out in Appendix 1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction Feedback from recently retired members and from members attending Pension Clinics (see Appendices 3 & 4) for the 3 months to 31st October 2010.

2. RECOMMENDATION

2.1 That the Committee:-

(i) Notes the expenditure for administration and management expenses incurred for the seven months ending 31st October 2010.

(ii) Notes the Performance Indicators for 3 months to 31st October 2010.

(iii) Notes the changes to Fund Employers since 1st April 2010

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 have been prepared to cover the period 1 April to 31st October 2010. This summary of expenditure to 31st October 2010 and a forecast of expenditure for the year ending 31st March 2011 are contained in **Appendix 1** to this report.

4.2 The forecast variance for the full year to 31 March 2011 is for expenditure to be £32,000 over budget. Excluding Investment Management and custody fees the forecast for the year is that expenditure will be £6,000 under budget. The total variance is mainly due to an increase in fees payable to the Fund's investment managers.

4.3 The over-spend of £42,000 for the full year forecast on investment management fees is by just over 0.5% and is a reflection of higher market values than were anticipated in the original budget, particularly in the emerging markets. Within the forecast £7.1m fees £115,000 is performance related.

4.4 The forecast under-spend of £4,000 on custodian fees is as a result of the appointment of the Global Equity manager not being made as early as was assumed in the preparation of the budget.

4.5 Administration costs are forecast to be under spent by £3,000 over the full year. This is mainly due to a forecast under-spend on tracing. The budget for tracing was prepared on the assumption that the data cleansing exercise would lead to an increase in tracing however this has not risen by as much as was expected.

4.6 Communications costs are forecast to be under spent by £3,000 over the full year. Reduced expenditure on guides and leaflets are forecast to be partly offset by the one off costs of the implementation of the Heywood's Members Self Service System. This system is expected to recoup its cost over the next two years.

4.7 Compliance Costs are forecast to be £17,000 over-spent for the full year. This is due to the increased volume of work being undertaken by the actuary in relation to the triennial valuation and for FRS17 and new admitted bodies. Most of this additional expenditure has been offset by the reduction in external audit fees. The increased expenditure that has not been offset by the reduction in audit fees relates to FRS17 and new admitted bodies and is offset by the increase in Compliance Costs Recharged.

4.8 A summary of forecast variances for the full year is contained in **Appendix 2** to this Report.

5. BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS (“PIs”) FOR THE 3 MONTHS TO 31 OCTOBER 2010

5.1 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**

5.2 **Data Cleansing: The effect on work**. In the wake of the member data cleansing project for the actuarial triennial valuation a large number of “old” unprocessed leavers remained to be cleared, in many cases with limited or missing information..

5.3 **Transfers: Stockpiling again**: Although transfers in and out were back on track last quarter following receipt of GAD guidance and tables in September 2009, a further revision and publication of transfer factors needed following the government’s recent move to raising future pensions by the increase in the *CPI* instead of *the RPI* meant that transfers in and out had to again be stockpiled awaiting receipt of these latest revised factors. Consequently the numbers processed fell to a low level (only 25% for transfers in and 41% for transfers out).

Factors and guidance were received during October other than for Non Club Transfers In (viz. mainly Public Sector) which continue to be stockpiled. However this was too late to significantly increase the performance in this area. Figures for the next quarter are expected to improve following clearance of many of the above stockpiled cases.

Members who had applied for transfers were advised of the unavoidable delay and a prominent note was also posted on the Fund’s website to make members aware.

5.4 **Complaints:** There were **no** complaints received in the period

5.5 **Sickness absence:** APF staff continues to maintain an excellent record during the period with no long-term sickness and only 1.28% short- term sickness both well ahead of the APF 3% target and the Administering Authority’s 5% target.

5.6 **2010 Annual Benefit Statements** – Councillors and deferred members statements were sent to home addresses on time: The Annual Benefit Statement for actives is being redesigned to improve its appearance and quality and phased sending of the new-style statements will begin in early December spread over a period of 4 to 6 weeks.

6. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31ST OCTOBER 2010

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on **74** questionnaires returned from **active** members retiring. On average 77**%** of members received their lump sum and first pension payments within 10 days of the selected time measure. (See chart).

Appendix 4B reports on the customer satisfaction based on a small sample of **31** questionnaires returned from *former* active members retiring from ***deferred*** status. 93% received their lump sum and 85% their first pension payments within “10 day” target (See chart).

Overall service rating as good or excellent from both actives and deferreds on the service received from Avon Pension Fund staff handling their retirement was 96% (See chart Item 5 on both graphs).

6.2 **C*linics*** In this period 7 clinics were held for members at all four unitary authorities and at Somer Housing. **163** members (who were all seen individually completed questionnaires following their session. Excellent feedback was received from with a good or excellent rating of 97.5% for the service provided by APF staff. The venue and location scored slightly less well but was still high at 90%. (See **Appendix 4C)**

7. OTHER MAJOR CHANGES DURING THE PERIOD

7.1 **SWITCH OVER TO ALTAIR FROM AXIS (PENSION SOFTWARE):** The Pensions administration software was upgraded in October. Significant time was required by staff I testing before going live and this combined with the data cleansing project did reduce the number of live cases that could be processed. Evens the performance was within target in most areas and work outstanding at the period end was even below the target 10% measure. This was quite remarkable and is a credit to the Pensions staff who worked particularly well in this very busy period. The switchover was a major project and it went fairly seamlessly and did not result in significant disruption to the service. As might be expected there were some initial teething problems concerning the running speed and response times but these have been fully resolved.

7.2 **SWITCH FROM GANDLAKE TO HEYWOOD:** Gandlake were the company chosen 3 years ago by the Fund to provide **member and employer access** to personal member pension data. Following an in depth review, the contract with Gandlake was not renewed in October 2010 after its initial 3 year period and instead it was decided to contract with the Fund's existing software supplier Heywood to provide this self - service facility for Fund members and employers. The *member* self-service from Heywood began as soon as the Gandlake facility end was seamless. Over 3,000 members who had previously registered with Gandlake were sent new pin numbers and activation codes to enable the switch to Heywood. The self-service facility for Scheme employers is due to commence in early 2011.

7.3 **GLOBALSCAPE:** The facility to send personal and confidential data securely which was available under Gandlake which ceased at contract end was replaced by a product from ***Globalscape*** which fortuitously Bath & North East Somerset Council had recently purchased for Council Departments. This cost of this software is very low and it has the added advantage that data can be sent *both ways* through a secure portal.

All costs for these changes have been reported to the Committee previously and are allowed for in the 2010/11budget.

8. UPDATE ON CHANGES IN FUND EMPLOYERS

Recent years have seen a prolific increase in the number of Employers joining the Fund. This has been due mainly to Outsourcings, schools becoming academies etc. The number has increased since 2008 from 97 to 110 Details of the current employers are in the recently published Fund Annual Report at 31st March 2010. It was agreed some time ago that the Committee would be kept up to date with changes in this area. **Appendix 5** shows the changes since 31st March 2010.

Further updates will be brought to Committee from time to time.

9. OTHER OPTIONS CONSIDERED

9.1 None appropriate.

10. RISK MANAGEMENT

10.1 This report contains only recommendations to note - no risk assessment is necessary.

11. EQUALITIES

11.1 No equalities impact assessment is required as the Report contains only recommendations to note.

12. ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Director of Resources and Support Services) 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 395369. Steve McMillan, Pensions Manager (*Performance Indicators*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : SEVEN MONTHS ENDING 31 OCTOBER 2010

	SEVEN MONTHS TO OCTOBER 2010			FULL YEAR 2010/2011		
	ACTUAL £	BUDGET £	VARIANCE £	FORECAST £	BUDGET £	VARIANCE £
Investment Expenses	63,076	65,926	-2,850	111,016	113,016	-2,000
Administration Costs	46,976	54,062	-7,086	86,503	89,999	-3,496
Communication Costs	117,966	146,785	-28,819	250,097	252,844	-2,747
Information Systems	137,639	92,586	45,053	158,719	158,719	0
Salaries	728,587	738,204	-9,617	1,265,493	1,265,493	0
Central Allocated Costs	218,470	230,252	-11,782	396,718	394,718	2,000
Miscellaneous Recoveries/Income	-69,535	-78,575	9,040	-134,700	-134,700	0
Total Administration	**1,243,179**	**1,249,240**	**-6,061**	**2,133,846**	**2,140,090**	**-6,243**
Global Custodian Fees	45,674	51,240	-5,566	84,274	87,840	-3,566
Investment Manager Fees	4,126,619	4,145,594	-18,975	7,148,577	7,106,733	41,844
Governance Costs	96,874	155,279	-58,404	266,192	266,192	0
Members' Allowances	23,881	26,956	-3,075	46,210	46,210	0
Independent Members' Costs	11,501	10,942	559	18,758	18,758	0
Compliance Costs	153,745	123,900	29,845	229,400	212,400	17,000
Compliance Costs recharged	-54,159	-43,667	-10,492	-69,000	-52,000	-17,000
Investment Governance & Compliance	**4,404,135**	**4,470,244**	**-66,109**	**7,724,411**	**7,686,133**	**38,278**
NET TOTAL COSTS	**5,647,314**	**5,719,485**	**- 72,170**	**9,858,258**	**9,826,223**	**32,035**

