Bath & North East Somerset Council

Public Document Pack

Democratic Services
Riverside, Temple Street, Keynsham, Bristol BS31 1LA
Telephone: (01225) 477000 *main switchboard*
Direct Lines - Tel: 01225 395090 Fax: 01225 394439
Web-site - http://www.bathnes.gov.uk

Your ref:
Our ref:
Date: Date Not Specified
E-mail: Democratic_Services@bathnes.gov.uk

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, 18th March, 2011

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 18th March, 2011** at **2.00 pm** in the **Council Chamber - Guildhall, Bath.**

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.

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, 18th March, 2011

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   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 or 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.

15. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2010 (Pages 183 - 238)

16. COMMUNITY ADMISSION BODIES FOR APPROVAL (Pages 239 - 248)

17. BUDGET & SERVICE PLAN 2011-14 (Pages 249 - 282)

18. PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR 10 MONTHS AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 JANUARY 2011 (Pages 283 - 298)

19. WORKPLANS (Pages 299 - 308)

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

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Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 10th December, 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), Councillor Mike Drew (South Gloucestershire Council), Councillor Mary Blatchford (North Somerset Council), Councillor Tim Kent (Bristol City Council) and Steve Paines (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Paul Shiner (Trade Unions)

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

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

17 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Rowena Hayward, Keith Kirwan, Bill Marshall and Liz Feinstein (Investments Manager).

19 DECLARATIONS OF INTEREST

There were none.

20 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

22 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

23 MINUTES: 24TH SEPTEMBER 2010

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

24 UPDATE ON ACTUARIAL VALUATION

The Head of Business, Finance and Pensions presented the report. He said that the main aim of the valuation had been to maintain stability of contribution rates, where possible, in accordance with the Funding Strategy Statement agreed by the Committee in September 2010. There would, as a consequence, be a smaller prudential margin for the solvency of the Fund. In addition, although there was uncertainty as to how the Hutton Commission would impact the rates for future service, future service costs were expected to decline; however, there was less scope for potential changes to the scheme to significantly reduce the costs of past service. The 2010 funding level was 82%. The average employee contribution rate would be held at 16.6%, the same as for the 2007 valuation, which would mean that the deficit recovery period at the Fund level would be extended from 20 to 22 years. The impact on the individual employers would vary considerably and discussions were taking place with employers to explain individual outcomes.

A Member said that he considered the report inadequate as it contained insufficient detail and that there had not been enough opportunity to discuss it with the actuary, to whom the Fund paid large fees. He was concerned to note that the employers had been informed of future contribution rates before the report had come to the Committee. The Committee should have been provided with information about the impact of the valuation on each individual employer. He felt that the Committee could not accept the conclusions of the actuary without more detailed information. The Head of Business, Finance and Pensions replied that officers relied on the professional judgment of the actuary, who had a fiduciary duty to ensure that his valuation was prudent. Negotiations were taking place with some employers to help them within the Funding Strategy Statement. The Member wondered how negotiations could still be taking place with employers after they had been told what their contribution rates would be and before there had been any discussion with the Committee. Another Member said that the actuary only made recommendations; decisions were taken by the Committee and should be based on full information, which had not been provided. Another Member was concerned to note that contributions were going to be held at 16.6% even though the actuary had advised that they should be raised to 17.2%. She felt that the actuary's advice to increase rates for past service but none for future service was contradictory. Though Hutton would give some clarity on future service, there would still be uncertainties. The Fund would ignore future service at its peril. Another Member said that better information about actuarial valuations had been given to the Committee in the past. The Head of Business, Finance and Pensions replied that he did not think the involvement of the Committee in this valuation had been different from previous valuations. There was a great deal of pressure on the actuary's time and the Committee seemed to be seeking more information than the actuary could provide. A

Member said that there was strong pressure from central government to keep contribution rates down and that he felt that the actuary had succumbed to this pressure. The Chair suggested that in view of the strongly-expressed concerns of the Committee the actuary should attend a future meeting. A Member said that information should be provided as soon as possible and the actuary invited to attend the March 2011 meeting. The Head of Business, Finance and Information asked what kind of information Members wanted. A Member replied that she believed a copy of the actuary's valuation papers should be provided. Members agreed unanimously to amend the officer's recommendation to note "the outcome of the 2010 Actuarial Valuation" and to simply note the report.

RESOLVED to note the report on the 2010 Actuarial Valuation.

25 HUTTON COMMISSION AND UPDATE ON REGULATIONS - VERBAL REPORT

The Technical Development Manager briefed the Committee on three issues.

Hutton Commission

As Members were aware, the present Government had appointed a Commission chaired by Lord Hutton to review public sector pensions. The Local Government Pension Scheme (LGPS) was included, even though it had been reformed by the previous Government in 2008. The Commission was due to publish its main report in March 2011, having published its interim report in October 2010. In his foreword to the Interim Report Lord Hutton stated that he had rejected "a race to the bottom" and hoped that reformed public service pensions could be seen as once again providing a benchmark for the private sector to aim towards. The Interim Report had speculated about the future structure of benefits and had indicated that increased contributions would be required, but had said that the low-paid should be protected. The Interim Report said that the LGPS was one of only two funded schemes in the public sector and would remain so. Benefits would remain linked to pay, but based on career average rather than final salary and with the pension age raised to match the state pension age. The Fair Deal for public sector workers transferred out of the public sector was under review; some of the employers in the Fund had thought this was too political to comment on in the consultation. A Member said that the Fund's response to the consultation was a matter of policy and a draft response should have been circulated to members. The Technical Development Manager responded that consultation responses took the form of answers to specific questions posed by the Commission and that the replies had been put together by the Pensions Administration Team. The Head of Business, Finance and Pensions said that the questions had been answered from an administrative point of view, but promised that copies of the response would be circulated to Members.

Changes to Pensions Tax Regime

From April 2011 there would be changes to pensions tax relief. The maximum annual allowance for tax relief on pensions would be reduced from £250,000 to £50,000 and the lifetime allowance from £1.8m to £1.5m from 6 April 2012. For tax year 2011-2012 carry-forward would be available against excess contributions of an assumed annual allowance of £50,000 for the tax years 2008-09, 2009-10 and 2010-11. The capital conversion factor for annual allowance purposes would increase from

10:1 to 16:1 for accruals for active members effective from 6 April 2011. The Annual Allowance would not be applied in the year of death or in the case of lump sums paid where individuals are diagnosed with serious (terminal) ill health. The original proposals had been amended after consultation: the annual allowance had been raised from £30-35,000 to £50, 000 and the reduction of the lifetime allowance had been deferred for one year.

Equitable Life

Equitable Life had run into serious difficulties in 2000 and had been taken to court for reducing payments to policy holders. The new Government had agreed to pay total compensation to policy holders of £1.5bn against £4.3bn of estimated losses. Full compensation would be paid to individual policy holders up to a limit of £20m. A report was expected in January 2011 with compensation payments being made from April 2011. The Pensions Manager said that many pensioners in the Avon Pension Fund were affected because at one time Equitable Life was the only AVC provider available to them. Compensation would also be paid on behalf of deceased pensioners.

RESOLVED to note the information provided in the briefing.

26 ADMINISTRATION STRATEGY

The Pensions Manager presented this item. He said that it was the most important administrative document that the Fund had dealt with for some years. The Government had originally legislated for the Strategy to be a requirement for local authority pension funds, but this had been changed to a recommendation as good practice. Its purpose was to improve the quality of service to pension fund members. It should help the administration team to improve efficiency and for employers to provide information in a more timely fashion. An electronic data interface would be available to all employers from September 2012 (from April 2012 for large and medium employers). There would be increased accountability for the administration team and employers through the introduction of performance targets, which would be reviewed from time to time and updated. Employers had been consulted the Strategy and given assurance of their commitment to it.

RESOLVED to approve the draft Pensions Administration Strategy for the Avon Pension Fund to be effective from 1st April 2011.

27 INVESTMENT PANEL MINUTES

RESOLVED to note the Minutes of the meeting of the Investment Panel of 17th November 2010.

28 RECOMMENDATIONS FROM INVESTMENT PANEL

The Assistant Investments Manager presented the report. There was one recommendation from the Panel relating to the balance between UK and overseas equities in the Fund. This had arisen from the Panel's concerns about the holdings in

BP and the risk arising from sector and stock concentrations within the UK equity index.

A Member said that he was prepared to follow the recommendation of the Panel, but would be less likely to increase holdings outside the UK if he were acting as a private investor because of exposure to fluctuating currency rates and the risks arising from the global economy and global politics. He wished to seek assurance that there was more than a marginal benefit to be achieved from the recommendation. The Assistants Investment Manager replied that currency risk would be offset by active currency hedging, as already approved by the Committee. The reduction in the volatility of returns from the policy change might be marginal, but the Panel had felt it was worthwhile. Another Member said he understood the Panel's reasoning, but was concerned at the net effect on the UK and ultimately pension fund members of a trend of disinvestment in the UK. The Independent Adviser said that there was a trend among public and private pension funds to invest overseas, but this was a global trend and therefore disinvestment by UK funds was offset by increasing investment in the UK by institutions in other countries. Pension funds had at one time accounted for 40% of investment in the UK market, but this was now 25%. The Chair of the Investment Panel said that the key issue was the level of the Fund's exposure to BP and other oil stocks. The aim of the recommendation was to increase diversification and so to reduce risk, not to increase returns. There was an insignificant increase in returns to be achieved by increasing holdings in global equities, but a reduction in the current level of risk. Mr Lyons said that a 0.01% in volatility might seem insignificant, but in cash terms it was £25m. Tapping into global growth was a potential benefit of diversification, though UK companies would share in this too. Even if there was no long-term difference in returns, short-term volatility would be reduced and the currency risks could be managed. The only way of reducing risk with passively managed assets was to increase the spread.

RESOLVED

1. To 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. To implement the switch within the passively managed equity portfolio.

29 APPOINTMENT OF UNCONSTRAINED GLOBAL EQUITY MANAGER

The Assistant Investments Manager introduced this item. Members noted the report and the exempt appendix.

RESOLVED to note the appointment of Schroder as unconstrained global equity manager.

30 FRC STEWARDSHIP CODE

The Assistants Investments Manager explained the background to the Code.

Having considered the draft Statement of Compliance with the FRC Stewardship code, the Committee **RESOLVED** to approve it.

31 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2010

The Assistants Investment Manager presented the report and summarised the key facts. There had been an increase in asset values of 8.1%, driven mainly by the rally in the equity markets. Over the year there had been an increase of 10.8%, to which all asset classes had contributed. Following the decision of the Committee at its meeting on 26 March 2010 to appoint a vote monitoring service, tenders had been invited and the contract had been awarded to Manifest.

Mr Lyons summarised the main points of the JLT performance monitoring report, attached as Appendix 2. He referred to the chart on page 17 of the monitoring report (page 97 of the agenda), which plotted each investment manager's annual risk against their annual absolute return. The equity managers were well to the right of the chart indicating very high levels of risk, whereas Fund of Hedge Fund managers and property managers were to the left. The location of the total Fund in the middle of the chart showed the benefits of diversification. At the last meeting Members had requested information over a three-year period, and this was provided in the chart on page 18 (agenda page 98). He commented on individual investment managers. Jupiter had underperformed its benchmark over the quarter, but had outperformed it over the year, producing an absolute return of 15.7% over the year. Against this, TT International had outperformed its benchmark over the quarter, but underperformed over the year. The varying performance of these two equity managers showed again the benefits of diversification. State Street had announced that they had acquired Bank of Ireland Asset Management (BIAM). He had no concern about this, as it was a case of a small company being taken over by a much larger one. Genesis had performed above the benchmark; developing markets had been strong over the past three years. Turning to the Fund of Hedge Funds, he said that Lyster Watson had identified that they had some involvement in a hedge fund one of whose managers was under investigation by the financial authorities. Further information was sought from five hedge funds and Lyster Watson established that they had only a very small exposure. Hedge funds were under review by the Investment Panel, and would appear on the agenda of the next meeting of the Panel in January 2011 and on the Committee's agenda in March 2011.

The Chairman of the Investment Panel noted the comment in paragraph 9.2 of the covering report that the Local Authority Pension Fund Forum (LAPFF) had raised health and safety governance issues with BP as far back as 2006. He said that the Panel had questioned one investment manager very closely about its decision to increase holdings in BP after Deepwater Horizon. He thought that if LAPFF were raising concerns with BP in 2006, a good deal of information about must have circulating about BP then and subsequently and that this should have been reported to the Committee. The Assistant Investment Manager replied that a section on LAPFF had been introduced in the performance report in order to improve the information provided to the Committee about LAPFF activity.

RESOLVED:

1. To note the information as set out in the report.

2. To note the appointment of Manifest to monitor the Fund's voting activity.

32 PENSION FUND ADMINISTRATION - BUDGET MONITORING AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 30 OCTOBER 2010

The Finance & Systems Manager (Pensions) presented the Budget Report. He said that an underspend of £6,000 on administration costs would be more than offset by an increase in Investment Management fees arising from higher than budgeted market values. This would result in an overspend on the whole budget of £32,000.

The Pensions Manager presented the Performance Report. He said that following the data cleansing exercise for the triennial Actuarial Valuation there were "old" unprocessed leavers remaining to be cleared. The Government's decision to base pension increase on CPI instead of RPI in future had mean that transfers in and out had had to be stockpiled until revised factors were notified by the Government Actuary's Department. There had been no complaints and sickness absence had been extremely low. The Annual Benefit Statements had been sent to deferred members and all would be sent to all members by the end of January 2011. The Benefits Statement had been redesigned. Initial teething troubles with the new Altair software had been overcome. Heywood had been chosen to replace Gandlake as provider of member and employer access to personal member data. Gandlake had not developed their services and Heywood offered facilities that Gandlake did not. Globalscape software, recently purchased for other Council services, was now used to provide facilities to send and receive personal confidential data that had been previously provided by Gandlake. The number of employers in the Fund now stood at 110, increased from 97 in 2008. It was fully expected that the number of employers would continue to grow, necessitating the expenditure of more staff time on employer relations. A conference for the Fund's employers would be held on 2nd Feburary 2011.

RESOLVED:

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

2. To note the performance indicators for 3 months to 31st October 2010.

3. To note the changes to Fund Employers since 1st April 2010.

33 ANNUAL REVIEW OF INTERNAL CONTROL REPORTS

The Assistant Investments Manager presented the report, which set out the results of the review of the control reports of investment managers and the custodian. He noted that an internal controls report is not mandatory but that all the Fund's mangers provide them except for the hedge funds. However, this year one of the Fund's Hedge Fund Managers had produced an Internal Controls Report which showed some progress. In the case of the other Hedge Funds, the Officers review the audited accounts and the internal control reports of the Hedge Fund's administrator. This is important as it provides independent assurance of the control environment for the body responsible for safekeeping of assets and verification of asset values. The only issue identified was in the case of Royal London Asset Management (RLAM) where there was one exception, which had also been identified as one of two exceptions last year. Whilst action had been taken to mitigate the risk, the solution was not in place in time for the whole of the year under review and so was highlighted by audit. Officers are satisfied that adequate controls are fully in place.

RESOLVED to note the report and to request officers to continue to review the internal control reports and report to the Committee on at least an annual basis.

34 AVC MONITORING REPORT

The Pensions Manager presented the report. He explained that a review of the investment performance of AVC funds was conducted every two years to ensure that the return they gave to members of the Avon Pension Fund who had invested in them was acceptable. Accordingly Mercers had produced a Past Investment Performance Monitoring Report on Friends Provident (FP). Mercers had found that FP's cumulative investment performance relative to other funds was generally satisfactory, with 25 out of the 29 FP funds showing cumulative performance within the first quartile. In 2006, following poor performance from the FP funds, 3 additional providers on the FP platform with 15 funds between them had been added to the options available to Avon Pension Fund members. A letter had been sent to Fund members about the additional options, but few had taken them up. Mercers were now carrying out a strategic review of AVC provision, with a view to simplifying the choices available to members. It was expected that this would be presented at the March 2011 of the Committee.

A Member asked why Mercers was asked to do these reports rather than JLT. She felt that by appointing AVC providers the Fund was effectively endorsing them. Taking advice from JLT would ensure consistency of approach with the other investment monitoring that was being done for the Fund. She agreed that the number of AVC funds on offer should be reduced to improve clarity of choice for Fund members, but she was not sure that there would be sufficient information for the Committee to be satisfied, as it needed to be, that all the options available to Fund members were reliable. The Independent Advisor agreed that it would be sensible to take advice from an investment specialist. The Pensions Manager replied that Mercers, who were the Fund's actuaries, had always done the work on AVCs, though other arrangements could be considered for the future. The Head of Business, Finance and Pensions said that though the use of Mercers was partly a matter of tradition, their familiarity with the work did allow them to charge a reduced cost for the work. It might be possible to ask JLT to overview Mercers' work, rather than asking them do the whole thing from scratch.

RESOLVED

1. To note the content of the Investment Performance Monitoring Report to 31 March 2010 by Mercers on Friends Provident, the Fund's chosen AVC provider.

2. To note that Mercers are currently undertaking a review of the current AVC investment strategy with Friends Provident with a view to considering a smaller range of fund options available to members to simplify their choice.

3. To note that a further report will be brought to Committee in due course with the results of the review and any recommendation.

4. To note that the Fund's actuary has confirmed that it is still prudent to offer Friends Provident as the AVC provider following its takeover by Resolution PLC.

35 WORKPLANS

The Assistant Investments Manager presented the report. He advised the Committee that the Audit Commission, the Fund's external auditors, would present their audit plan at the March 2011 meeting of the Committee.

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

The meeting ended at 3.41 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:	**18 MARCH 2011**	**AGENDA ITEM NUMBER**
TITLE:	**AUDIT OPINION PLAN AND FEE 2010/11**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Draft Audit Opinion Plan 2010/11**		

1 THE ISSUE

1.1 Each year the Audit Commission presents the Audit Opinion Plan (previously the Audit Plan) to the Committee. This includes the setting of the audit fee, based on an assumed level of risk consistent with that for 2009/10. Where this assumption is not met there is likely to be an increase in the audit fee. The Auditors will work with staff to identify actions the Fund could take to reduce its fee.

1.2 This Audit Opinion Plan was presented to the Corporate Audit Committee on 1st February 2011 as it comes under the Council's corporate responsibility. The Audit Opinion Plan (attached as Appendix 1) remains in draft form in case any members of this Committee wish to comment.

1.3 Representatives from the Audit Commission will be at the meeting to present the Audit Opinion Plan.

2 RECOMMENDATION

2.1 The Committee is asked to note the Audit Opinion Plan for 2010/11.

3 FINANCIAL IMPLICATIONS

3.1 The indicative fee for the audit of the 2010/11 accounts is £47,000.

4 THE REPORT

4.1 Since 2008/09 the audit of any local government pension fund has been separate from the audit of its administering body.

4.2 The Audit Opinion Plan includes an indicative fee for the 2010/11 audit of £47,000 (unchanged from the 2009/10 fee). The fee for the audit of the 2010/11 accounts is charged against the 2010/11 budget.

5 RISK MANAGEMENT

5.1 The officers have addressed the potential risks identified in the Fee Letter.

6 EQUALITIES

6.1 This report is primarily for information only.

7 CONSULTATION

7.1 Section 151 Finance Officer

8 ADVICE SOUGHT

8.1 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	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Audit opinion plan

Avon Pension Fund

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Summary

1 This plan sets out the audit work I propose to undertake in relation to the audit of financial statements 2010/11 for Avon Pension Fund. The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks and improvement priorities.

2 I will discuss this plan, and any reports arising from the audit, with the Pension Fund Committee. The pension fund accounts remain part of the financial statements of Bath & North East Somerset Council as a whole. The Corporate Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

3 The audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and I will keep the information and fees in this plan under review and update as necessary.

Responsibilities

4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake the audit work in the context of these responsibilities.

6 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

7 Specifically, the Auditing Practices Board practice note 15 on the audit of pension fund accounts defines the work of auditors on pension fund accounts.

8 I am required to complete the 2010/11 audit in accordance with up-dated auditing standards. The new clarified standards require that I set a lower level of materiality and undertake tests of detail on all material items in the accounts.

Fee for the audit of financial statements

9 The Audit Commission's work programme and fee scales for 2010/11, sets out the details of the structure of scale fees. Scale fees are based on several variables, including the type, size and location of the audited body.

10 The fee for the 2010/11 audit is £47,000, as reported in my letter of 15 June 2010.

11 In setting the fee, I have assumed the level of risk on the audit of the pension fund accounts is consistent with that for 2009/10.

12 Where this assumption is not met, extra work will be required, which is likely to result in an increased audit fee. Where this is the case, I will discuss this firstly with the Director of Resources. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

13 Appendix 1 sets out more information on the basis for the fee.

14 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions the Pension Fund could take to reduce its fee.

15 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

16 I am required to issue an audit report giving my opinion on whether the pension fund accounts give a true and fair view of the financial position of the Authority as at 30 September 2011.

17 I am also required to review the pension fund annual report according to the LGPS regulations 1997.

Identifying opinion audit risks

18 As part of my audit risk identification process I need to understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

Identification of specific risks

19 I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Avon pension fund has £1.8bn billion of units in unquoted pooled investment securities. There is an inherent risk of material misstatement because there is no direct market to independently check the valuation of these units, although we understand the underlying securities are quoted.	I will review and place reliance on AAF01 reports from auditors of fund managers. AAF01 reports are industry standard reports on the effectiveness of internal control arrangements at fund mangers. Appendix 3 provides a glossary of terms. I will substantively test the value of all material investment balances to fund manager's reports and custodian reports. Where possible I will agree the units held by Avon Pension Fund in pooled investments back to the underlying quoted securities.
Actuarial Valuation – politically sensitive disclosures.	I will check the disclosures on the actuarial valuation as at 31 March 2010 to supporting evidence from the Actuary.

Testing strategy

20 Based on the risks identified above I will produce a testing strategy that will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

21 I will carry out our testing both before and after the draft financial statements are produced (pre- and post-statement testing).

22 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified that I could carry out early substantive testing in the following areas.

- Review of accounting policies.
- Bank reconciliation.
- Contributions.
- Investments – ownership.
- Year-end feeder system reconciliations.

Where I identify other early testing as being possible I will discuss with officers.

23 Wherever possible I seek to rely on the work of Internal Audit to help meet our responsibilities.

Key milestones and deadlines

24 The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete our audit and issue our opinion by 30 September 2011. Table 2 shows the key stages in producing and auditing the financial statements.

25 I will agree with you a schedule of working papers required to support the entries in the financial statements.

26 Every week during the detailed testing in the summer, my team will meet with the key contact and review the status of all queries. If appropriate, they will meet at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Task	Deadline
Control and early substantive testing	28 February 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	1 August 2011
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	September 2011
Issue opinion	30 September 2011

The audit team

27 The table below shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Wayne Rickard District Auditor	w-rickard@audit-commission.gov.uk 0844 798 1208	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with B&NES Chief Executive.
Chris Hackett Audit Manager	c-hackett@audit-commission.gov.uk 0844 798 8760	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and the Head of Pensions.

Independence and objectivity

28 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which auditing and ethical standards require me to communicate to you.

29 I comply with the ethical standards issued by the APB and with the Commission's requirements of independence and objectivity as summarised in Appendix 2.

Meetings

30 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

Quality of service

1 I commit to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how to improve the service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice at the Audit Commission (c-westwood@audit-commission.gov.uk). He will look into any complaint quickly and do what he can to resolve the problem.

2 . If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

3 Before issuing reports to Committee, I will discuss and agree reports with the appropriate officers.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit plan	31 December 2010
Annual governance report	30 September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Final accounts memorandum	30 October 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with identifying the significant financial and operational risks applying to the Pension Fund based on:

- our cumulative knowledge of the Council and pension fund;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk on the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you will provide good quality working papers and records to support the financial statements by 30 June 2011;
- you will provide requested information within agreed timescales;
- you will provide prompt responses to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

Summarised below are the main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee the auditor has charged the client; and
- confirms in writing the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Corporate Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters considered to be of enough importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively. To ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as 'additional work'. This work will be charged separate from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, change at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

4 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

5 Our proposal for meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Financial Services	Audit Manager (AM) and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Head of Pensions	AM and Team Leader (TL)	Quarterly	Update on audit issues
Pension Fund Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

6 The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce its impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In councils, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2011**	**AGENDA ITEM NUMBER**
TITLE:	**ACTUARIAL VALUATION 2010**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Presentation by Mercers Appendix 2 – Demographic Assumptions Summary Report by Mercers		

1 THE ISSUE

1.1 The Actuary has been invited to present the 2010 actuarial valuation outcome to the Committee.

1.2 The aim of the 2010 valuation was to strike a balance between maintaining the Fund's solvency and the affordability of the employers. Thus the objective 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.

1.3 The valuation process has been set out for completeness.

2 RECOMMENDATION

2.1 **That the Committee notes the presentation by the Actuary.**

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 VALUATION PROCESS

5.1 The following describes the valuation process:

(1) Membership data is submitted to the Actuary by the Fund in July following a comprehensive data cleansing exercise.

(2) FSS Workshop held in July where Actuary and Committee discuss the potential valuation outcome and actuarial assumptions. The draft FSS is then agreed which sets out the actuarial assumptions (which are mainly market derived or evidence based) together with the Fund's policy on deficit recovery.

(3) The draft Funding Strategy Statement (FSS) is then circulated for consultation with scheme employers as required under the regulations. At September meeting, following the consultation, any comments from employers are discussed by the Committee prior to the final approval of the FSS.

(4) Once the FSS is approved, the Actuary will use the framework to complete the valuation as under the regulations "the actuary must have regard to the FSS…". Procedurally, the Actuary can not complete the valuation until the FSS has been approved by the Committee.

(5) The Actuarial Report which contains the Rates Certificate is not published until the full valuation is completed (usually not until March of the year following the valuation date). This is circulated to Committee members and scheme employers once published. The Rates Certificate states the minimum contribution rate and deficit payment to be made by each individual employer. In the meantime employers have been informed of their rates for the period 1 April 2011 to 31 March 2014.

6 ACTUARIAL VALUATION OUTCOME

6.1 The aim of the 2010 valuation is to achieve a balance between the solvency of the Fund and the affordability of employers against the backdrop of the public sector funding situation. To achieve this balance, the Funding Strategy Statement objective was to maintain stable contribution rates where possible. The FSS provided flexibility to achieve this by extending the deficit recovery period for up to 30 years for scheduled bodies and Community Admission Bodies (CAB) guaranteed by another Scheme employer. The deficit recovery period for CAB without a guarantee were to be determined on a case by case basis and the period for Transferee Admission Bodies (guaranteed by letting Scheme employer) will be agreed with the letting Scheme employer.

6.2 Appendix 1 is the presentation the actuary will use at the meeting to discuss the outcome. Appendix 2 is a summary of the demographic assumptions.

7 RISK MANAGEMENT

7.1 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.

8 EQUALITIES

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

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Report is for information only.

11 ADVICE SOUGHT

11.1 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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MERCER

Consulting. Outsourcing. Investments.

18 March 2011

Avon Pension Fund

Committee Meeting

2010 Actuarial Valuation and Funding Strategy

Paul Middleman FIA

2010 valuation – key issues

Affordability

- Comprehensive Spending Review
- Budget pressures
- Deficit contributions as £ amounts

Assumptions

- Inflation & Pay Restraint
- Demographic analyses and trends (Longevity, ill health retirements and proportions married)
- Expected investment returns (short and long term)

Risk Management

- Higher investment return assumption = higher reliance on investment returns
- Longer recovery period = higher repayment interest
- Accelerating maturity/terminations
- Employer engagement and covenant

Changes to the LGPS

- CPI
- Hutton Review?