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Summary of Budget Variances: Forecast for year, as at 31st October 2010 APPENDIX 2

Variances Analysis of the full year budget against forecasted outturn to the year end

Expenditure Heading	Amount of Variance *	Most Significant Reasons for Variance
Administration Costs	(3,000)	The budget for Tracing was prepared on the assumption that the data cleansing exercise would generate an increase in Tracing work. This has not been required to the level that was anticipated.
Communications Costs	(2,700)	Reduced expenditure on guides and leaflets in the current year will be partly off set by the initial one off costs of the Heywood's Member Self Services system that will all be charged to the current year. It is planned that the savings generated by this system will recoup its cost over the next two years.
Custody Fees	(4,000)	A small reduction in custody fees is expected as a result of the appointment of a Global Equity Manager taking place later than was assumed in the preparation of the budget.
Investment Manager Fees	42,000	A small increase in manager fees is expected as a result of the performance of the markets, particularly in the emerging markets. Note: £115,000 of the forecast fees is due to performance related fees.
Compliance Costs	17,000	The increased expenditure in compliance costs is due to increased use of the Actuary, in particular in relation to the triennial valuation, FRS17 and new Admitted Bodies. The non rechargeable costs have been offset by the reduction in external audit fees. Rechargeable costs have been offset by the increase in recharges shown below.
Compliance Costs recharged	(17,000)	The increased recharges reflect the increased volume of actuarial work on behalf of external bodies in particular relating to FRS17 and new admitted bodies.

-ve 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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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

INDICATOR	Green Red Amber	Reporting Dept	2009/10 Actual	Target for 2010/11	Actual - 3 months to 31/10/2010	Comment	
Customer Perspective							
General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	99%	7 clinics held during period.	Graph 1
General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	90%+	Generally good from response from retirees	
Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future See separate appendix	
Level of Equalities Standard for Local Government	G	Admin	100%	100%	100%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
Service Standards - Processing tasks within internal targets (SLA)							
Deaths [12 days]	A	Admin	89%	90%	90.91%	20 of 22 tasks were completed within target.	
Retirements [15 days]	A	Admin	70%	90%	74.74%	354 of 480 tasks were completed within target.	
Leavers (Deferreds) [20 days]	R	Admin	82%	75%	71.72%	606 of 845 tasks were completed within target.	
Refunds [5 days]	G	Admin	62%	60%	73.71%	30 of 41 tasks were completed within target.	
Transfer Ins [20 days]	A	Admin	65%	75%	25.00%	28 of 112 tasks were completed within target.	
Transfer Outs [15 days]	A	Admin	50%	75%	41.38%	36 of 87 tasks were completed within target.	
Estimates [10 days]	G	Admin	91%	90%	94.16%	935 of 993 tasks were completed within target.	
Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%	Should always be 100%	
Number of complaints	G	Admin	22	0	0	No complaints received in the period	
Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	n/a	100%	100%	Should always be 100%	
Number of hits per period on APF website	G	Admin	44743	36000p/a 3000p/q	13614	4538 per calendar month for reporting period - ahead of target	Graph 2
Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	100%	Should always be 100%	
Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%	Should always be 100%	
Annual Benefit Statements distributed by year end	G	Admin	70%	100%	100%	Councillors and deferred member statements sent by 30.09.2010	

People Perspective

Health & Safety Compliance	**G**	All	100%	100%	100%	Should always be 100%	
% of staff with Investor in People Award (IIP)	**G**	All	0%	100%	100%	n/a - reassessment due in November 2010	
% of new staff leaving within 3 months of joining	**G**	All	0%	4%	0%	No leavers in this period	
% of staff with up to date Performance Reviews	**G**	All	97%	100%	n/a	None due in this period	
% Sickness Absence | a) Short Term | b) Long Term	**G**	All	2.50%	a) 3% b) 3%	a) 1.28% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
% of staff with an up to date training plan	**G**	All	100%	100%	100%	Each person has a Personal Development Plan Folder. Program of courses (internal & external) in place for 2009/10. Training needs identified at performance reviews.	

Process Perspective

a) 5 Services actually delivered & | b) electronically & services capable of delivery to members	**A**	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Former Gandlake initiative (now Heywood) means that over 1500 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
% Telephone answered within 20 seconds	**G**	Admin	99%	98%	99.18%	7774 calls, 7711 answered within 20 seconds	**Graph 4**
% Complaints dealt with within Corporate Standards	**G**	Admin	100%	100%	100%	Should never be less than 100%	
Letters answered within corporate standard	**G**	Admin	95%	95%	100%	Ahead of target	
Maintain work in progress/outstanding at **below 10%**	**G**	Admin	10.59%	10%	4.72%	3864 Created, 3678 cleared (95.18.% leaving 4.72% of workload outstanding). Ahead of target.	**Graphs 5 6 & 7)**
Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions	**G**	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 2.5% b) 0.05%	Av of less than 3 out of 108 employers sent their contributions in late. No persistent late-payers. Average delay of late payers 3 days. Employers are reminded regularly of their legal obligations to pay on time and the possibility (under the 2007 Admin Regs) of billing them for extra charges if unnecessary additional work is created for APF.	
Year End update procedures (conts & salaries received by 31/08/2010)	**G**	Admin	81%	100%	100%	All Pen Conts and Pen Rems now received however B&NES were very late in submitting theirs and the first return was inaccurate.	
No. of customer errors (due to incomplete data)	**G**	Admin	2%	3%	2%	Acceptable error level	

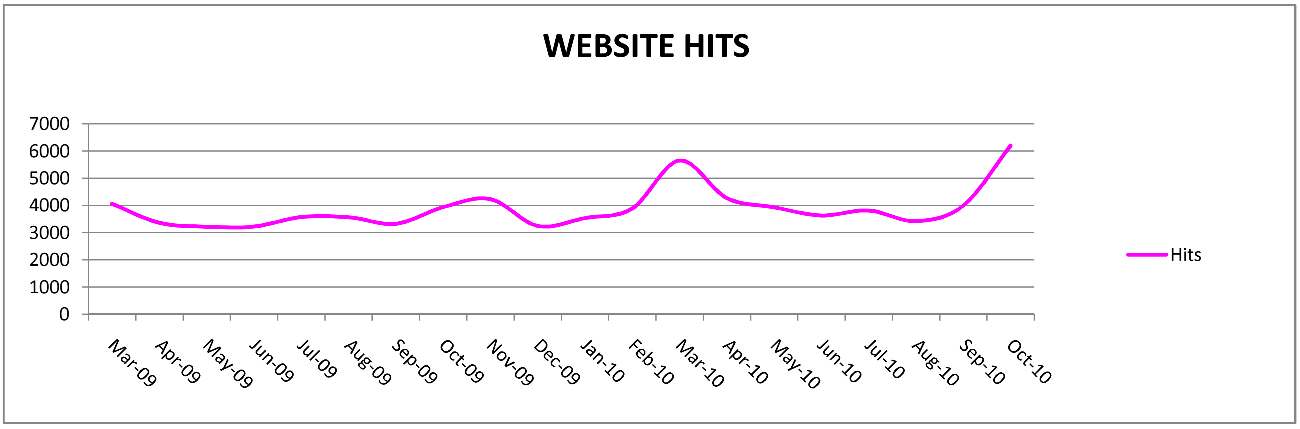
Resource Perspective

% Supplier Invoices paid within 30 day or mutually agreed terms	**G**	Admin	91%	94%	95.34%	Business Financial Services (inc Pensions) figure is marginally below target	
Temp Staff levels (% of workforce)	**G**	All	0.40%	3%	5.26%	Above target - due to temporary admin assistant post from July to fill in for another temp who is covering for staff maternity leave. Post ceased November 26th 2010	**Chart 3**
% of IT plan achieved against target	**R**	Tech & Dev	24%	100% (25% p/q)	20%	EDI progress remains slow. However, encouraging signs from 2 unitaries who are in talks with their payroll providers to provide standard reports. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm -targets to comply set for April 2012 (med/large) and October 2012 (smaller).	

% of Training Plan achieved against target	**G**	All	100%	100%	100%	Staff training requirements for all staff identified from 2009 annual performance reviews. An extensive programme of courses (internal & external) are being is in place for 2010 to meet these needs.