Short term:	***Increased employee contributions***
Long term:	***Structural changes*** ***Accrued rights?***

Life Expectancy Assumptions

Baseline and future improvements

There are two separate considerations when adopting a mortality assumption:

- *The baseline table for the current rates of mortality; and*
- *The allowance for future improvements.*

Baseline
Life Expectancy Today

+

Future Changes
How things may change

Can be measured

More uncertain and subjective but can measure trend evidence

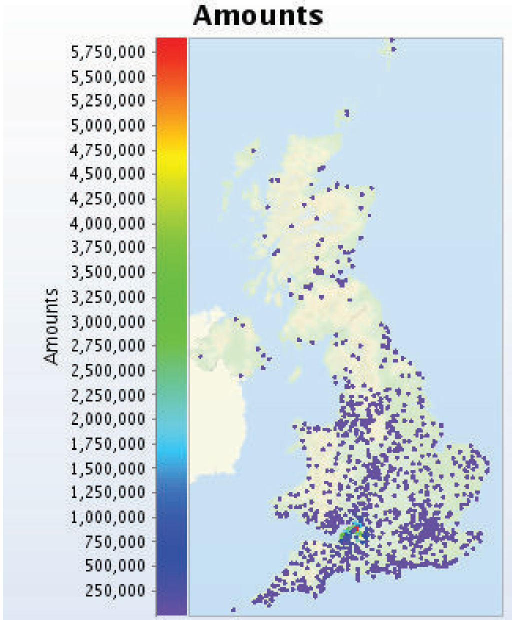
+

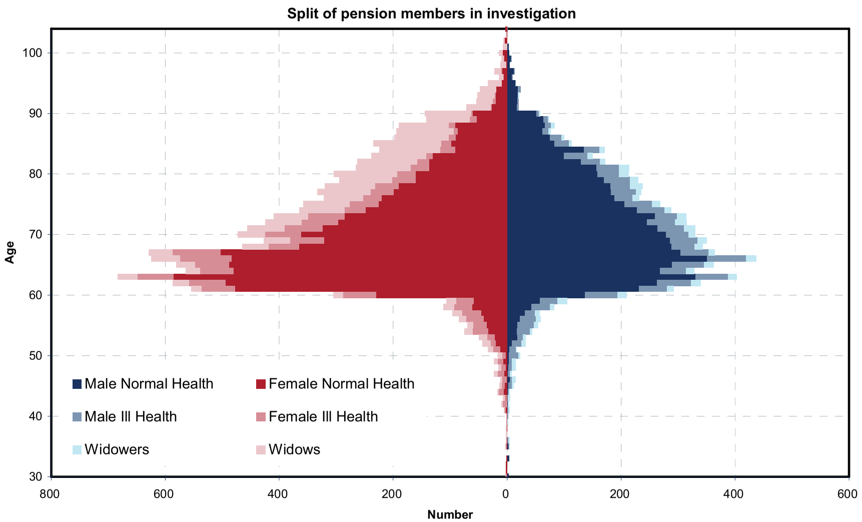
Prudence

Life Expectancy Assumptions

Scheme specific analysis: postcode profiling and Longevitas modelling

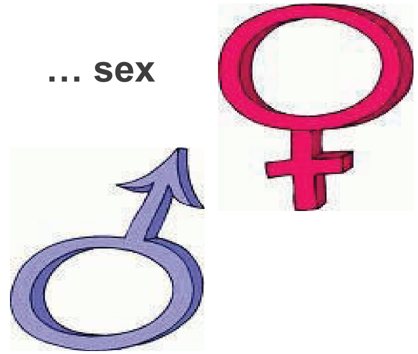
By location …



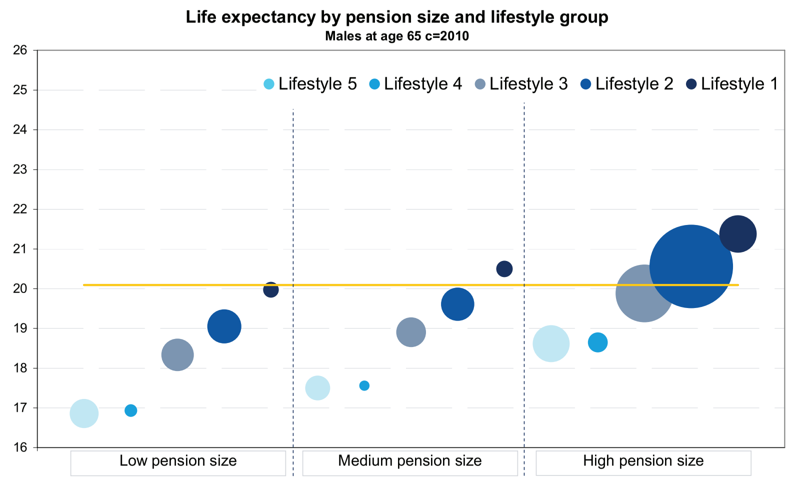


… age and membership type

… sex



… pension size and lifestyle group

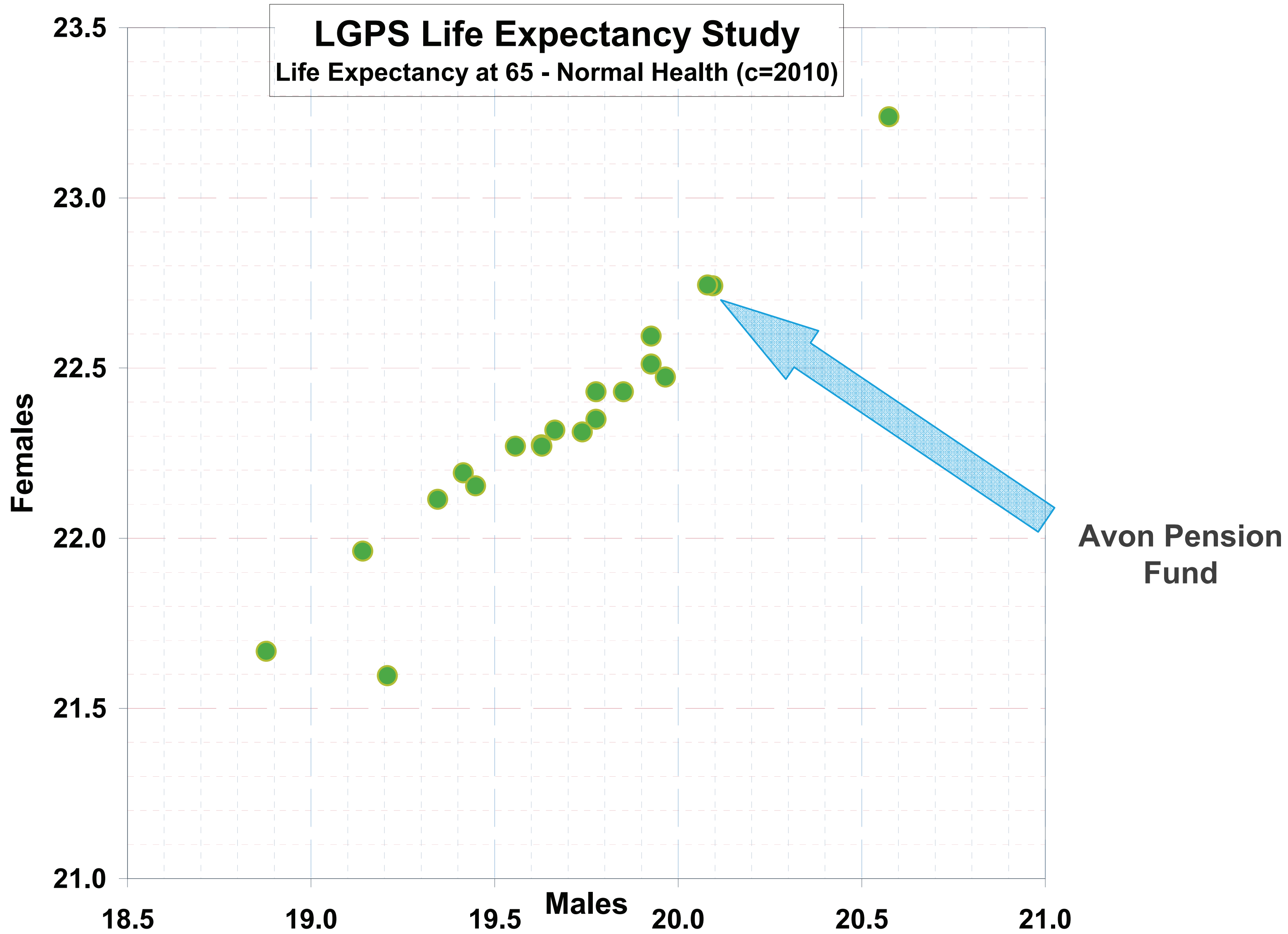


Individual members' postcodes can be used to build up a demographic profile of a scheme, at a street by street level, weighted by individual member liabilities. An affordable and objective method of setting mortality assumptions for small and medium sized schemes.

Longevitas, for larger schemes, uses a scheme's own membership data with statistical techniques to build a detailed and bespoke model of its mortality characteristics.

Sources include: Experian, Longevitas

Life Expectancy Assumptions
Mortality benchmarking results



2007 Actuarial valuation whole fund results
Recap

	31 March 2007
Assets	£2,184m
Liabilities	£2,643m
Deficit	£459m
Funding level	83%
Future service contribution rate	11.7%
Deficit recovery rate (over 20 years)	4.9%
Total average contribution rate	16.6%

2010 whole fund results

Includes inflation adjustment, short term pay freeze and revised demographic assumptions

	31 March 2010
Assets	£2,459m
Liabilities	£3,011m
Deficit	£552m
Funding level	82%

Future service contribution rate	11.8%
Deficit recovery rate (over 20 years)	5.4%* or £34m p.a. increasing
Total average contribution rate	17.2%*

*based on payroll which is assumed to increase at 4.5% pa

Past service funding position

Progression of the Fund's deficit since the 2007 valuation

	£m
Deficit at 31 March 2007	-459
Investment return vs. assumption	-303
Change in "real" yields	-97
Change to inflation	+161
Allowance for short term pay effects	+76
Demographic assumption changes	-32
Other factors (including deficit contributions)	+102
Deficit at 31 March 2010	-552

Different objectives for different employers

Scheduled bodies

Designating bodies

Admitted bodies

-Community of interest
-Transferee

Tax-raising authorities/public funded bodies/shareholder-owned companies/charities

Bodies with guarantors and/or other contingent security

Grouped Bodies

Employers have different characteristics

Funding Strategy Statement
Key Differences

- **Recovery Period**
  - **Maximum Deficit Recovery Periods**
  - **Shorter periods may apply at the discretion of the Administering Authority**

Proposed Deficit Recovery Periods

Employer category	Underpin	Maximum
Scheduled and Designating bodies*	Period which gives parity	30 years
Community Admission Bodies (with guarantor)	Period which gives parity	30 years (subject to agreement with guarantor)
Community Admission Bodies (with no guarantor)	Individually determined	Individually determined
Transferee admission bodies	In line with periods agreed with relevant Scheme employer	

* with exceptions

Deficit Recovery Approach

- Historically, for most Fund employers, the Fund has expressed the additional contributions as an addition to the employer’s contribution rate (as a percentage of pensionable pay which was expected to growth in the future at a fairly stable rate).
- Uncertainty exists in the short to medium term regarding staffing levels and total payroll growth.
- Intention is to collect deficit recovery contributions as indexed £s amounts.
- Provides more **certainty** and **stability** to the Fund and Employers over the deficit recovery plan
- Also provide greater **transparency** (regarding the ongoing cost of pension provision and therefore savings from any staff reductions).

Any questions?

MERCER

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MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Avon Pension Fund

Life expectancy and other demographic assumptions

Summary Report

September 2010

Summary

Executive Summary – cost/saving impacts

Future changes in life expectancy

In the UK, life expectancy has increased from year to year for a long period of time, with higher improvements being seen over the last 25 years, particularly for men.

Baseline life expectancy – key results comparison with 2007 valuation assumptions

- Males – no change in life expectancy for normal health members.
- Females – reduction in life expectancy for normal health members. The change at age 65 is a reduction of around 0.2 years.
- An increase in life expectancy for ill health retirees and a reduction in life expectancy of dependant members.
- Liabilities broadly unchanged due to baseline life expectancy.

Allowance for future improvements from revised baseline assumption

We recommend increasing the allowance for improvements in the longer term and at the same time adopting new projection methods released by the CMI. The financial effect of this is an increase of around 5% on past service liabilities. The combined effects of the changes to life expectancy are to increase the value of past service liabilities by around 5% and increase the future service contribution rate by around 0.9% of pay.

Dependants and ill health retirement assumptions

The analyses show that there is justification for modifying the assumptions adopted at the 2007 valuation. The impact of making the recommended changes to the assumptions for both dependants' benefits and ill health retirements would be for a reduction, on average, in the future service contribution rate by approximately 1.0% of pay and a reduction of approximately 2.5% of past service liabilities.

Overall Impact of changes to Demographic Assumptions

- An increase of 2.5% on past service liabilities
- A saving of 0.1% p.a. of pay on future service contribution rate

Benchmarking

Section 2 of the report shows the range of outcomes in terms of baseline life expectancy for all the LGPS Funds included in the study. It shows that the Avon Fund life expectancy is towards the higher end of the spectrum of outcomes.

Contents

Page

Appendices

This summary report is addressed to the Administering Authority of the Avon Pension Fund ("the Fund") for the purpose of setting appropriate life expectancy and other demographic assumptions for the 2010 actuarial valuation:

- *The report and its observations and conclusions are based on scheme information and data provided by third parties. No representation or warranty, express or implied, is made or given by Mercer as to the accuracy or completeness of the information obtained from non-Mercer sources. Whilst reasonable attempts have been made by Mercer to ensure that the information and data has been obtained from reliable and up-to-date sources, Mercer has not conducted any verification as to whether the information and data from third party sources is true, accurate or complete. Mercer accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information.*

- *Mercer does not owe a duty of care or any other liability to any third party in respect of this Report, nor does Mercer accept liability to the Administering Authority if the report is used for any purpose other than that stated.*

1

Results and Recommendations

Introduction

1.1 The figures in this report relate to the Fund as a whole and the impact on individual employers may well vary from the Fund-wide position.

1.2 The life expectancy study focussed on the experience of retired members. Consequently, we do not recommend applying the results of the study to members during the period prior to retirement. Therefore, for active and deferred members, we have retained the same level of prudence for pre-retirement life expectancy as was adopted at the 2007 valuation.

Choosing a life expectancy table

1.3 The table currently used by the Fund is based on the experience data from UK life insurance companies in the early 1990s. Since the Fund's last valuation, new tables have been released from an academic study carried out into the life expectancy of members of a large number of UK occupational pension schemes (the SAPS study). The actuarial tables resulting from the study are not only the most up-to-date tables available for general use in the UK but are also the most relevant for the Fund given that they are based on the experience of beneficiaries of UK occupational pension schemes.

1.4 We recommend that you adopt these new SAPS tables as the basis of your baseline life expectancy assumption. The names of the table which you will see in formal documents are:

- For female dependants - the S1DFA table – based on the experience of female dependants
- For all other members – the S1PMA or S1PFA tables based on the experience of male and female normal retirements respectively.

Full details are set out in the Appendix.

Adjusting the table for the Fund beneficiaries' characteristics

1.5 We have carried out a study of our LGPS clients' beneficiaries' life expectancy. By analysing the data in aggregate for a number of clients, we were able to consider a large set of data, which increases the reliability and credibility of our findings. The study observed over 1.5 million years of life which is broadly similar to the data set used as the basis for the PA92 table that you currently use. The study considered how the life expectancy of LGPS beneficiaries varied by the characteristics of the schemes' beneficiaries.

1.6 A number of academic studies have demonstrated that a beneficiary's age, gender, wealth and lifestyle collectively go a long way to explaining variations in life expectancy. Beneficiaries' postcodes are used to capture the "lifestyle" factors.

1.7 These factors are used to sort the beneficiaries into notional groups with similar characteristics. Equating the Fund beneficiaries in each group to pensioners with the same characteristics in the wider LGPS study gives a credible estimate of the life expectancy of the Fund's beneficiaries.