1 **APPENDIX 3B to Budget Monitoring Report at 31st October 2010:selected items in GRAPH format**

2



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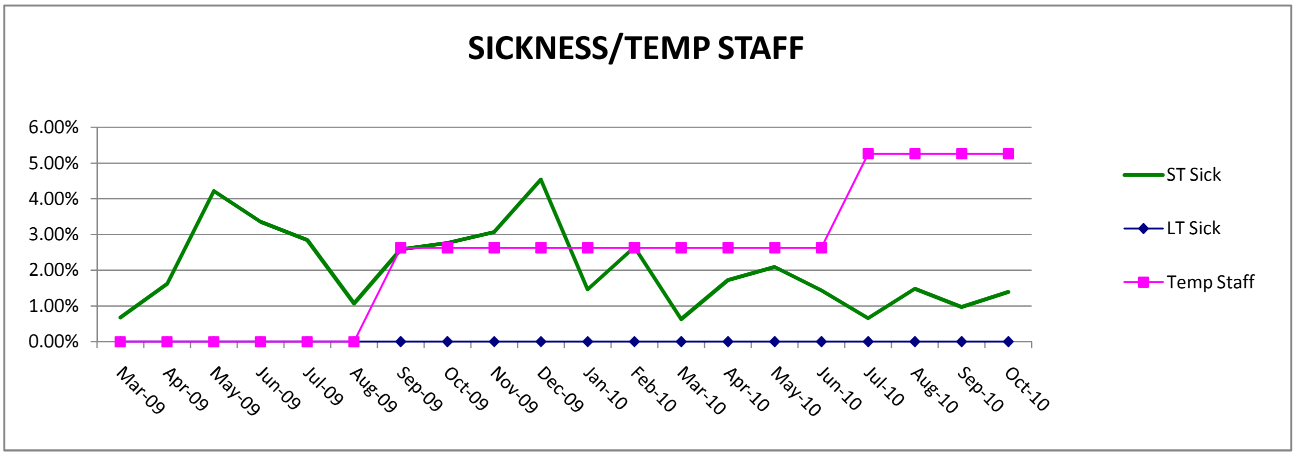

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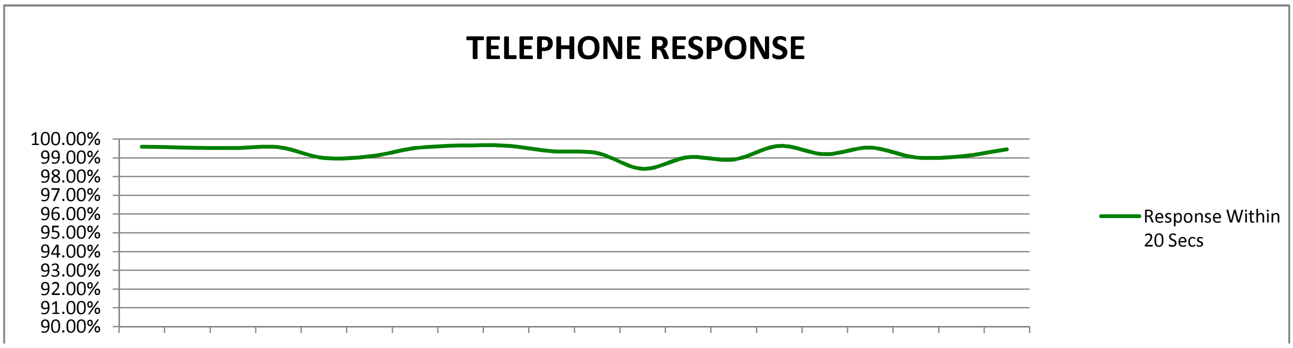

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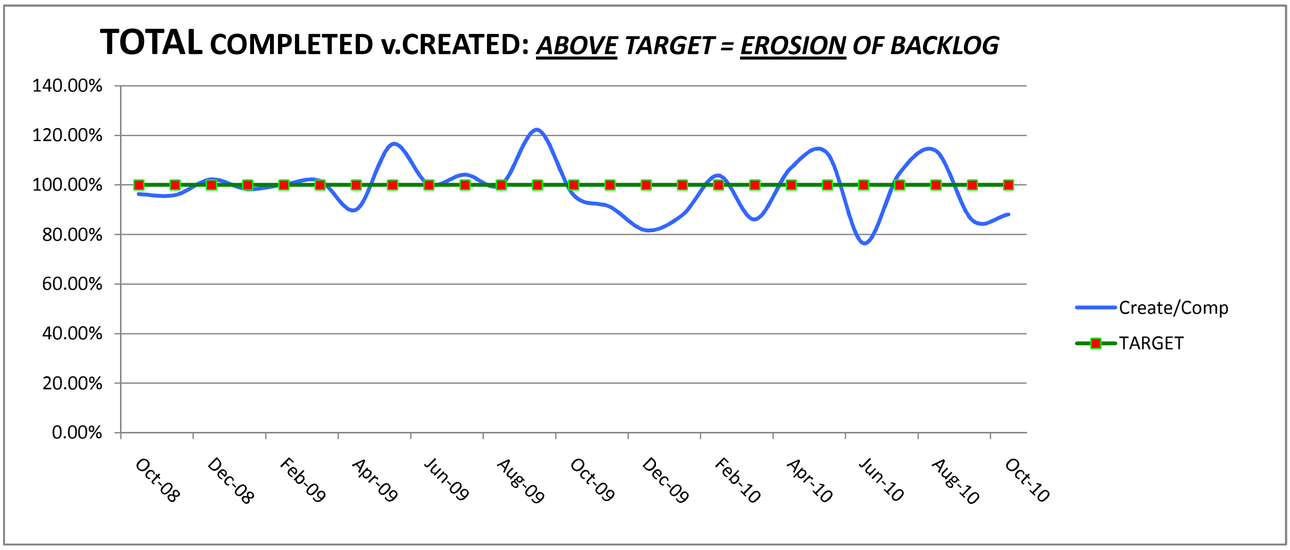
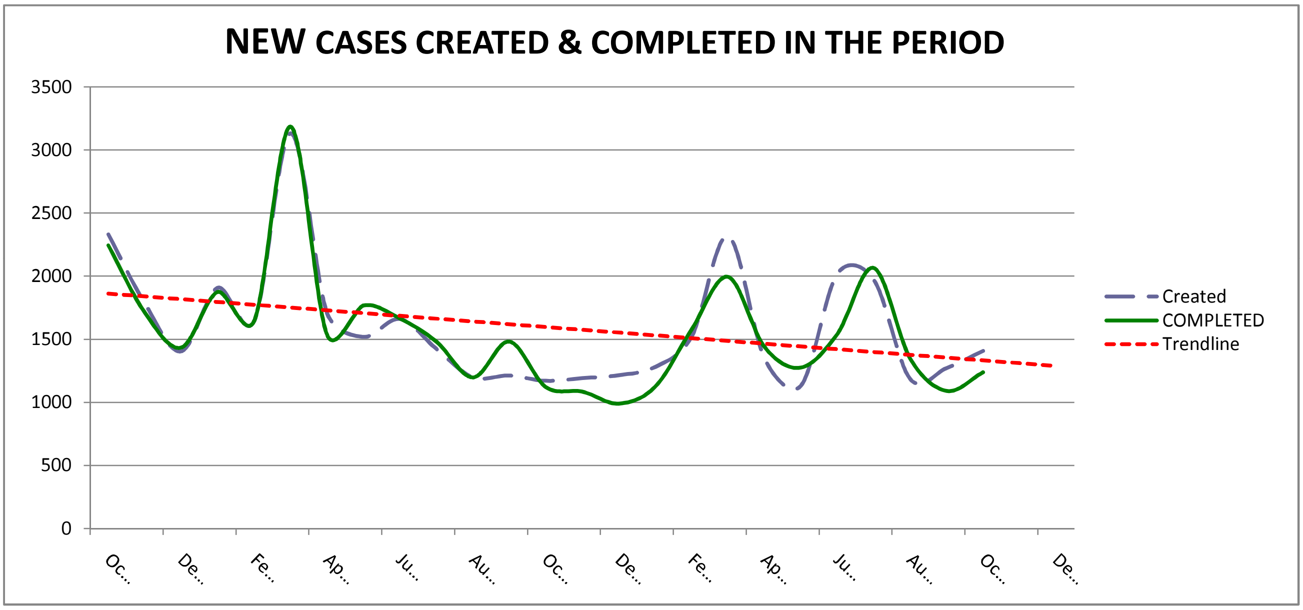
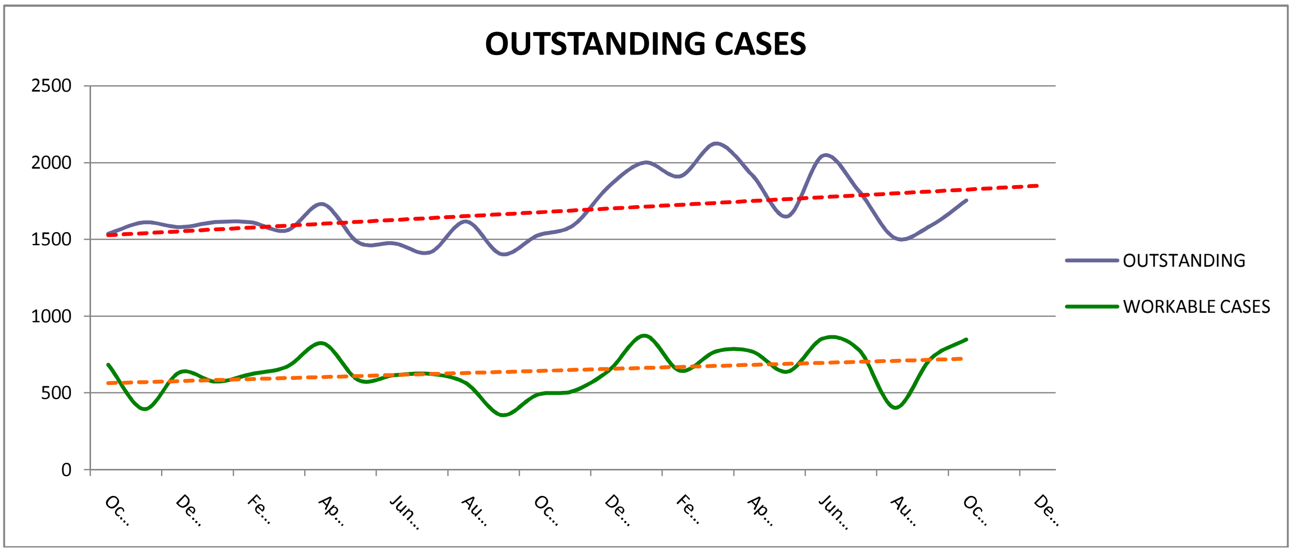

TOTAL COMPLETED v.CREATED: ABOVE TARGET = EROSION OF BACKLOG
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Oct-08
Dec-08
Feb-09
Apr-09
Jun-09
Aug-09
Oct-09
Dec-09
Feb-10
Apr-10
Jun-10
Aug-10
Oct-10
Create/Comp
TARGET

6


NEW CASES CREATED & COMPLETED IN THE PERIOD
3500
3000
2500
2000
1500
1000
500
0
Oc...
De...
Fe...
Ap...
Ju...
Au...
Oc...
De...
Fe...
Ap...
Ju...
Au...
Oc...
De...
Created
COMPLETED
Trendline

7


OUTSTANDING CASES
2500
2000
1500
1000
500
0
Oc...
De...
Fe...
Ap...
Jun...
Au...
Oc...
De...
Fe...
Ap...
Jun...
Au...
Oc...
De...
OUTSTANDING
WORKABLE CASES

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Responses to Retirement Questionnaire

Period 1 August to 31st October 2010

Number of Questionnaires in this period	74

No.	Question		Response	Count	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	74	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	45	61%
		B	Within 10 working days after R'ment date	17	23%
		C	Later than 10 days after R'ment date	12	16%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	38	84%
			Later than 10 days after R'ment date	7	16%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	13	76%
			Later than 10 days after returning Opt Form	4	24%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	6	50%
			Later than 10 days after returning Opt Form	6	50%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	63	85%
			Later than 1 month after R'ment date	11	15%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	52	70%
			Good	22	30%
			Average	0	0%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	5	7%
			No	69	93%
7	Were you treated with sensitivity & fairness?		Yes	73	99%
			No	1	1%

Responses to Retirement Questionnaire

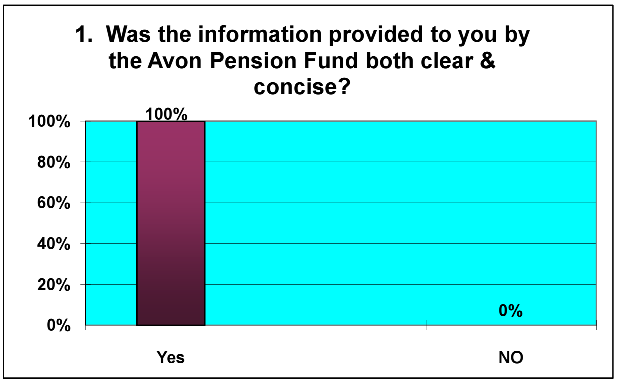
Period 1 August to 31st October 2010

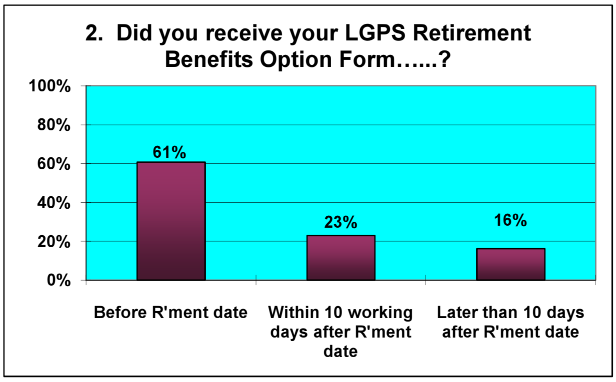
Number of Questionnaires in this period		31		

No.	Question		Response	Number	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	30	97%
			NO	1	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	28	90%
		B	Within 10 working days after R'ment date	1	3%
		C	Later than 10 days after R'ment date	2	6%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	26	93%
			Later than 10 days after R'ment date	2	7%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	1	100%
			Later than 10 days after returning Opt Form	0	0%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	2	100%
			Later than 10 days after returning Opt Form	0	0%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	29	94%
			Later than 1 month after R'ment date	2	6%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	24	77%
			Good	6	19%
			Average	1	3%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	5	16%
			No	26	84%
7	Were you treated with sensitivity & fairness?		Yes	31	100%
			No		0%

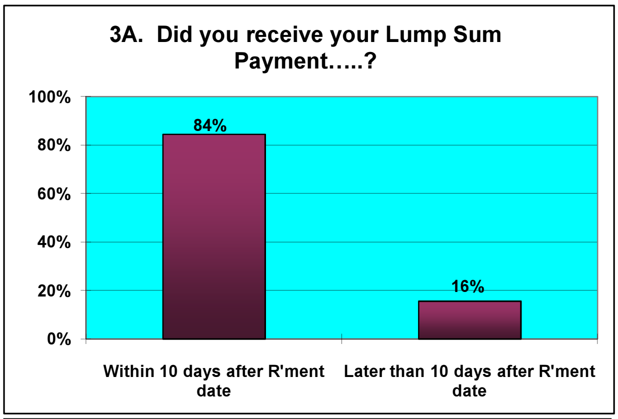
Period 1 August to 31st October 2010

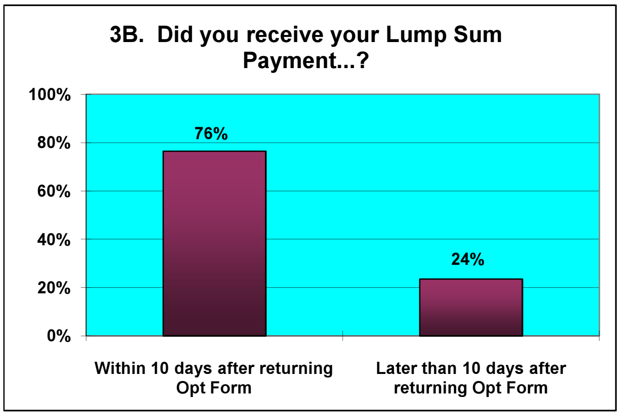
Appendix 4B

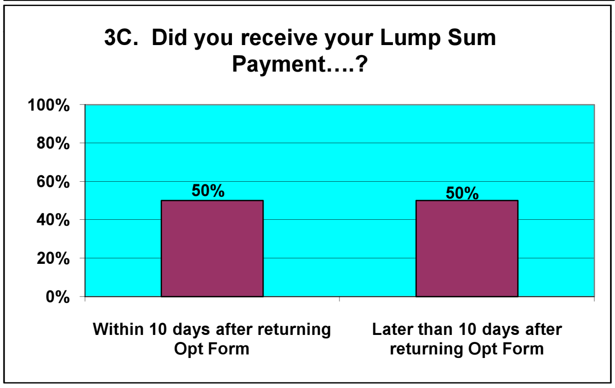


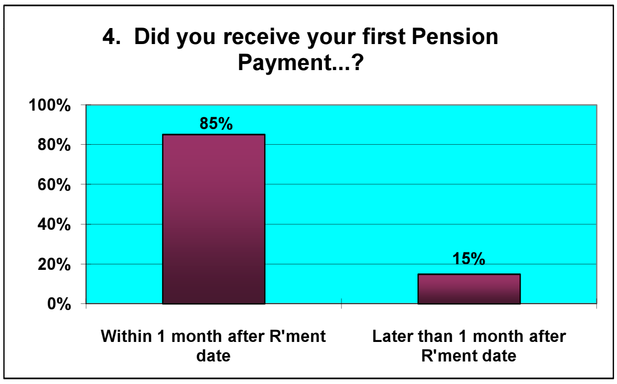


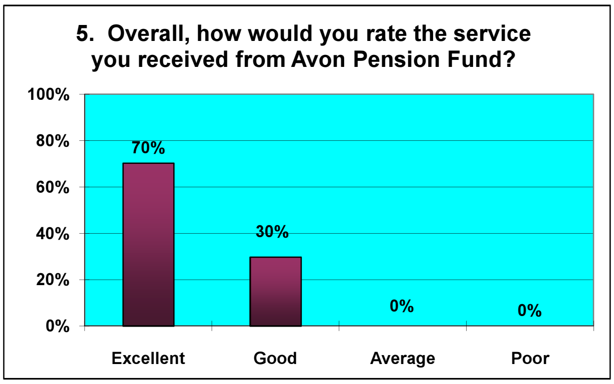
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