Results

1.8 Figure 1 shows the assumption in a number of ways:

- The average life expectancy at age 65;
- How the assumption compares to the Fund's existing life expectancy assumption at age 65.
- The impact on the Fund's liabilities

Remember that these measures are before considering future changes in life expectancy.

Figure 1: Pensioners - baseline life expectancy	**Life expectancy at 65 in 2010**	**Difference to existing assumption***	**Approximate liability impact**
Males normal health	**20.1**	**0.0**	Liabilities broadly unchanged
Female normal health	**22.7**	**-0.2**	
Males ill health	**17.6**	**+1.7**	
Female ill health	**20.2**	**+1.5**	
Male dependants	**18.7**	**-1.4**	
Female dependants	**22.1**	**-0.8**	

*The results shown above are illustrated as life expectancies at age 65. The life expectancies used for the 2010 valuation will be taken from a full actuarial table and the impact will vary with age.

The life expectancies and liability impact are before considering future changes in life expectancy which are discussed below.

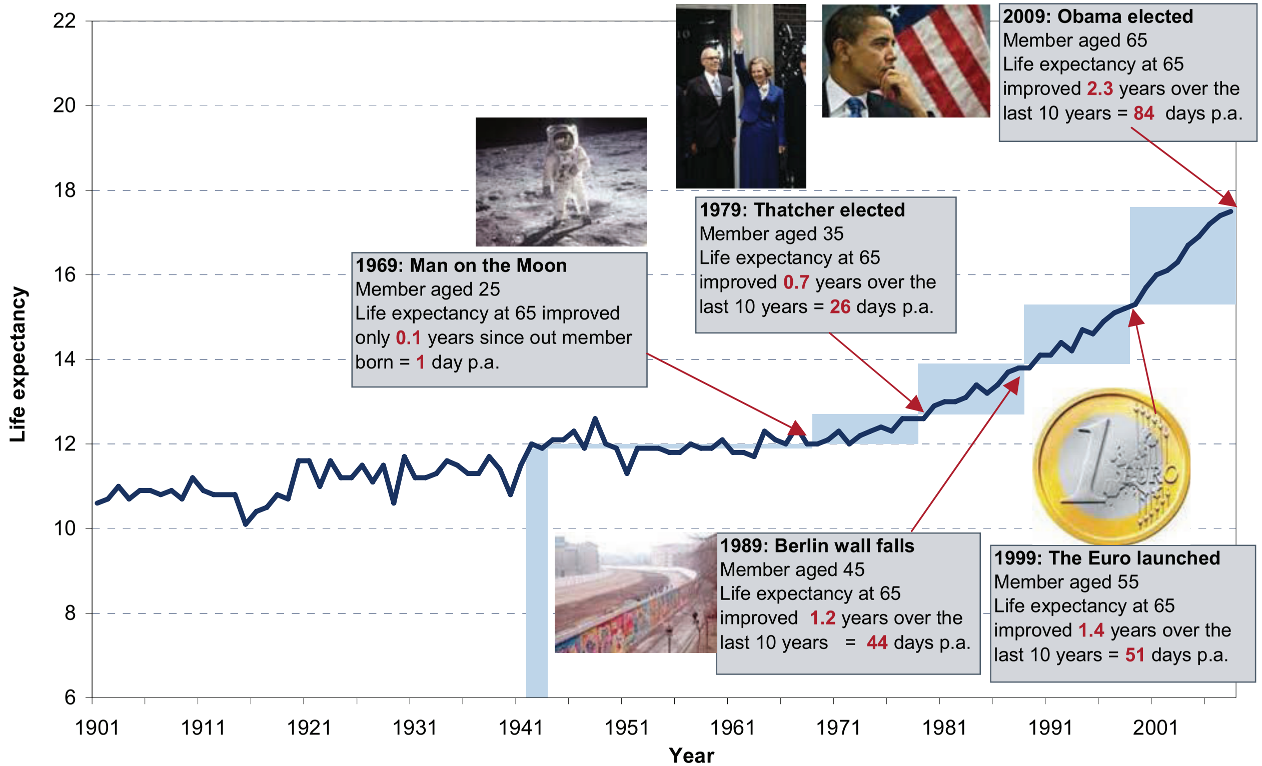
Future changes

1.9 Increases over time in actual lifetimes are not new – they have been observed across the UK population for over a hundred years and a large volume of data and many studies exist for both the UK and internationally.

1.10 Figure 2 shows life expectancy at age 65 for males, based on an average for the UK in general, and highlights the acceleration in increases in life expectancy in recent years.

1.11 All available data relates to past increases in life expectancy only. Based on this information, you need to estimate future changes in life expectancy.

Figure 2: Male UK life expectancy since 1901



The above chart shows the increase in average UK male life expectancy at age 65 (dark blue line), allowing only for improvements up to the year in question. The paler blue boxes illustrate how life expectancy has increased in recent years for a male aged 65 in 2009. The key observations are that:

- For much of the 1940s, 1950s and 1960s, increases in life expectancy were gradual, improving at an average of 1 day per year

- Since 1969, increases in life expectancy have been higher in each decade, with each decade showing successively higher increases than the previous one.
- Over the last forty years, life expectancy has increased by 5.6 years. This represents an increase of nearly 50% on the life expectancy of a male aged 65 forty years ago.

A new way to estimate future changes in life expectancy

1.12 In late 2009, the Continuous Mortality Investigation (the "CMI", a body established by the UK actuarial profession to carry out research into life expectancy) released a new methodology for estimating future changes in life expectancy. This new methodology replaces the Cohort Projections.

1.13 Figure 3 considers three alternative scenarios for the long-term change in life expectancy based on the CMI methodology, plus the Fund's existing assumption. Set out in the table are life expectancies from age 65 for normal health pensioners for both a member aged 65 now and a member currently aged 45. The figures under the future improvement scenarios represent the improvements in addition to the proposed baseline life expectancy in the first row. In addition, the approximate impact on the Fund's liabilities is shown.

Figure 3:	**What it corresponds to in terms of past observations**	**Life expectancy at 65, aged 65 now)**		**Life expectancy at 65, aged 45 now**		**Overall liability impact**
		Male	Female	Male	Female	
New baseline:	Changing the baseline as per section 1. No further changes beyond the current date. Other scenarios below adopt the new proposed baseline.	85.1	87.7	85.1	87.7	n/a
Existing future	The Fund's current assumption of Medium Cohort	*+1.1*	*+1.2*	*+2.1*	*+2.1*	Reference point

Figure 3:	What it corresponds to in terms of past observations	Life expectancy at 65, aged 65 now)		Life expectancy at 65, aged 45 now		Overall liability impact
		Male	Female	Male	Female	
Scenario 1: CMI model with 1% p.a. long term	Broadly equivalent to past increases observed over the last 100 years. Short-term increases continue at recently observed levels in the short term (around 70 days per year over the last 20 years), but falling to around 25 days per year as an individual currently aged 45 turns 65.	+1.9	+1.9	+3.3	+3.5	+2%
Scenario 2: CMI model with 1.5% pa long term	Slightly above the last 50 years' average. Short-term increases continue at recently observed levels but fall to around 35 days per year as an individual currently aged 45 turns 65.	+2.4	+2.5	+4.7	+5.0	+5%
Scenario 3: CMI model with 2% pa long term	Broadly equivalent the last 25 years' average. The trend continues close to the last 25 years' average with increases of around 50 days per year as an individual currently aged 45 turns 65.	+3.0	+3.2	+6.2	+6.5	+7%

Conclusion

1.14 Changes to life expectancy can only ever be known with certainty with the benefit of hindsight. The long-term value for change in life expectancy is inherently more subjective than the baseline life expectancy and we recognise that there is a range of assumptions for the long-term value which could be considered reasonable.

1.15 Scenarios 1 and 2 set out in **Figure 3** above represent increases in life expectancy observed in the UK over prolonged periods of time. Scenario 3 represents a scenario broadly in line with improvements for males over the last 25 years, however part of the increases over this period are explained by the Cohort Effect.

Recommendation

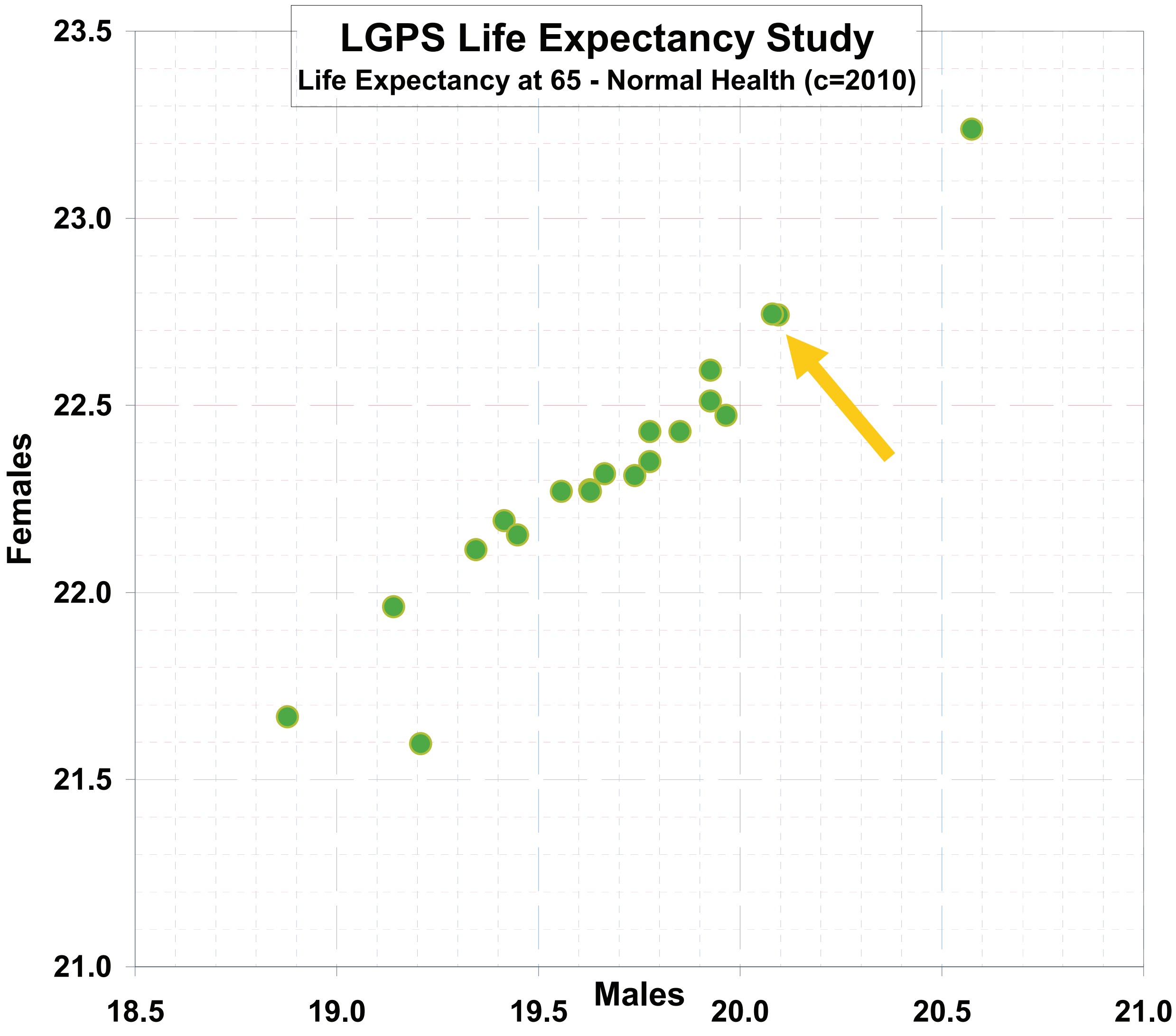
- We recommend that the Fund adopts the CMI methodology with long term improvements of 1.5% p.a. (i.e. scenario 2 under section 1.13) in determining assumptions for future changes to life expectancy.
- This builds in a long term improvement over the baseline table in life expectancy, from age 65, of 2.4 years for a male member currently aged 65 and 4.7 years for a male member currently aged 45. This is consistent with historical evidence from the last 50 years which we have assumed applies to the Fund's beneficiaries as described earlier.
- The minimum future improvement rate of 1.5% p.a. gives an additional reserve against adverse experience (and therefore a higher probability that the assets will be sufficient to meet the required benefits).
- The formal names of the actuarial tables are set out in Appendix A.
- The combined effects of the changes to life expectancy are to increase the value of past service liabilities by around 5% and increase the future service contribution rate by around 0.9% of pay.

2

Benchmarking

2.1 A range of life expectancies across LGPS Funds emerges from this exercise. This is summarised in the following chart, with your Fund indicated by the arrow.

2.2 This shows current life expectancies (before future improvements) ranging from 83.8 years to 85.7 years for males, and from 86.5 years to 88.2 years for females.


LGPS Life Expectancy Study
Life Expectancy at 65 - Normal Health (c=2010)
Females
23.5
23.0
22.5
22.0
21.5
21.0
Males
18.5
19.0
19.5
20.0
20.5
21.0

3

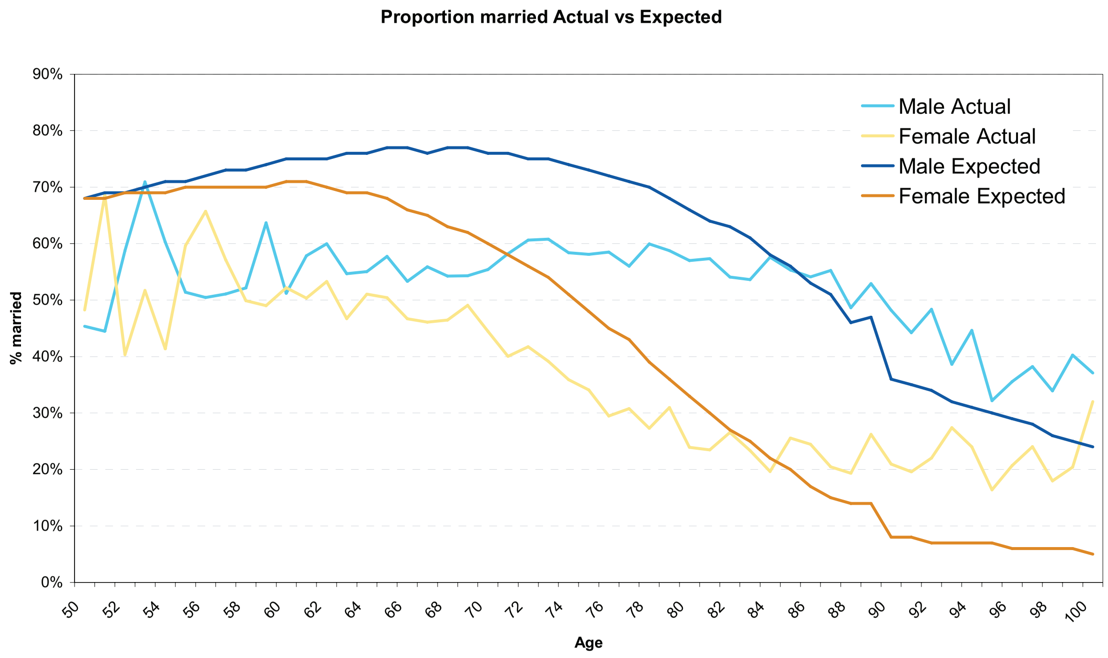
Dependants and Ill health assumptions

Dependant's assumptions

3.1 We have carried out a study of our LGPS clients' data, analysing the proportion of pensioner deaths that resulted in a contingent pension becoming payable. By analysing the data in aggregate for a number of clients, we were able to consider a large set of data, which increases the reliability and credibility of our findings. Our study considered approximately 65,000 deceased pensioners from 20 different LGPS Funds, covering a period of almost 10 years.

3.2 The Office for National Statistics (ONS) publishes marriage statistics and we can also look to this data when setting the assumption. Figure 4 shows the ONS 2008 figures for proportions married together with the aggregate experience. These recent tables provide a better fit to the experience data than the current assumption although the actual experience is below that implied by the ONS tables up to ages 80-85 after which point the experience data is generally above the ONS tables.

Figure 4



Recommendation

- We propose that the "proportion married" assumption be revised to 85% of the ONS 2008 tables, subject to a minimum level of 25% married for females and 45% married for males.
- The impact of adopting this recommendation would be to reduce the accrued past service liabilities of the Fund by approximately 2.5%. Additionally, the future service contribution rate would be reduced by approximately 0.4% of pay.

Ill health retirement

3.3 We have carried out a study of our LGPS clients' data, analysing the incidence of ill health retirements since the new eligibility criteria and benefit structure came into force. By analysing the data in aggregate for a number of clients, we were able to consider a large set of data, which increases the reliability and credibility of our findings. Our ill health retirement study considered approximately 570,000 active members from 20 different LGPS Funds, covering the period since 1 October 2008 (the date the previous benefit structure "underpin" expired).

3.4 The analysis of the aggregate database shows that during the period of examination, the proportion of ill health early retirements falling into each, split by males and females, were as set out below:

	Tier 1	Tier 2	Tier 3
Males	72%	9%	19%
Females	73%	14%	13%

3.5 The results above show that the large majority of ill health early retirements occurring under the post April 2008 structure are being classed within tier 1 and therefore qualify for the greatest enhancement. Having said that, compared to the pre April 2008 structure, the numbers of ill health retirements have fallen substantially (largely due to the stricter eligibility criteria) and so to consider the full cost implications, both effects need to be considered simultaneously.

Recommendation

- Our recommendation is to revise the 2010 valuation assumption adopted in conjunction with the wider study, based on the aggregate database results, rather than attempting to create a Fund-specific assumption at this stage. This assumption should be kept under review at subsequent valuations to ensure the underlying assumption adopted remains appropriate.
- The impact of revising the assumption **and** building in an allowance for the enhancements applicable under each tier would be for a reduction in the future service contribution rate by approximately 0.6% of pay. There is no material impact on past service liabilities.

Appendix A

Results expressed as adjustments to a standard actuarial table

The name of the table which you will see in formal documents and the adjustments are set out in the table below.

The CMI_2009 represents the CMI model released in 2009 with a long-term rate of improvement in mortality rates of 1.5% p.a..

The formal table names and adjustments are set out in figure A1 below:

	Table	Adjustment
Males normal health pensioners	S1PMA CMI_2009_M [1.5%]	97%
Female normal health pensioners	S1PFA CMI_2009_F [1.5%]	90%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1.5%]	117%
Female dependants	S1DFA CMI_2009_F [1.5%]	99%
Male future dependants	S1PMA CMI_2009_M [1.5%]	102%
Female future dependants	S1DFA CMI_2009_F [1.5%]	94%

An **age rating** applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

For example, a “+1 year” rating would mean beneficiaries are assumed to have the mortality of someone one year their senior which has the effect of reducing their life expectancy and hence reducing the assessed value of the corresponding liabilities.

A **weighting** applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy.

For example, a “106%” weighting would mean beneficiaries have mortality rates 6% higher than the unadjusted table which reduces the assessed value of the corresponding liabilities.

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MMC MARSH MERCER KROLL
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Mercer Limited
Mercury Court, Tithebarn Street
Liverpool L2 2QH
0151 236 9771

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2011**	**AGENDA ITEM NUMBER**
TITLE:	**HEDGE FUND REVIEW**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary of Investment Panel meetings with Hedge Fund Managers Exempt Appendix 2 – Strategic Report on hedge fund portfolio		

1 THE ISSUE

1.1 Following the review of the Strategic Investment Strategy in June 2009, it was agreed that a formal review of the Fund’s investment in hedge funds be undertaken in 2010/11 once the mandates had been in place for three years.

1.2 A review of the operational and investment performance of the current fund of hedge fund managers was undertaken by the Fund’s investment consultant JLT, and the Investment Panel. This was followed by a Committee workshop on 2 March 2011 where the strategic allocation to hedge funds and each manager was reviewed.

1.3 The outcome of the review and the review process is summarised below and the Committee are requested to agree the recommendations concluded by the review.

2 RECOMMENDATION

2.1 **That the Committee agrees the following recommendations following the review of the Fund’s hedge fund investments:**

(i) The allocations between Fund of Hedge Fund (FoHF) managers should be amended as set out in paragraph 5.5 (3)

(ii) The hedge fund investments should be reviewed in 3 years time

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for the investment advice required for this review.

4 REVIEW OF HEDGE FUND INVESTMENTS - PROCESS

4.1 This review of the Fund's hedge fund investments began in Q4 2010 and has consisted of:

(1) **Review of the managers by the Investment Panel**

Review performance of the FoHF managers including 3 year investment performance, operational performance, exposure to underlying investment strategies, changes introduced to investment and operational process since 2008/09 by the Investment Panel (supported by investment consultant).

The Panel met with each of the managers between November 2010 and January 2011 and a summary of their conclusions from these meetings can be found in Exempt Appendix 1. In addition, a background report on each of the managers was prepared by JLT prior to the meetings.

(2) **Review of regulation changes and potential impact on investment opportunities**

The Fund commissioned expert legal advice from Osborne Clarke to assess the known regulation framework and potential regulatory changes and to evaluate the opportunities and threats posed to the Fund's hedge fund portfolio and strategy. This was reviewed by Officers and JLT and incorporated by JLT into the strategic review (see (3) below).

(3) **Strategic Review by the Investment Consultant**

JLT have prepared a Strategic report on the Hedge Fund Portfolio (see Exempt Appendix 2), including applying the conclusions from the report on regulatory changes to the hedge fund portfolio. The Strategic Report considered the following:

(i) Is a strategic allocation to hedge funds still appropriate?

(ii) Does the 10% strategic allocation remain appropriate?

(iii) Will the allocation between strategies meet the objectives?

(iv)Taking into account the review of operational and investment performance, is the allocation between managers still appropriate?

(4) **Committee workshop on 2 March 2011 to review the hedge fund portfolio**

The workshop brought together 1-3 above, with the Committee debating the Strategic Report and the Panel's conclusions about the managers' performance and drawing conclusions to be taken to the March Committee meeting.

4.2 The conclusions from the committee workshop are set out below in section 5.

5 REVIEW OF HEDGE FUND INVESTMENTS – CONCLUSIONS

5.1 The Conclusions from the workshop were as follows:

5.2 **An allocation to Hedge Funds is still appropriate**

(1) The hedge fund investments has achieved the reduced volatility, diversification and capital preservation objectives, but has not achieved the performance targets over the period since inception. The Workshop recognised the exceptional investment environment during the period under review and the impact this had upon performance across all asset returns. Furthermore, the Committee concluded that the short term performance did not indicate that the long term performance target could not be achieved going forward.

(2) The impact of the new regulatory framework should strengthen investor protection and improve transparency of hedge funds. It was also acknowledged that the Fund's current managers already comply with the new framework to a significant degree.

(3) The allocation to hedge funds has brought diversification benefits to the overall Fund in terms of lower volatility of return and the Workshop concluded that an allocation to hedge funds is still appropriate.

5.3 **A 10 % allocation to Hedge Funds is still appropriate**

(1) The Workshop concluded that there were no reasons to alter the current 10% allocation. There was no justification for an increase in the allocation at this time and it was recognised that a meaningful reduction in the allocation would undermine the original objectives. The Committee concluded that it was too short a timeframe since inception upon which to make a decision to change the strategic allocation. It was recommended that this be reviewed again in 3 years time.

5.4 **The allocation between strategies remains appropriate**

(1) The FoHF managers have actively allocated between strategies and this added value to the Fund.

(2) The Workshop considered the risk from the leverage implicit within the various strategies employed by the underlying managers and identified that another dislocation in financial markets could have a greater negative impact on those strategies more reliant upon leverage. This issue was carried forward for consideration when discussing the allocation to the individual managers.

(3) The Workshop concluded that the allocation between strategies was appropriate to meet the objectives. It was noted that any change in allocation between managers would affect the allocation between strategies and this was also carried forward for consideration when discussing the allocation to the individual managers.

5.5 **The allocation between managers should be amended**

(1) Broad conclusions from the Investment Panel's review of the 5 FoHF managers identified a number of potential changes to the allocations to the

managers. Based on information that became available subsequent to the Panel's review, JLT added a recommendation that the allocation to Lyster Watson be redeemed.

(2) The Workshop discussed each manager and drew the following conclusions:

(i) Man's allocation should be reduced as there was no longer justification for maintaining the higher allocation within the portfolio given the organisation was undergoing significant change and the underlying portfolio is highly diversified which could dilute the potential returns.

(ii) Lyster Watson's allocation should be redeemed. This was based on the current small allocation which the Committee were not minded to increase, the need for the Fund to internally hedge the portfolio and as a US based manager with limited EU clients, there is a greater risk in complying with the proposed EU based regulations.

(iii) The allocation to Signet and Stenham should be increased, reflecting their ability to deliver return and volatility targets and their more focused investment strategies.

(iv) Gottex's allocation should remain unchanged. The Committee has concerns over the level of leverage employed by market neutral strategies. It was noted that Gottex has reduced the amount of leverage across the fund, but was agreed that the amount of leverage and the associated risks should be monitored by Officers.

(3) The Workshop concluded that the allocation between managers should be amended as follows:

(i) Reduce Man's share of the portfolio from 45% to 30%

(ii) Reduce Lyster Watson's share of the portfolio from 5% to zero.

(iii) Increase Signet's share of the portfolio from 20% to 30%,

(iv) Increase Stenham's share of the portfolio from 5% to 15%.

Note that the allocation Gottex remains unchanged.

5.6 It was agreed that these changes be implemented as soon as practical.

5.7 In coming to the conclusions on each manager's allocation, the effect of the proposed changes on the expected performance and volatility in aggregate across all managers was discussed and it was noted that although expectations of return and volatility would be dampened slightly, the revisions were still in line with the original targets for performance and volatility. The impact upon the underlying diversification by strategy was also considered and it was concluded that the portfolio would remain well-diversified by both strategy and FoHF manager.

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 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues being considered 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	Current Developments in hedge fund regulation – Osborne Clarke, January 2011 Background report on hedge fund managers – JLT, November 2010

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-004

Meeting / Decision: Avon Pension Fund Committee
Date: 18 March 2011

Author: Liz Feinstein
Report Title: Hedge Fund Review Exempt Appendix Title: Appendix 1 - Summary Of Investment Panel Meetings With Hedge Fund Managers Appendix 2 – Strategic Report On Hedge Fund Portfolio

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 appendix contains the observations and opinions of an external consultant about the expected and actual performance of investment managers. It also contains details of the investment processes/strategies of the investment managers.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interest's of the investment managers.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the outcome of the report has been made available on these issues – by way of the main report.

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

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2011**	**AGENDA ITEM NUMBER**
TITLE:	**REVISED STATEMENT OF INVESTMENT PRINCIPLES & MYNERS ACTION PLAN**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Statement of Investment Principles (SIP) Appendices 2 - 5 – Appendices 1-4 to the SIP: Manager Statements on their SRI Principles Appendix 6 – Appendix 5 to SIP: Compliance with Myners Principles Appendix 7 – Self Assessment Questionnaire – Summary of responses Appendix 8 – CIPFA Knowledge & Skills Framework Appendix 9 - Proposed Training Programme		

1 THE ISSUE

1.1 This report asks the Committee to approve the Fund's revised Statement of Investment Principles (SIP), note the results of the Committee's self assessment of the effectiveness of their decision-making process and approve the proposed training framework for the Committee.

1.2 The SIP (including the Fund's compliance with the Myners Principles) was last approved on 26 March 2010. The main developments since then are listed in section 5.1 of this report.

1.3 The Fund's compliance with the Myners Principles, which forms part of the SIP, was also reviewed in March 2010. This identified areas where compliance could be strengthened and an action plan was agreed. The progress made on this action plan and recommendations are discussed in section 6 of this report.

2 RECOMMENDATION

That the Committee:

2.1 **Approves the revised Statement of Investment Principles**

2.2 **Notes the actions identified by the self-assessment of the decision making process**

2.3 **Approves the Committee's training programme**

3 FINANCIAL IMPLICATIONS

3.1 The 2011/12 budget provides for the training programme.

4 BACKGROUND AND LEGAL FRAMEWORK

4.1 The requirement to produce a Statement of Investment Principles is set out in the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009. These regulations provide that "the written statement must be revised by the administering authority in accordance with any material change in their policy … and published".

4.2 As part of the SIP, administering authorities are required to state how they comply with the Myners Principles and explain where they do not comply.

5 REVISIONS TO THE SIP

5.1 The SIP was last revised in March 2010. Since then the main developments have been:

(1) An decrease in the allocation to UK equities and an increase in the allocation to overseas equities (para.2 of SIP)

(2) The appointment of Schroders Investment Management to manage the global equities portfolio (para. 10 of SIP)

(3) The adoption of the FRC UK Stewardship Code (para. 22 of SIP)

(4) The appointment of Manifest to monitor the Fund's voting activity (para. 23 of SIP)

5.2 The revised SIP can be found in Appendices 1-6.

5.3 **The Committee is asked to approve the revised SIP**.