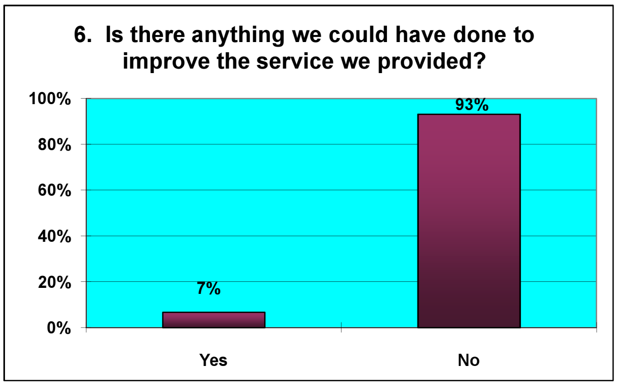


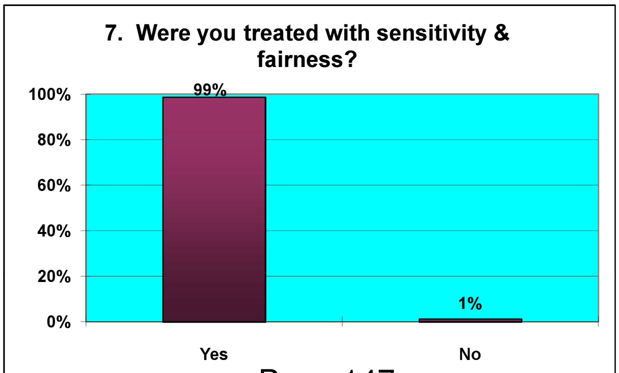




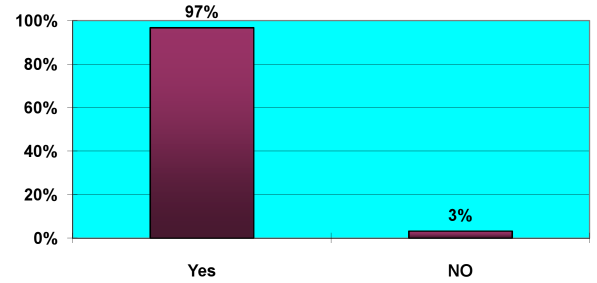




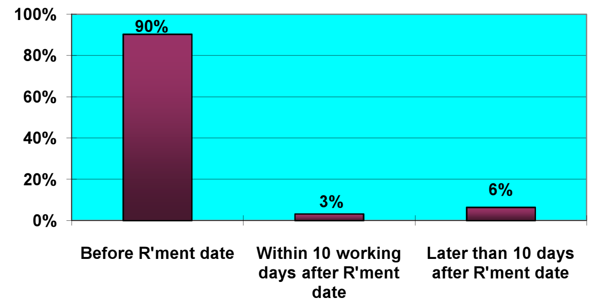




1. Was the information provided to you by the Avon Pension Fund both clear & concise?



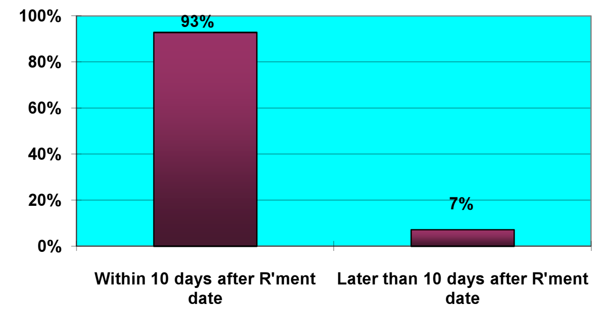
2. Did you receive your LGPS Retirement Benefits Option Form...?



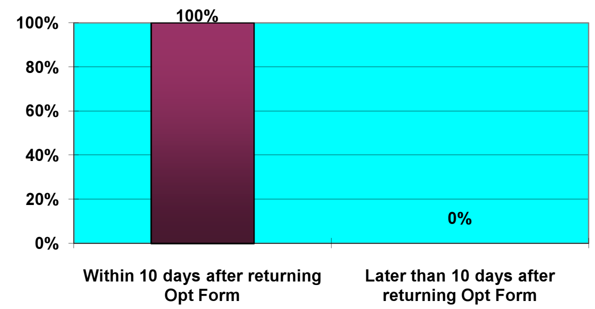
From Question 2 above (column 1)

From Question 2 above (column 2 & 3))

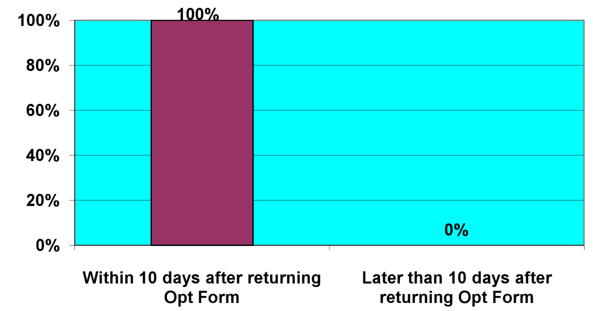
3A. Did you receive your Lump Sum Payment...?



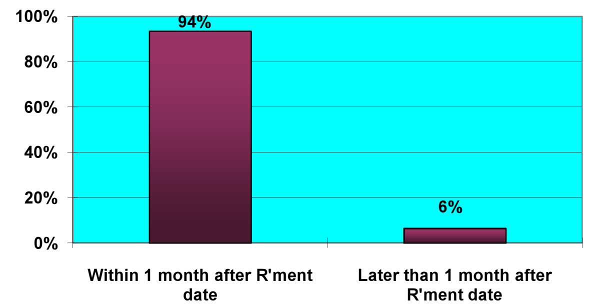
3B. Did you receive your Lump Sum Payment...?



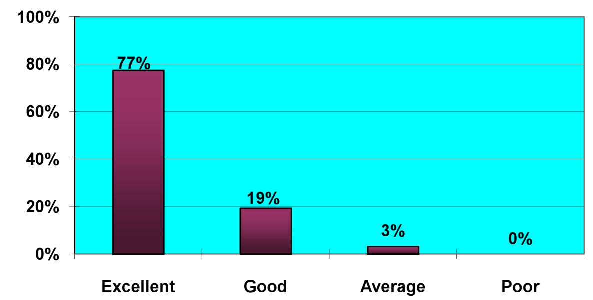
3C. Did you receive your Lump Sum Payment....?



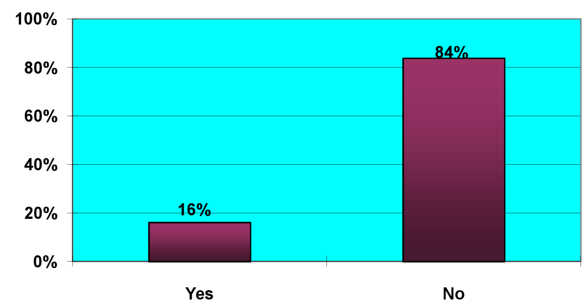
4. Did you receive your First Pension Payment...?



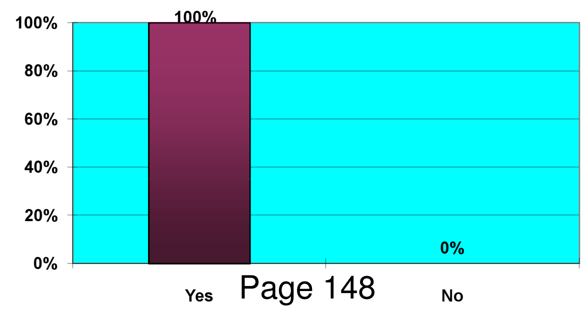
5. Overall, how would you rate the service you received from Avon Pension Fund?



6. Is there anything we could have done to improve the service we provided?



7. Were you treated with sensitivity & fairness?



Clinic Feedback Results 1st August - 31st October 2010

BCC (Council Hse) 15.09.2010

SGlos (Thornbury) 29.10.2010

Banes (Riverside) 21.10.2010 - (Guildhall) 14.10.2010

Somer Housing 7.10.2010

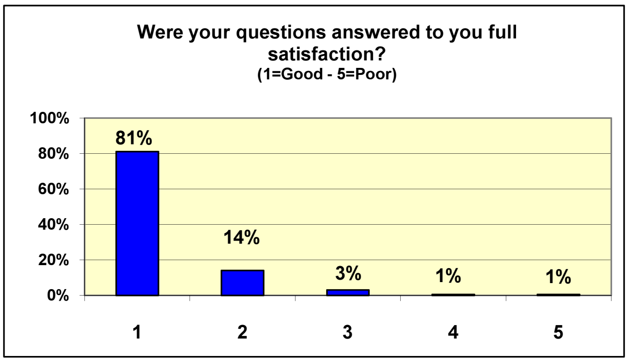
North Somerset Housing 8.9.2010

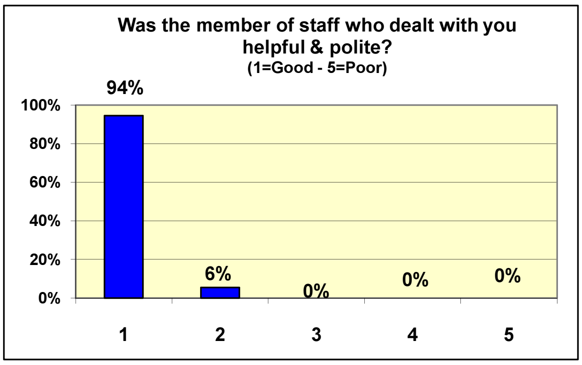
Number of questionnaires **163**

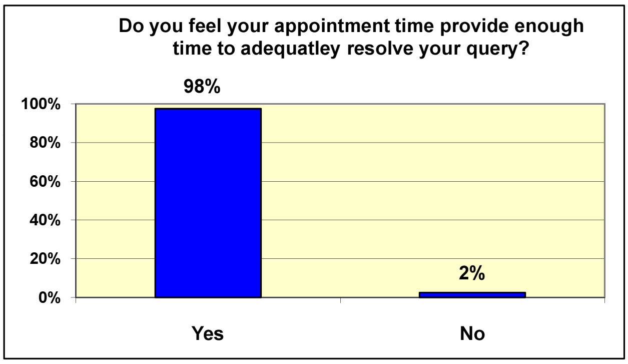
Question		No.	%
Were your questions answered to your full satisfaction?	5	133	81%
	4	23	14%
	3	5	3%
	2	1	1%
	1	1	1%
Was the member of staff who dealt with you helpful and polite?	5	154	94%
	4	9	6%
	3	0	0%
	2	0	0%
	1	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	159	98%
	No	4	2%
How do you rate the venue?	5	102	63%
	4	40	24%
	3	20	12%
	2	1	1%
	1	0	0%
Were you afforded sufficient privacy during your appointment?	Yes	161	99%
	No	2	1%
If you had further questions and we held a Clinic at this venue again would you attend?	Yes	159	98%
	No	4	2%
Was this location convenient for you?	Yes	154	94%
	No	9	6%

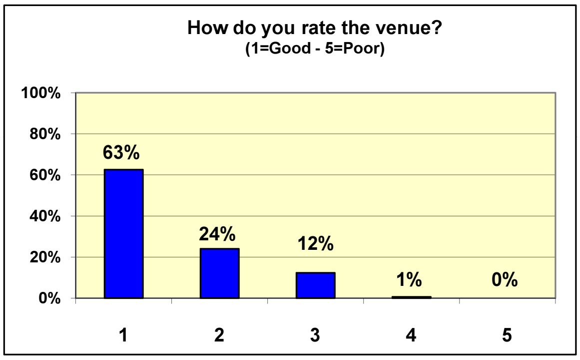
Clinic Feedback Results 1st August - 31st October 2010

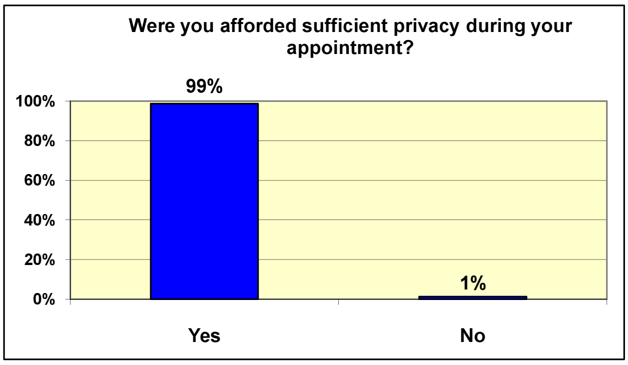
BCC (Council Hse) 15.09.2010
SGlos (Thornbury) 29.10.2010
Banes (Riverside) 21.10.2010 - (Guildhall) 14.10.2010
Somer Housing 7.10.2010
North Somerset Housing 8.9.2010

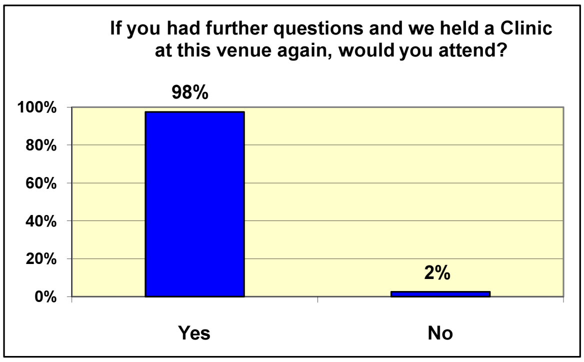


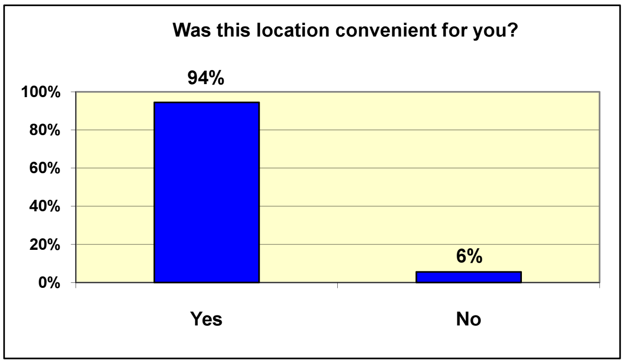












New Employers - 1st April 2010 to 30th October 2010

Name of Body	Date of Admission	Type of Body	Number of Members	Date of Closed
Yatton Parish Council	1st April 2010	Designated	3	
Mouchel (B&NES Schools IT)	29th April 2010	Scope	2	
Northgate Information Solutions UK Ltd (Colson Girls School Academy)	30th July 2010	Scope	1	
South Gloucestershire Leisure (2nd Contract)	1st August 2010	Scope	8	
Midsomer Norton Schools Partnership (Academy)	1st October 2010	Scheduled		
Liberata UK Ltd	1st October 2010	Scope	56	
Agilisys Limited	1st October 2010	Scope	102	
Community Action		Community	0	31st March 2010

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 DECEMBER 2010**	**AGENDA ITEM NUMBER**
TITLE:	**REVIEW OF INTERNAL CONTROL REPORTS OF INVESTMENT MANAGERS & FUND CUSTODIAN**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

1 THE ISSUE

1.1 The Fund's Officers annually review the internal control reports of the investment managers and the custodian.

1.2 The report sets out the conclusions of the review of the internal control reports.

2 RECOMMENDATION

The Committee is asked to:

2.1 Note the report and request that the Officers continue to review the internal control reports and report to Committee on at least an annual basis.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 BACKGROUND

4.1 As part of the risk management process, the Fund's Officers annually review the internal control reports prepared by the investment managers and the custodian, which describe their internal control environment. These reports are externally audited, but the format and content is not prescribed and therefore they vary in content and the level of detail.

4.2 In the UK, it is best practice for investment managers and custodians to produce an AAF 01/06 Report (Technical Release 01/06 of the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales). The US equivalent is a SAS 70 Report (Statement of Auditing Standards). In the reports, the company's management identifies the controls needed by the organisation to achieve the control objectives. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the control objectives or not.

4.3 It should be noted that these reports are not mandatory and amongst hedge funds it is not standard practice to produce these reports. Where an internal control report is not produced by a manager, the Officers review the relevant Administrator's internal control report in addition to the audited financial statements of the respective fund.

5 REVIEW OF INTERNAL CONTROL REPORTS

5.1 In October 2010 the Officers reviewed the internal control reports for the year ending 31 December 2009 for all of the investment managers and the custodian.

5.2 In each case the external auditor's report stated that the controls were in place and achieved the control objective except in the case of RLAM where there was one exception. This exception was identified as one of two exceptions in last years report. At that time the management of RLAM took action to mitigate both issues. This action was implemented but in the case of the remaining exception (regarding logical access to IT systems) the remedy only became fully operational towards the end of the year under review. For that reason the Auditor considered that, although management had addressed the issue, it should be retained as an exception. The officers having discussed this with RLAM are satisfied that adequate controls are now fully in place.

5.3 It should be noted that for the first time, a FoHF manager (Man Group) has produced their own SAS70 report on their own activities. Officers will continue to encourage the other FOHF managers to consider issuing their own internal controls report.