6 MYNERS PRINCIPLES ACTION PLAN

6.1 In March 2010 the Committee concluded that the Fund's compliance with the Myners Principles for Effective Decision-making would be strengthened if the following actions were undertaken:-

(i) a self assessment by the Committee of the decision–making process, and

(ii) the development of a training framework for Committee members.

The conclusions from the self-assessment and the proposed training framework are discussed in detail below.

Self Assessment of the Effectiveness of Decision-Making Process

6.2 The Committee members were asked to respond to a questionnaire about the Fund's governance and decision-making processes. The questionnaire covered the following areas:

(1) Committee Terms of Reference
(2) The Governance Structure
(3) Committee meetings
(4) Committee Knowledge and Skills
(5) The Investment Panel

(6) The decision-making process
(7) The member's role

6.3 A summary of the responses is attached as Appendix 7. Each question has been awarded a RAG (red/amber/green) score depending on the majority response and comments made.

6.4 **The assessment overall suggested that members have confidence in the decision-making process in that it enables the Committee to discharge its responsibilities. However, it identified a number of areas where the process could be improved as follows:**

(1) Scheduling of strategic policy reports on the Committee agenda

Action: Routine reports to be at end of agenda. Strategic reports must record process and work undertaken to come to recommendation/decision – already actioned.

(2) The introduction of the Investment Panel has improved the quality of investment decisions but the Committee rely on the Panel meeting minutes to understand how the Panel reached their recommendations/conclusions

Action: Officers must ensure Panel minutes fully reflect the process and scope of the Panel's deliberations. The Chair of the Panel to summarise the recommendations at Committee meetings – already actioned.

(3) Members will have varying requirements for training

Action: develop programme of ongoing training for Committee

(4) The Committee use expert advice effectively but given complexity of issues reviewed, need to ensure adequate training provided

Action: Through training programme and Committee workshops ensure the Committee can understand and challenge advice effectively

6.5 The Committee are asked to note the conclusions and action points arising from the self assessment exercise.

Proposed Training Framework

6.6 In recent years the level of skills, knowledge and experience expected of those responsible for decision-making in LGPS funds has increased significantly. This is demonstrated in the training requirements set down in the Myners Principles and also in the pressure for elected members to keep on top of an ever-changing and more complex world of investments.

6.7 The Myners Principles of good investment practice raise a number of issues about the level of governance required for pension funds, both private and public sector. The LGPS regulations require LGPS funds to explain how they measure up to each principle (as part of their Statement of Investment Principles).

6.8 The self assessment by the Committee of the decision-making process discussed above also identified the need for more ongoing training, especially on investment issues.

6.9 The first Myners principle is on effective decision-making and it has been identified by the CLG and CIPFA Pensions Panel that in the absence of any definition of what knowledge and skills are required to carry out the elected member role within a Pensions Committee, it is difficult to identify any gaps in knowledge and assess whether training is appropriate and effective. In order to develop the right skill set for both Committee members and officers, CIPFA has developed and technical "Knowledge and Skills Framework". This tool can be used to by pension funds to determine whether they have the right skills mix to discharge their responsibilities. The areas identified in the CIPFA framework are set out in Appendix 8.

6.10 **The Fund intends to use this CIPFA framework as the basis for its training programme, by delivering training on areas within the framework on a periodic basis. This should supplement the existing training opportunities provided by the Fund, namely the LGPC Fundamental Training Course (and refresher courses as arranged) that all elected members and investment officers are required to attend, LGPS seminars and conferences, and Committee workshops covering specific investment issues relating to the Committee agenda. The aim will be to ensure any training is relevant to the committee members and agenda.**

6.11 **The proposed training programme will be delivered on the day of Committee meetings at least twice a year. Each training session will include an educational session on a topic(s) identified in the CIPFA framework. In addition, there will be a session relating to investment markets in terms of the market outlook or a particular asset class. External managers and advisors will be asked to present training sessions, in addition to officers.**

6.12 **Officers and Committee will agree a rolling 2 year training programme at the beginning of each year. The proposed programme for 2011 & 2012 is set out in Appendix 9. For completeness, Committee workshops are included.**

6.13 The Framework will also be used to assess the knowledge and skills of the Fund's officers in aggregate, identifying any gaps and input any training requirements into personal development programmes.

6.14 Whilst the CIPFA framework guidance is not mandatory, future consideration may be given to elevating the guidance to a formal CIPFA code of practice by the CLG. However, as a demonstration of good practice CIPFA recommends that Fund's include a disclosure in their annual report (from 2010/11) that covers how the framework has been applied and what training has been delivered as a minimum.

6.15 The Committee is asked to approve the training programme for 2011/12.

7 RISK MANAGEMENT

7.1 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.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are detailed in the report.

11 ADVICE SOUGHT

11.1 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	CIPFA Knowledge & Skills Framework – Technical Guidance

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Appendix 1

AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Types of Investment Held

1. Fund monies are invested in equities (both United Kingdom and overseas), index-linked and fixed interest stocks, Fund of Hedge Funds and property. Some of these investments are in segregated portfolios but the majority are now in pooled funds. In addition the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds.

Asset Allocation and Expected Long Term Returns on Investment

2. The Avon Pension Fund Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile. In 2005/06 the Avon Pension Fund Committee conducted a fundamental review of the investment strategy which resulted in diversifying some of the Fund's assets into property and hedge funds. In 2009 the Committee reviewed this strategy and concluded that the current asset allocation was appropriate but highlighted areas where the Fund may be able to enhance returns without significantly increasing risk. In particular, the Fund was advised to reduce its allocation to UK equities and increase its allocation to overseas equities. In 2010 following an assessment of sector and stock concentration risk within the UK FTSE All Share Index, the benchmark for the passively managed UK equity portfolio, the allocation to passively managed UK equities was reduced further and the monies allocated to global equities.

3. The current customised benchmark for the Fund, along with assumptions on expected return and volatility of each asset class, is:

Asset Class	% of Fund	Expected Return (long term, p.a.)	Expected Volatility (p.a.)
UK Equities	18%	8.4%	15% - 20%
Overseas Equities	42%	8.4%	15% - 20%
Index-Linked Gilts	6%	5.1%	5% - 10%
Fixed Coupon Gilts	6%	4.7%	5% - 10%
UK Corporate Bonds	5%	5.6%	5% - 10%
Overseas Fixed Interest	3%	5.6%	10% - 15%
Fund of Hedge Funds	10%	6.6%	6% -15%
Property	10%	7.4%	5% -10%

The inclusion of property and hedge funds in the asset allocation strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. The reduction in volatility results from property and hedge funds having a lower correlation to both bond and equity returns over the long term. Using JLT Actuaries and Consultants Limited's long term risk and return expectations for each asset class as at 2009, the expected overall return for the current Fund structure is equivalent to long-dated gilts +2.8% and the expected volatility (of the returns relative to liabilities) is 10.2%.

4. The expected returns set out in the table are consistent with the asset out-performance objective used by the Fund's actuary in the triennial valuation.

5. Although the Fund has a customised benchmark, there is some scope for the expected returns set out in the table to be exceeded through the performance of the active managers (see paragraph 9 below).

6. In 2004 the Committee considered private equity investments but, having taken advice from its investment consultant, and having considered the prospective returns on private equity against the associated risks, the Committee resolved in March 2004 that it would not invest in private equity. This decision was confirmed in the 2009 strategy review.

7. An Asset Liability Study is normally undertaken following the triennial actuarial valuation which establishes the value of the Fund's liabilities. In the interim period the equity and bond proportions are rebalanced periodically when the proportions deviate by more than the permitted range and the valuation metric to re-balance is triggered.

8. Cash is not included in the customised benchmark. However, cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The managers of the segregated portfolios can utilise money market funds offered by the custodian, BNY Mellon, or put cash on deposit in line with their cash management policy. The cash within the pooled funds is managed internally by the managers. The cash managed by Blackrock in the property portfolio is invested in the Blackrock Sterling Liquidity Fund. The cash held internally by the Fund to meet working requirements is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management policy which was approved by the Committee on 18 Dec 2009.

Investment Management Structure

9. The 2005/06 strategic review resulted in a significant restructuring of the investment management arrangements during 2006 and 2007. In addition to the Fund of Hedge Fund and property mandates, the new investment structure included the following new mandates:

    a. Overseas enhanced indexation equities – this is a low risk active management approach that can produce incremental excess returns (net of fees) on a consistent basis.

    b. Unconstrained UK equities – an active investment approach where the manager does not constrain stock selection to an index and risk is measured in absolute terms.

    c. Emerging markets – a specialist active mandate to exploit the market inefficiencies present in emerging markets.

    d. Corporate bonds – a specialist active mandate to exploit opportunities in the UK corporate bond sector.

    e. Property – a specialist UK property manager and a specialist global property manager to exploit opportunities in property markets.

10. In 2010 Schroders Investment Management Limited was appointed to manage an unconstrained global equity portfolio – an active investment approach where the manager does not constrain stock selection to an index.

11. The new investment structure is detailed in the table below:

Manager	Mandate	Performance Objective	% of Fund	Inception date
BlackRock	Passive multi-asset	In line with customised benchmark	50%	1 April 2003
Jupiter Asset Management (Jupiter)	UK Equities (Socially Responsible Investing)	FTSE All Share +2% p.a.	5%	1 April 2001
TT International	UK Equities (unconstrained)	FTSE All Share +3-4% p.a.	5%	11 July 2007

Invesco Perpetual	Global ex-UK Equities (Enhanced Indexation)	MSCI Global ex-UK Index +0.5% p.a.	6.5%	19 December 2006
State Street Global Advisors	Europe ex-UK Equities (Enhanced Indexation)	FTSE World Europe ex-UK Index +0.5% p.a.	3.5%	14 December 2006
State Street Global Advisors	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE Developed Asia Pacific Index +0.5% p.a.		14 December 2006
Schroders Investment Management	Global Equities (unconstrained)	MSCI All World Index +2-4%	6%	1 April 2011
Genesis Investment Management (Genesis)	Emerging Market Equities	MSCI Emerging Markets Index	5%	13 December 2006
Royal London Asset Management (RLAM)	UK Corporate Bond Fund	iBoxx £ non-Gilt Index +0.8% p.a.	5%	11 July 2007
MAN Investments	Fund of Hedge Funds	LIBOR +4-6% p.a.	4.5%	1 August 2007
Gottex Asset Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	2.5%	1 August 2007
Signet Capital Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	2.0%	1 August 2007
Stenham Asset Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	0.5%	1 August 2007
Lyster Watson	Fund of Hedge Funds	LIBOR +4-6% p.a.	0.5%	1 August 2007
Schroders Investment Management	UK Property	IPD UK Pooled Property Fund Index +1% p.a.	5%	1 February 2009
Partners Group	Overseas Property	IPD Global Property Index +2% p.a.	5%	18 September 2009

The performance objective for each manager is based on the manager's expectations which take into account the performance they have achieved historically. Although these are annual targets, the performance of the active managers will generally be reviewed over a longer period.

12. In the new structure 44% of the Fund is invested in passive mandates which rely solely on market returns to generate the investment return. The other 56% is invested in mandates where the investment return is derived, to a greater or lesser extent, from manager skill.

13. The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

Risk Control and Diversification

14. Risk is controlled through the diversification of investments across a range of asset classes that have low correlations with each other and across a selection of managers. Furthermore, a significant proportion of the investments is passively managed (or in enhanced indexation funds).

Regulatory Investment Limits

15. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) impose certain "prudential" limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk. For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of prudential limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

16. Currently all the "normal" prudential investments limits apply to the Fund, except for the following:
    a) the investment in Life Funds managed by Blackrock which, following a Committee resolution in March 2006, has been increased to the maximum limit of 35%.
    b) The investment in single partnerships which, following a Committee resolution in December 2008, has been increased to the maximum limit of 5%.

Realisation of Investments

17. The Fund's investment policy is structured so that the investments which it holds can, except in the most extreme market conditions, be readily realised. There are longer "lock-up" periods for the investments in Fund of Hedge Funds and property funds given the nature of these investments. However, the Fund has sought to minimise the length of these "lock-up" periods. At the present time, the Fund's outgoings (principally the payment of pensions) can be met from income (principally employer and employee contributions) without the need for investments to be sold.

18. The growth in indirect property funds has provided the Fund with the opportunity to invest in this relatively illiquid asset class and to build a well diversified property portfolio.

Social, Environmental and Ethical Considerations

19. Blackrock's mandate requires stocks to be held which will replicate the performance of selected market indices. In this case the manager has no discretion with regard to the stocks which are held. As the enhanced indexation managers are also required to hold a significant number of stocks for risk control purposes, similar considerations apply to these. In the case of TT International, Genesis, Schroders (global equity mandate) and RLAM their mandates allows for discretion over stock selection and each manager has provided a statement setting out the extent to which they take social, environmental and ethical

considerations into account in their investment processes. These statements are now included as Appendices.

20. The Avon Pension Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, the Fund appointed Jupiter in 2001 to manage a UK equity portfolio in accordance with Socially Responsible Investment (SRI) criteria. Within this context SRI means investing in companies which contribute to, or benefit from, the trend towards more environmentally and socially sustainable economic activity. The Avon Pension Fund Committee was convinced by arguments that superior performance could be achieved over time from a portfolio constructed on this basis. However, the SRI portfolio managed by Jupiter has a bias towards smaller companies and this, together with the concentrated nature of the portfolio, means that the volatility of the returns is high.

21. The SRI portfolio includes companies providing products which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

22. In December 2010 the Fund adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code. 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. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers, the monitoring of its voting activity by an independent 3rd party and through membership of the Local Authority Pension Fund Forum.

Exercise of Voting Rights

23. The Avon Pension Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests. In order to fulfil this responsibility, the Fund requires its managers to vote their UK company shares in line with their internal voting policy. The Fund has appointed Manifest (an independent proxy voting agent) to monitor the voting activity of the managers which will be reported to the Committee on a quarterly basis. The Fund will also publish an annual summary of its voting activity and trends (provided by Manifest).

24. For overseas markets voting is left to the discretion of the managers but they are encouraged to exercise voting rights where practical.

Stock Lending Policy

25. The Fund allows stock held by the Fund within its segregated portfolios to be lent out to market participants. The Fund's custodian acts as the Fund's lending agent and the Fund receives income from the lending activities. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason.

26. The stock lending policy on pooled funds is determined by the individual investment managers. Any income is incorporated in the net asset values of each pooled fund.

Myners Principles

27. Having asked Paul Myners to carry out a review of institutional investment, the Chancellor of the Exchequer in 2002 endorsed the ten principles of investment for pension funds which Myners recommended. Following a review in October 2008, the Treasury published a revised set of 6 principles. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

28. Appendix 5 sets out the existing position with regard to compliance with the revised principles.

To be Approved by the Avon Pension Fund Committee on 18 March 2011

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TT INTERNATIONAL
Authorised and Regulated by the Financial Services Authority

TT International – Position Statement on ESG Issues **February 2011**

At TT International, we believe there is likely to be a strong link between the 'attitude' of a company to ESG issues and its business fortunes - i.e. good ESG practice makes good business sense. Furthermore sound corporate governance provides one of the most effective means to protect clients' financial interests.