5.4 The audited financial statements of FoHFs have been reviewed by the Officers and the external auditor's opinion for the audited accounts was unqualified for each of the FoHFs the Fund is invested in. In addition the internal control reports of their external Administrators have been reviewed and in each case there were no exceptions highlighted by the auditors.

5.5 The Officers will continue to review the internal control reports of the Fund’s external providers and report to Committee on an annual basis. They will continue to discuss the significance of the internal control reports with investment managers on an ongoing basis.

6 RISK MANAGEMENT

6.1 The risk to pension fund assets as a result of a failure in the custodian’s operating systems is highlighted in the Council’s risk register. An annual review of their SAS 70 report is one of the actions identified in the risk register as a means of mitigating any risk to the security of the Fund’s assets.

6.2 A review of the investment managers’ reports is less critical in that the Fund’s assets are not directly at risk as they are held either by the Fund’s custodian or in the case of pooled funds and hedge funds, by external custodians. However, any shortcoming in an investment manager’s operations may have an adverse impact on the manager’s performance which is of particular importance with regards to hedge funds.

7 EQUALITIES

7.1 This report is for information and therefore an equalities impact assessment is not necessary.

8 CONSULTATION

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

9 ISSUES CONSIDERED REACHING THE DECISION

9.1 None as for information only.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Director of Resources and Support Services) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395306)
Background papers	AAF 01/06 & SAS 70 reports from investment managers, custodian and administrators. Audited Financial Statements of Fund of Hedge Funds.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	10 DECEMBER 2010	AGENDA ITEM NUMBER
TITLE:	**Friends Provident (Avon Pension Fund's Fund's AVC Provider) Past Investment Performance Monitoring Report to March 2010 by Mercers**	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 : Executive Summary (from Friends Provident AVC Past Investment Performance Monitoring Report - full report available on request)**		

1 ISSUE

1.1 It is the responsibility of the Administering Authority to make available to members Additional Voluntary Contributions ("AVCs") and to appoint the provider and decide the range of investment fund options from which the members can select.

1.2 Mercers, the Fund's actuary and advisor on AVCs, have produced a report monitoring the investment performance of the AVC funds offered by Friends Provident, the Fund's AVC provider.

1.3 The full report runs to 92 pages; however the Executive Summary contains the key findings and recommendations by Mercers and is attached as **Appendix 1.**

1.4 Friends Provident were taken over by Resolution's PLC in summer 2009. Mercers have advised on whether this adversely affects the position of FP or the decision to continue offering their funds to members for AVC investment.

2 RECOMMENDATION

2.1 That the Committee notes:

(i) The content of the Investment Performance Monitoring Report to 31 March 2010 by Mercer on Friends Provident (FP) - the Fund's chosen AVC provider

(ii) That Mercers are currently undertaking a review of the current AVC investment strategy arrangement with Friends Provident with a view to considering a smaller range of fund options available to members to simplify their choice.

(iii) That a further report will be brought to Committee in due course with the results of the review and any recommendation

(iv) That the Fund's actuary has confirmed that it is still prudent to offer FP as the AVC following its takeover by Resolution PLC.

3. FINANCIAL IMPLICATIONS

3.1 The Administering Authority must by law make available to members of the Fund an AVC Provider and must determine the range of investment fund options from which the members can select. The investment performance of these funds must therefore be within an acceptable range otherwise the Fund could be found to be negligent and liable to a fine. Periodic reviews of the provider's investment performance are therefore necessary to monitor this.

4 Additional Voluntary Contributions ("AVCs") – what are they?

4.1 Members may pay additional contributions into the Fund to boost their retirement benefits. Although they can purchase additional pension in multiples of £250, a far more popular choice is to pay money as AVCs. The Fund invests these with a chosen Provider, in the APF's case Friends Provident, and offers members a choice of funds in which to invest.

4.2 At retirement the value of the member's AVC fund will be used to boost retirement benefits. The benefit may be taken as cash or pension within HMRC limits.

5 FP's AVC Funds Past Investment Performance Monitoring Report to March 2010 - BACKGROUND

5.1 The Fund periodically commissions a review of the performance of Friends Provident ("FP"), the chosen AVC provider open to members to invest their AVCs.

5.2 **Why review performance?** Whilst the Avon members choose where to invest their AVCs, it is the responsibility of the Administering Authority to choose the range of investment fund options, from amongst all those available on FP's fund platform, to be offered to members to select from. It is therefore prudent for FP's performance to be regularly monitored to ensure that it is within an acceptable range for the Fund to continue to offer them as the preferred AVC provider.

5.3 As Mercer's Full Report is 92 pages long because it provides a 3 page detailed analysis on *each* of the Funds available for investment. It has not been included with the papers but is available on request is. The Executive Summary of the Report is enclosed as **Appendix 1.**

5.4 **Mercer's Findings ((Executive Summary) -** Mercer summarises FP's **investment performance** in the Executive Summary and concludes that many of the unit-linked funds have shown negative returns at times over recent years, reflecting the prevailing market volatility. *(Mercer states however, that rather than focussing purely on absolute returns, it is more helpful to consider past performance relative to other funds in the sector.)*

Overall Mercer describes FP's cumulative investment performance relative to other funds as being **generally satisfactory, and in many cases good, over 5 years** with 25 out of the 29 funds showing cumulative performance in the 1st or 2nd quartile.

The report concludes that performance has generally been less good in the shorter term - over 3 years and particularly over 1 year where 12 of the 29 funds have been in the 3rd or 4th quartile. The BGI UK Corporate Bond Index, FP Stewardship Managed and FP Stewardship funds have all consistently had cumulative returns in the 3rd or 4th quartile, across 1, 3 and 5 year periods.

Excessive fund choices In its report, Mercer recommends that Officers undertake a review of the current AVC investment strategy arrangement with Friends Provident with a view to considering a **smaller range of funds choices** to simplify the choice available to the members. Currently there are 29 on offer to APF members. (*After a review in 2006, poor performance from the FP funds prompted the Fund to increase the choice of funds by adding 3 external providers on FP's platform)*. Officers agree that a review is required and feel strongly that that the number of funds should be reduced.

5.5 FP "WITH PROFITS" FUND: The Administering Authority decided some years ago to remove the option for new AVC payers contributing to the FP with-profits fund but decided to allow then existing contributors to continue paying into the with profit fund.

5.6.RESOLUTION PLC TAKEOVER OF FRIENDS PROVIDENT IN 2009

5.61. Resolution PLC is a Guernsey based Investment Company who bought FP for £1.86 billion in summer 2009.

5.6.2 Mercers have advised the Fund that FP customers will be largely unaffected by the deal and it believes that there is **no reason why FP funds should not continue to be offered to APF members for AVC Investment.**

5.7 STRATEGIC AVC REVIEW: Mercers are currently undertaking a "Strategic Review" as and will pay particular attention to options for choices of funds available to members to improve transparency. Results of the Review and any recommendations will be brought back to the Committee in due course

6 RISK MANAGEMENT

6.1 This report contains only recommendations to note - no risk assessment is therefore necessary.

7 EQUALITIES

7.1 No equalities impact assessment is required as the Report contains only recommendations to note.

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 and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Steve McMillan, Pensions Manager Tel: 01225 395254
Background papers	Previous reviews of FP performance

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APPENDIX 1 TO AVC MONITORING REPORT

Avon Pension Fund

Friends Provident AVCs: Past Investment Performance Monitoring to March 2010

As requested, we have carried out a past investment performance monitoring exercise in relation to the Avon Pension Fund AVC arrangements and we are pleased to report our findings. As part of this document we have included detailed factsheets in relation to individual funds to allow the Administering Authority to consider the performance in more detail if necessary.

Executive Summary

Unit-Linked Funds

Many of the Friends Provident unit-linked AVC funds invested in by Avon members have shown negative returns at times over recent years, reflecting the prevailing market volatility. Rather than focussing purely on absolute returns, it is more helpful to consider past performance relative to other funds in the sector. If we were to try to summarise the overall picture, we would describe the Friends Provident cumulative investment performance relative to other funds as being generally satisfactory, and in many cases good, over 5 years up to March 2010, with the vast majority of funds (25 out of 29) showing cumulative performance in the 1st or 2nd quartile (see note below for description), apart from a few funds where performance has been in the 3rd or 4th quartile (BGI UK Corporate Bond Index, FP European, FP Stewardship Managed and FP Stewardship). Performance has generally been less good over 3 years and particularly over 1 year where 12 of the 29 funds have been in the 3rd or 4th quartile. The BGI UK Corporate Bond Index, FP Stewardship Managed and FP Stewardship funds have all consistently had cumulative returns in the 3rd or 4th quartile, across 1, 3 and 5 year periods.

Below is a summary of the cumulative past investment performance for the unit-linked funds. More detail is shown in the factsheets in the Appendix.

Note:

1st quartile is ‘well above median’ for the sector;
2nd quartile is ‘around or above median’;
3rd quartile is ‘around or below median’; and

4th quartile is 'well below median'.