Such issues are considered by the team in the research process and information gathered is blended with other forms of evaluation to arrive at an overall investment case. However we do not deploy dedicated ESG analysts. We do not set quantifiable targets or work to specific guidelines to screen for unsuitable companies.

In certain instances the perception of a company's ESG standards may become the critical factor in deciding whether to invest or retain an investment. For example, TT has on occasion made an active decision not to invest in companies where lack of transparency or management accountability could potentially be a serious impediment to the executive / shareholder relationship. We also avoid companies with large environmental risks on their balance sheets, as we would companies with large operational or financial risk that we perceive could become an unquantifiable future liability.

High Alpha Manager

TT manages high performance strategies with a dispassionate mindset. We are not forced to be long term holders of any given company. If material concerns about management or governance arise, we have the option to sell the shares.

Voting

At TT we have always taken our voting rights very seriously in order to protect our clients' financial interests. Please see our Proxy Voting Guidelines for further details.

Stewardship Code

We welcomed the publication by the Financial Reporting Council of the UK Stewardship Code. The Code is an important contribution to good corporate governance and represents a definitive statement of best practice on engagement with investee companies. TT became a signatory at the inception of this initiative on 1st September 2010.

Our Position Statement on the Stewardship Code is available at www.ttint.com

Moor House
Level 13
120 London Wall
London EC2Y 5ET

Tel: +44 (0) 20 7509 1000
Fax: +44 (0) 20 7509 1290
Email: info@ttint.com
Website: www.ttint.com

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GENESIS
INVESTMENT MANAGEMENT, LLP
21 Knightsbridge, London SW1X 7LY
Telephone: (020) 7201 7200 *Facsimile:* (020) 7201 7400 www.giml.co.uk

Genesis Principles on Socially Responsible Investment

It is our strong view that exploitation and repression are incompatible with economic prosperity. Repressive regimes are unlikely to provide the type of open and competitive economy that fosters economic development and leads to corporate growth opportunities suitable for international investment.

On a corporate level, Genesis meaningfully incorporates social responsibility factors into its investment process because we believe that irresponsible behaviour by companies is incompatible with sustainable business success. In a world where investors and consumers demand to see companies demonstrating appropriate environmental stewardship as part of their activities, those who fail to meet these standards are unlikely to be sound long-term investments.

Our experience suggests that a crucial element of a successful long-term investment is an enlightened management team, which understands that a company's development requires a coalition between management, shareholders and workforce, and that no single one of these parties may derive excess benefit from the venture at the expense of the others. If a management mistreats its workforce, it is also unlikely to understand the relationship of trust and responsibility that should exist between it and its minority shareholders, and such a company would not be attractive to Genesis.

We believe there are three broad aspects of corporate responsibility that should be focused on, and assessed, at a company level. These are:

(1) ***Property and Shareholder Rights:*** Markets where shareholder rights are undefined (or are defined but not enforced), and business practice towards the treatment of shareholders is uncertain, can often be avoided completely for investment purposes.

(2) ***Labour Practices:*** Ideally, countries in which we invest for our clients would have ratified the conventions of the International Labor Organization Declaration on Fundamental Principles and Rights at work. (This Declaration allows workers the right to associate, strike, and bargain collectively, prohibits forced labour and provides standards for acceptable working pay and conditions).

Child labour undeniably occurs in a number of developing economies, but in the majority of countries legal protections exist and these are more or less enforced depending on the country. However distinction then needs to be drawn between practices in the overall economy and the practice at the individual company level. To the extent that illegal child labour and other labour abuses take place, experience indicates to us that it does so in small-scale, labour-intensive enterprises, such as the textile industry. These companies are not of interest to international institutional investors such as Genesis.

Apart from the obvious social objections, they do not feature any manufacturing economies of scale and have no discernible competitive advantage other than cheap labour.

(3) ***Corporate Social Responsibility:*** We emphasised above the need for management to see any company as a meeting point of a coalition of interests. One of these interests is the firm's role in its immediate society and the need to take into account the long-term effect that its business decisions may have.

Companies are regularly assessed for compliance with current best practice corporate governance requirements, and we vote on behalf of clients at Annual or Extraordinary General Meetings. Advice is taken on voting from outside sources including Institutional Shareholder Services (ISS) and all voting intentions are confirmed by an investment team member. Without being an 'activist' investor, we are active in promoting the mutual benefits of stronger corporate governance to the many companies with whom we come into contact, and where companies in client portfolios start behaving in a manner detrimental to minority shareholders' interests we are prepared to engage in a constructive dialogue to help bring about positive change.

We are signatories to the Principles for Responsible Investment (PRI) initiative, an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The PRI aim to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries. We believe that ESG issues affect long-term investment returns and also recognise that applying these Principles help align investors with broader social objectives.

Genesis Investment Management, LLP
February 2010

Schroder Investment Management Limited
31 Gresham Street, London EC2V 7QA

Telephone 020 7658 6000
www.schroders.com

18 February 2011

Global Equities Responsible Investment Policy

Schroders believes that well managed companies will deliver sustainable competitive advantage and long term shareholder value and therefore an analysis and consideration of a company's financial performance, the quality of its management structures, the suitability of internal controls and the ability of the board to manage operational performance, environmental and social risks and opportunities will affect our stock valuation and selection strategies.

On behalf of our clients Schroders' has share ownership rights and exercising these rights, through company engagement and proxy voting, is an integral part of our role in managing, protecting and enhancing the value of our clients' investments. In exercising these responsibilities we combine the perspectives of our portfolio managers and company, environmental, social and governance (ESG) analysts to form a rounded view of each company and the issues it faces. It follows that we will concentrate on each company's ability to create sustainable value and may question or challenge companies about ESG issues that we perceive may affect their future value.

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Sustainable Investment

RLAM is a fund management company that manages assets on behalf of a wide range of institutional, wholesale and private clients. As a large scale investor, currently managing over £30bn of assets, we believe we have a responsibility to use our investment strength to promote positive corporate behaviour to the benefit (in terms of long term performance) of our clients and the wider community.

The concept of sustainable investment is a key part of our product offering and we take a proactive approach to promoting best practice in the companies in which we invest.
Our detailed approach to the issue of corporate governance is covered in our Overall Corporate Governance Guidelines document. This reflects our belief that companies should be managed effectively in the best interests of shareholders. Central to this are sound governance structures which provide the power to management to manage, while at the same time allowing sufficient transparency in order for shareholder accountability.

However we also believe that issues relating to companies' Environmental, Social and Governance (ESG) practices are now correctly receiving more attention. It is becoming increasingly evident that insufficient attention to issues relating to ESG can be damaging to business success and financial returns and hence lead to significant risks to shareholder/policyholder value.

RLAM believes that companies should develop appropriate policies and practices on corporate social responsibility. Where we ourselves identify significant risks from ESG issues we would expect discussion of them to form a part of our regular dialogue with company management.
We also include a full shareholder voting record on our website detailing how we have voted at the meetings convened by companies where we have a holding. It is our intention to update this document on a regular basis. At the same time, RLAM's Chief Investment Officer is a leading advocate of corporate governance and effective shareholder engagement is frequently quoted in the trade and national press on this subject.

RLAM will use its clients' assets to engage with companies on all relevant ESG matters. RLAM will exercise its "vote" on all resolutions that it is mandated to on behalf of clients. RLAM will contact companies following an abstention or vote being lodged against management.
Environmental, social and governance issues are fundamental drivers of long-term corporate performance, a principle that is central to RLAM's philosophy as an asset manager. Our portfolio managers will integrate analysis of these issues into their overall approach to valuing companies. 4

RLAM manages specialist bond and equity ethical funds which have proved popular with clients. These funds employ a screening process managed by EIRiS (Ethical Investment Services Ltd), the leading global provider of independent research into social, environmental and ethical performance.
With around £2bn of property assets under management, RLAM's property team is keenly aware of its responsibilities as an active, long term property investor. Working with our agents and tenants, we have developed a comprehensive property sustainability strategy explaining the high environmental standards expected of the properties we own, which is available on request.

rlam®
royal london asset management

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Appendix 6

Myners Principles (2009): Statement of Compliance (Appendix 5 of SIP)

Principle 1: Effective Decision Making

Administering Authorities should ensure that:

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

Fund Compliance - Full

The Fund complies with this principle as it has a clear governance structure for decision-making a wide scope of issues, which is supported by expert advisors and officers with clear responsibilities. The role and responsibilities of all Committee members is set out in job descriptions. The Fund requires the Committee members to undertake training and a training log is maintained. The Fund intends to use the CIPFA Knowledge and Skills Framework as the basis for its training programme. The Fund has a forward looking three-year business plan.

Fund Policy

Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administration and management of the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The Committee is subject to Terms of Reference as agreed by the Council which sets out the Committee's responsibilities, the Council's standing orders and financial regulations including the Codes of Practice. Declarations of interest are a standing item on every committee agenda.

The Avon Pension Fund Committee is supported by the Director of Resources and Support Services and a small team led by the Investments Manager. The Director regularly reviews the level of in-house staffing resource to ensure that it continues to be adequate to provide the necessary support. The Committee is responsible for agreeing policy framework, implementation of which is delegated to officers as appropriate. The Fund's policy on Officer Discretions is approved by the Committee. The Officers have job descriptions which set out their responsibilities in relation to the Fund.

Given the wide scope of the business covered by the Committee, the Avon Pension Fund has established an Investment Panel to consider matters relating to the management and investment of the Fund's assets including the performance of the investment managers, and to advise the main committee on such matters. The

Panel has a Terms of Reference and is subject to the same Council regulations as the Committee.

The Fund's "Governance Compliance Statement" sets out the Fund's governance arrangements, including its Terms of Reference, structure, representation and delegations. This statement is available on request or via the Avon Pension Fund website (www.avonpensionfund.org.uk).

The requirement for broad representation on the Committee can mean that members of the Committee have a diverse set of skills and experience. Prior to their nomination to the Committee, separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the Committee, are issued to members.

All members are required to undergo training in order to develop their skills and understanding, specific to the issues under consideration by the Committee or Panel. In addition, the Fund has appointed expert advisors to provide specialist advice and there are two independent trustees on the Committee who have been recruited specifically for their financial expertise.

Prior to their nomination to the Committee and Investment Panel, members are required to agree and accept the job specification on the basis of which they receive an appropriate allowance. Allowances are recorded in Bath and North East Somerset Council papers which are publicly available – the Fund does not publish them separately. Expenses are paid in line with the allowances scheme for each employer/stakeholder from which the Committee member is nominated.

The Fund has a clear policy on training and maintains an attendance and training log. The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. All members (including non-voting members) are invited to workshops organised by the Fund. The Fund sets a training plan on an annual basis but recognises the need for flexibility so that it can be responsive to the needs of the Committee agenda. The Fund's policy is to base the training programme on the CIPFA Knowledge and Skills Framework. The costs of approved external training courses are paid by the Fund for all Committee members.

The Fund retains the services of an actuary and an investment consultant. The Fund's investment consultant attends all Committee and Panel meetings and other expert advisors attend on an adhoc basis when appropriate. The Fund has an external Independent Investment Advisor who attends all Committee and Panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, the two "independent trustees" have been appointed to the Committee to strengthen the independence of the governance process. These Committee members are independent of the administering authority and other stakeholders. The selection process for appointing the Independent Trustees, Independent Investment Advisor and specialist consultants takes into account the degree of expertise which the individual (or organisation) can deliver to the Fund.

Committee and Investment Panel papers are written in clear, jargon free language, and are circulated in a timely manner in line with the Council's public access policy to ensure members have sufficient time to study them ahead of the meeting.

The Avon Pension Fund Committee approves a forward looking three year Service Plan annually. The Service Plan outlines the major milestones the Fund and Committee will be considering during the three year period and the financial and resource implications of the work programme. Progress on the current plan is measured annually by the Committee. In addition, forward looking workplans for the Committee, Investment Panel, Investment Team and Benefits Team are included in the quarterly Committee papers.

Principle 2: Clear Objectives

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

Fund Compliance - Full

The Fund complies with this principle as it has a clear investment objective and strategy as set out in the statement of Investment Principles. The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. As a result the Fund has a customised benchmark reflecting the Fund's own liability profile. The Committee has considered the impact on return and risk of different asset classes when devising its strategy. The investment managers have individual performance targets and their performance against target is monitored by the Committee. The Fund always obtains expert advice when considering its investment objective and strategy.

Fund Policy

The asset allocation and investment strategy are set out in the Fund's Statement of Investment Principles and Funding Strategy Statement.

The Fund's Investment objective is set having taken into account the actuarial profile of the Fund as advised by the Fund's actuary. The investment strategy is reviewed following the triennial valuation as a matter of course; however, the strategy adopted reflects the long term nature of the liability profile and should not therefore be subject to significant change over shorter time periods.

The Fund adopted a customised investment benchmark policy in 1 April 2003 which is reviewed periodically, most recently in June 2009. In selecting and reviewing its benchmark the Committee takes into account the need to return the Avon Pension Fund to a position of full funding as soon as practicable but aiming to keep contribution rates as stable as possible. The Fund also considers the liabilities maturity profile and cashflow requirements of the Fund as well as the impact upon individual scheme employers and council tax rates. The Committee have been advised that it is not beneficial at this time to establish a sub-fund for individual employers with a separate investment strategy as there is not enough diversity within the membership and financial profile of employers to warrant such an approach.

The Committee's approach to risk is balanced by these requirements and as a result the Fund retains a significant exposure to a diversified selection of return generating assets. In 2006 the Fund, advised by the consultancy PSolve, agreed to diversify into property and hedge funds in order to reduce the volatility of the investment returns generated by equities. Private equity has been considered and excluded by the Committee because of the less liquid and transparent nature of the asset class. Asset allocation was reviewed in 2009 and the conclusion was that the allocation between the main asset classes remained valid.

The Fund's strategy includes a mix of passive and active mandates with the aim of concentrating the risk budget available with a select number of mandates where the Fund believes value can be added. There is no prejudice against the use of any financial instrument provided that there are benefits to the Fund in permitting their use. Where these instruments take the form of derivatives, controls are applied as appropriate.

Within the Fund's overall investment objective, each investment manager is set an appropriate performance target and benchmark against which performance will be measured. The Committee reviews the managers' performance quarterly and all managers are subject to a formal review at least every 3 years.