AVC Fund	Total existing AVCs invested as at 5.3.10	%	Quartile for Cumulative Performance over period of		
			1 year	3 years	5 years
BGI Balanced Index	£ 11,899.24	0.17%	3	1	1
BGI Cautious Index	£ 12,533.89	0.18%	3	1	1
BGI European Equity Index	£ 3,940.66	0.06%	2	2	2
BGI Global Equity 50:50 Index	£ 9,682.71	0.14%	2	3	2
BGI Global Equity 60:40 Index	£ 5,447.40	0.08%	2	3	2
BGI Over 15 years UK Gilt Index	£ 2,720.30	0.04%	3	1	1
BGI UK Corporate Bond Index	£ 540.85	0.01%	4	3	3
BGI UK Equity Index	£ 12,399.89	0.18%	2	2	1
BGI UK Index-Linked Gilt Index	£ 11,653.78	0.17%	1	1	1
BGI US Equity Index	£ 183.35	0.00%	2	2	2
BGI World (Ex-UK) Equity Index	£ 1,469.92	0.02%	3	1	2
Baillie Gifford International	£ 9,928.55	0.14%	1	1	1
Baillie Gifford Managed	£ 29,513.49	0.42%	1	1	1
FP Cash	£ 783,853.35	11.28%	2	1	1
FP European	£ 396,268.95	5.70%	1	2	3
FP Fixed Interest	£ 386,591.02	5.56%	2	2	1
FP Global Equity	£ 222,668.37	3.20%	1	1	1
FP Index Linked	£ 156,214.83	2.25%	1	1	1
FP Managed	£ 1,229,055.03	17.68%	3	1	1
FP Newton Balanced	£ 11,884.18	0.17%	4	1	1
FP Newton Income	£ 7,754.00	0.11%	4	1	1
FP North American	£ 164,519.22	2.37%	1	1	1
FP Pacific Basin	£ 213,788.33	3.08%	4	3	1
FP Pre-retirement Fixed Interest	£ 651,964.23	9.38%	3	2	2
FP Property	£ 221,246.13	3.18%	1	2	2
FP Stewardship Managed	£ 594,170.08	8.55%	3	4	4
FP UK Equity	£ 414,047.74	5.96%	2	1	1
FP UK Index Tracking	£ 373,771.44	5.38%	2	1	1
* FP Stewardship	£ 563,076.14	8.10%	4	4	4
** FP With-Profits	£ 449,082.10	6.46%	See separate factsheet		
Total :	£ 6,951,869.17	100.00%			

* Stewardship Fund is no longer available for further contributions.

** With-profits is closed to new Avon contributors, but currently remains available to existing contributors.

With-profits

A separate factsheet covering the Friends Provident with-profits fund is attached. In summary:

- The Friends Provident with-profits fund has not been actively marketed by the insurer for a number of years and the fund is beginning to contract relatively quickly.
- The with-profits fund has significantly reduced its equity portfolio, but only after incurring significant market losses.
- The fund has limited working capital, which was a contributory factor in the insurer's decision to sell equities.

- Some Friends Provident with-profits policies have valuable guarantees which would be lost on transfer. The specific position in relation to the Avon AVC with-profits policy should be considered as part of the review referred to below.

Next Steps

In terms of the actions required, in line with our previous discussions, we would recommend that a review of AVC Investment Strategy is now undertaken with a view towards considering a possible smaller range of fund choices to offer to Avon members.

We recommend that the position in relation to with-profits is also considered as part of the review of AVC Investment Strategy and fund range.

We look forward to discussing this report with the Administering Authority to enable the next steps to be put in hand.

Rob White, BSc, CertPFS
Senior Associate

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	10 December 2010	**AGENDA ITEM NUMBER**
TITLE:	**WORKPLANS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Investments Workplan to 31 March 2011

Appendix 2 – Pensions Benefits Workplan to 31 March 2011

Appendix 3 – Committee Workplan to 31 March 2011

Appendix 4 – Investments Panel Workplan to 31 March 2011

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 to at least 31 March 2011 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 workplans are consistent with the 2010/2013 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.4 The workplans will be updated quarterly

2 RECOMMENDATION

2.1 That the workplans for the period to 31 March 2011 be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 THE PURPOSE OF THE WORKPLANS

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 ongoing review of the Service Plan while including a little more detail.

5 RISK MANAGEMENT

5.1 This report is for information only so no risk assessment is necessary.

6 EQUALITIES

6.1 This report is for information only and therefore an equalities impact assessment is not necessary.

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 and Section 151 Officer (Divisional Director – Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager; Steve McMillan, Pensions Manager
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

INVESTMENTS TEAM WORKPLAN

Project	Proposed Action	Committee Report
Member Training	Develop 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	ongoing
Review of investment strategy	Investment Panel to make recommendations to Committee – see Investment Panel workplan for projects	ongoing
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	December 2010
Vote monitoring	Tender for agent to monitor voting by managers	December 2010
Actuarial Valuation	Work on valuation with Actuary Consult employers on FSS during 4Q10	December 2010
Training Policy	Develop training framework for members and then officers	March 2011
Global Equity Tender	Tender for investment mandate to be in place by 1 April 2011	March 2011
Review Hedge Funds	Review performance once mandates in place for 3 years and then review strategy Committee workshop March 2011	March 2011
Budget and Service Plan 2011/14	Preparation of budget and service plan for 2011/14	March 2011
FX hedging	Tender mandate	March 2011
Custody Contract	Re tender or Market test the custody contract	June 2011
Use of SWAPS	Investigate the use of SWAPS by the Fund in order to reduce the risk associated with the mismatching of assets and liabilities.	June 2011
Review SRI Policy	Review by Committee Summer 2011	September 2011

Statement of Investment Principles	Revise following any change in Fund strategy/policies. Publish within 6 months of any changes.	Ongoing, next formal review March 2011
Investments Forum	Organise forum meetings expected to be held in Spring 2011, Autumn 2011	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for the larger employing bodies	

WORK PLANS AS AT DECEMBER 2010 - APPENDIX 2

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2011

Project	Proposed Action	Report
Member & Employer Access – change of provider to Heywood	Contract with Gandlake not renewed in October 2010 - moved to the Heywood facility for member and employer access which has additional facilities such as a pensions calculator and two-way portal which had not been developed by Gandlake. Member access successfully and seamlessly switched over in October 2010. Employer access is expected to be available in early 2011 and will allow Employers to do their own member estimates and Strain on the Fund costs calculations for redundancies.	Dec 2010
Administration Strategy/ Partnership (**SLA)** Agreements	Consultation with employers on the Administration Strategy document took place in October 2010. The final draft is being submitted to the Pensions Committee for approval at this meeting and will be rolled out to employers in January 2011 to become effective from 1st April 2011. Work on agreeing replacement or new SLAs will begin in early 2011 and a push on EDI will continue, to be in place for all Employers in 2012 (see below) The Strategy incorporates communication, employer staff training and technological enhancement /development (e.g. Electronic Data Interface ("EDI") Monitoring) Regular review meetings will be integral to a successful process. The document is a positive way forward to improve ongoing working between the Fund and its 110 diverse employers. The Strategy will also allow the Fund to pass on to Employers extra costs where their failure to supply information causes a disproportionate amount of work by Pensions or where "monetary fines" are incurred as a result of that employer's poor performance. Additional costs will be only passed on as a "last resort."	Dec 2010
EDI - auto designer interface	EDI is included in then Administration Strategy work more closely with Fund employers with target dates in 2012 for all employers to provide data electronically.	N/A
Post Hutton Review changes	Following the Hutton Review draft legislation on revision to the benefit structure of the LGPS is expected in March 2011. The changes however are not expected to be effective for a couple of years. A full report will brought to Committee at the appropriate time on the detail and the changes required to administer the Avon Pension Scheme.	June 2011
Data cleanse (following Actuarial Valuation)	Data Cleansing is continuing following data reconciliation for the Actuarial Valuation for which errors and outstanding queries were dramatically reduced.	
Increased workload	With the expected downsizing by local authorities and other major employers a higher than normal level of work on estimates and benefit processing is expected in 2011 and two years beyond.	N/A

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Appendix 3

Committee Workplan to 31 March 2011

March 2011
Review of Investment Performance for Quarter Ending 31 December 2010
Pension Fund Administration – Budget Monitoring 2010/11, Performance Indicators for Quarter Ending 31 December 2010 and Risk Register Action Plan
Budget and Service Plan 2011/14
Review of Hedge Fund Portfolio
Review of Statement of Investment Principles including self assessment of decision-making process and training programme
Agree Brief for review of ESG/SRI Policy
AVC Review of Investment Options (Mercers)
Workplans

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2011

Panel meeting	Proposed reports	Outcome
12 January 2011	• Review of Hedge Fund managers – performance and meet 3 managers • Agree brief for ESG/SRI review to commence June 2011	• Input to committee workshop in 1Q11 • Agree any recommendations to Committee

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