When reviewing its investment strategy, the Committee obtains proper advice from specialist advisors. The Fund's investment consultant and actuary are appointed by a competitive tender process, under EU procurement rules, which set clear objectives and assessment criteria. When making appointments, the Committee always evaluate value for money and efficiency/ ability to deliver the service required. The advisors are appointed for a set time period after which the contract is automatically re-tendered.

The Committee are aware of the investment management fees charged by the investment managers and other transaction related costs. The investment managers disclose their commission costs half yearly via their Level II reports in line with industry best practice.

Principle 3: Risk and Liabilities

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

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

Fund Compliance - Full

The Fund complies with this principle in that the investment objective and strategy reflects the specific liability profile of the scheme members and that the covenant of the employer and their ability to pay contributions is taken into account. The Fund has in place a risk management process to ensure risks are identified and mitigating action is taken where possible and the external auditor reports its assessment of the risk management process to the Committee.

Fund Policy

In setting the overall investment objective, the Committee (in consultation with its actuary and investment advisors), has considered the appropriate risk and return profile given the Fund's specific views on its liabilities, financial risk and the employers' ongoing ability to pay contributions. Comprehensive analysis is undertaken on factors affecting long term performance and the levels of volatility that are acceptable over shorter periods due to market conditions.
The overall investment objective is expressed as a return in excess of gilt returns (as a proxy for the Fund's liabilities).

The triennial valuation sets out the liability profile for each individual employer within the Fund. The strength of the covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate and period over which any deficit will be recovered.

The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term return generating assets. The Fund's customised benchmark includes diversification across a number of asset classes in order to reduce the volatility of returns over shorter periods, specifically over the three year valuation period. However, over such short periods it is not always possible to achieve lower volatility.

Financial risks such as interest rate and inflation risk (or salary risk) are managed through investing in index linked bonds and real assets such as property. The longevity profile of the Fund is reviewed at each triennial valuation. The Fund does not explicitly hedge longevity risk. The Fund's actuary provides annual interim valuations in between the triennial valuation (based on triennial valuation assumptions but updated financial assumptions) to enable the Committee to monitor the change in the funding position over time.

The Fund maintains a Risk Register which consolidates all the significant risks to the Fund and it is updated on a regular basis and the Risk Register action plan is considered by the Committee. The Committee also annually reviews the Internal Control reports of its third party suppliers. The external auditor presents an Annual Governance Report to the Committee which states their assessment of the risk management process. The overall risk management process is outlined in the Annual Report and Accounts.

Principle 4: Performance Assessment

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

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

Fund Compliance - Full

The Fund complies with this principle with regard to the measurement of the Fund’s performance against its investment objective and that of its investment managers against their benchmarks. In respect of assessing the performance of advisors the Fund complies in that contracts are assessed on an ongoing basis. The performance of the decision-making bodies is assessed by external auditors and through the Committee’s Annual Report to Council on its activities and decisions taken during the year.

Fund Policy

The Fund believes as a matter of principle, that the selection of appropriate index benchmarks for the Fund are for the Fund to determine, prior to the appointment of an investment manager, on advice from the Fund's investment consultant. When selecting the index benchmarks for investment manager mandates, the Fund discusses the appropriateness with its investment advisor and investment manager to ensure that there are no sub optimal incentives for the Manager.

Where the Fund has appointed active managers, it has set performance targets and, where appropriate, risk limits which require the application of active strategies and has selected managers whose investment processes are consistent with this. The Fund is fully conscious of the need to ensure that managers have the freedom to pursue their active strategies and discuss any constraints placed on the mandate at regular intervals to ensure this continues to be the case. The Fund also believes that there are other factors which need to be taken into account in deciding between active and passive management apart from the efficiency, liquidity and level of transaction costs in the market concerned.

The Fund has written mandates with all its managers which incorporate overall objectives, asset allocation, benchmark flexibility, performance targets with timescales and risk control mechanisms. Managers' performance is normally assessed on a rolling three-year or five year basis dependent on the mandate. The Fund reserves its right to terminate a mandate before the expiry of the evaluation timescale because there may be circumstances other than those specified in the Myners recommendation which would justify early termination. However, it would not, under normal circumstances, look to early termination.

The Fund employs The WM Company to measure the performance of the investment managers and the Fund as a whole. This includes divergence and impact on overall asset allocation, asset class performance and manager performance against benchmark. The results are reported to the Avon Pension Fund Committee on a quarterly basis and are also included in the Annual Report and Accounts of the Avon Pension Fund. The Avon Pension Fund Committee in consultation with its investment advisors assesses the performance of the investment managers and decides whether any action is required. The Fund uses the WM Local Authority Fund performance statistics for comparative information only.

Currently the Committee and Officers assess the Fund’s actuary and investment consultants on an ongoing basis paying attention to the cost, timeliness, consistency and quality of advice. All advisory contracts are for a set period after which they are competitively tendered. Previously the Fund appointed investment consultants on a project by project basis but appointed a retained consultant in 2009. The advice received will be assessed on an ongoing basis as part of the Committee's Annual Report to Council (see below).

The Committee receives regular performance monitoring reports on operational aspects of the Fund and reviews its policies and procedures periodically according to its work-plan. The Committee also relies on auditors and external inspectors to assess its procedures and performance. The Committee sets out its objectives in a forward looking three year Service Plan, progress against which is reported annually. The Committee recognises that self assessment of their performance is difficult to implement. However, the Committee presents an Annual Report to Council annually on its activities (including training) and the decisions taken. This is publicly available but the Fund will strengthen its disclosure by distributing it to all employing bodies. In addition, the Committee periodically assesses the effectiveness of its decision-making process and structure in order to identify areas for improvement. The last assessment was in 2010.

Principle 5: Responsible Ownership

Administering Authorities should:

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

Fund Compliance – Full

The Fund requires its managers adopt the FRC UK Stewardship Code and the Fund's policy on responsible ownership is included in its Statement of Investment Principles. The Fund published its compliance with the FRC UK Stewardship Code in December 2010.

Fund Policy

As a matter of principle, the Fund believes that, in the final analysis, any decision as to whether to engage with a company or exercise a vote in a particular way is a matter for the investment manager.

The Fund's policy towards responsible ownership is set out in its Statement of Investment Principles. The Fund's investment managers previously all adopted the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP). This code has now been replaced by the FRC UK Stewardship Code which sets out best practice for how shareholders and their agents should discharge their responsibilities with regard to corporate governance. 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 corporate governance policies of each of the Fund's Investment Managers can be found on the Fund's website (www.avonpensionfund.org.uk).

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. The overseas equity managers are required to vote at all overseas company meeting where practical. The voting activity of the managers will be monitored by Manifest and reported to the Committee each quarter. Manifest will also provide an annual report on the Fund's voting activity as well as wider trends in corporate governance.

In addition the Fund believes that in order to responsibly address long term investments concerns and opportunities, environmental, social and governance issues must be considered when appointing and monitoring investment managers.

The Fund is a member of the Local Authority Pension Fund Forum, a collaborative body that seeks to maximise the influence of, and promote the interests of, local authority pension funds with regard to governance, social, ethical and environmental issues.

Principle 6: Transparency and Reporting

Administering Authorities should:

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

Fund Compliance – Full

The Fund complies with this principle in that it has a clear policy to communicates and consult with its scheme members, representatives and employers as appropriate. The Fund ensures that all documents and statements are made available and that the Annual report contains information and data relevant to its many, diverse stakeholders.

Fund Policy

The Fund publishes the following statements: a Statement of Investment Principles, a Funding Strategy Statement, a Governance Compliance Statement and a Communications Policy Statement. Scheme members and employers are informed when these statements are revised through various communication tools and they are made available either in hard copy on request or via the Avon Pension Fund website (www.avonpensionfund.org.uk). These statements are updated as required or when material changes are implemented. All the statements must be approved by the Committee.

The published Annual Report highlights any changes made to any of the above statements during the year. In addition the review of the year includes all the activities and projects the Fund has undertaken during the period under review. The Annual Report provides scheme members and employers information about the Fund, its investment and administration strategies and its performance as well as it financial statements and auditors opinion.

Monitoring reports on investments, advisors, managers and risks are formally reported to the Committee, copies of which are made publicly available on the Council's website.

Major developments relating to the Fund's investments and governance are also reported to scheme members through regular newsletters, which can be accessed on the website and are also distributed via email and hard copy through the post.

The Administering Authority consults stakeholders on actuarial valuation issues, legislative consultations affecting the Scheme, quality of service issues, governance issues and the committee structure. The extent to which stakeholders are consulted is not stated in a written policy as it will be determined on a case by case basis.

APF 18 March 2011

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Appendix 7

Summary of Self assessment questionnaires of decision-making for Avon Pension Fund Committee members – September 2010

RAG (red/amber/green) has been used to identify areas for improvement. In this context **G** = no issues identified, **A** = improvement in process required, **R** = scope for improvement

1	**Terms of Reference (ToR)**	**Responses**	**R A G**
1(a)	The ToR reflects the responsibilities of the Committee	All respondents agreed ToR reflects responsibilities of the Committee	G
1(b)	The Committee agenda complies with the ToR	All respondents agreed Committee agenda complies with ToR	G
1(c)	The Committee agenda is too broad	Majority (88%) agree Committee agenda is not too broad *Comments: Strategic issues rescheduled on meeting agenda*	G A
	Action points	Officers to ensure strategic issues rescheduled on agenda – *already actioned*	

2	**Governance structure**	**Responses**	**R A G**
2(a)	The governance structure works effectively	All respondents agree that governance structure works effectively	G
2(b)	The creation of the Investments Panel has improved the quality and speed of decision-making	Majority (88%) agree creation of Investments Panel has improved quality and speed of decision-making	G
2(c)	The Committee should delegate more decisions to the Investment Panel or Officers	Majority (55%) agree Committee **should not** delegate more to Investments Panel or officers	G
2(d)	The reporting to the Committee of Investment Panel recommendations provides adequate assurance of the work undertaken by the Panel	Majority (88%) agree reporting to Committee of Investment Panel recommendations provides adequate assurance of the work undertaken by the Panel *Comments: The creation of the Panel has improved the quality of decision-making. The Panel minutes need to fully reflect the Panel's deliberations so as not to slow down the decision making process*	G A
	Action points	Officers to ensure Panel minutes reflect the scope of the discussions. The Chair of the Panel to provide verbal summary of Panel recommendations at Committee meetings. *Already actioned*	

3	**Committee meetings**	**Responses**	**R A G**
3(a)	There is adequate time at Committee meetings to satisfactorily address the agenda	All respondents agree there is adequate time at Committee meetings to satisfactorily address the agenda	G
3(b)	The Committee's time is allocated appropriately according to the strategic importance of the agenda items	Majority (66%) agree time is allocated appropriately according to the strategic importance of the agenda items *Comments: Strategic issues rescheduled on meeting agenda*	A
3(c)	As a Committee member I have enough opportunity to contribute to the debate	All respondents agree they have enough opportunity to contribute to the debate	G
	Action points	Officers to ensure strategic issues rescheduled on agenda – *already actioned*	

4	**Committee knowledge & skills**	**Responses**	**R A G**
4(a)	The Committee has the right mix of skills & knowledge to discharge its responsibilities	Majority (66%) agree the Committee has the right mix of skills & knowledge to discharge its responsibilities	G
4(b)	There are specific areas where more formal training is required for the Committee	Small majority (55%) agree that more formal training is **not required** for the Committee *Comments: Some members express the view that more training is required given the complexity of some issues, to enable robust challenge of advice.*	A
	Action points	Officers to design a training programme relevant to committee agenda and cognisant of potentially new committee	

5	**Investment Panel - to be answered by Panel members only**	**Responses**	**R A G**
5(a)	There is adequate time at Panel meetings to satisfactorily address the agenda	All respondents agree there is adequate time at Panel meetings to satisfactorily address the agenda	G
5(b)	The level of information and content provided at meetings is appropriate	All respondents agree the level of information and content provided at meetings is appropriate	G
5(c)	The Panel has the right mix of skills & knowledge to discharge its responsibilities	Majority (60%) agree that the Panel has the right mix of skills & knowledge to discharge its responsibilities	G/A
	Action points	As section 4 - Officers to design a training programme	

6	**Decision–making Process**	**Responses**	**R A G**
6(a)	There is a structured process for making decisions	Majority (88%) agree that there is a structured process for making decisions	G
6(b)	The information and advice provided prior to the making of a decision brings out the important issues for consideration	Majority (88%) agree that the information and advice provided prior to the making of a decision brings out the important issues for consideration	G
6(c)	The Committee and Panel make effective use of expert investment advice	Majority (77%) agree the Committee and Panel make effective use of expert investment advice	G
	Action points	Officers to ensure key issues and conclusions / recommendations are clearly set out in meeting papers. As section 4 - Officers to design a training programme	

7	**Your Role**		**R A G**
7(a)	I have the knowledge and understanding to participate effectively in discussions and decision making on **investment** matters	Majority (88%) agree they have the knowledge and understanding to participate effectively in discussions and decision making on **investment** matters	G
7(b)	I feel I would be able to contribute more effectively if more or different training on **investment issues** was available	Majority (66%) agree they would be able to contribute more effectively if more or different training on **investment issues** was available	A
7(c)	I have the knowledge and understanding to participate effectively in discussions and decision making on **non-investment** matters	All respondents agree they have the knowledge and understanding to participate effectively in discussions and decision making on **non- investment** matters	G
7(d)	I feel I would be able to contribute more effectively if more or different training on **non-investment issues** was available	Majority (88%) agree they **do not require** more or different training on **non-investment issues** to contribute more effectively	G
7(e)	I fully understand my duties in relation to investments and other issues I make decisions on	All respondents agree they understand their duties in relation to investments and other issues they make decisions on	G

	Action points	As section 4 - Officers to design a training programme	

Avon Pension Fund
September 2010

CIPFA Knowledge & Skills Framework (2010)

CIPFA have developed two separate Knowledge & Skills frameworks, one for members and one for officers. Both frameworks cover the same six areas that have been identified by CIPFA as the core technical requirements for those involved with LGPS funds i.e. committee members and officers. These areas are described in detail below (taken from the CIPFA guidance).

1 Pensions Legislative and Governance Context
In addition to the legislation of the LGPS, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions. Also of importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles), within schemes (such as the LGPS governance compliance statement) and within the organisations that administer the schemes.

2 Pensions Auditing and Accounting Standards
The accounting requirements and associated disclosures are complex and involve a large actuarial element. Members will need to understand their responsibilities in relation to considering the financial statements and will need sufficient knowledge to question the contents of the reports and other information that they are presented with. They will need to be aware of the role of both internal and external audit in the governance and assurance process.

3 Financial Services Procurement and Relationship Management
Due to the scale, diversity and technical requirements of pension operations, the use of outsourcing is common-place. The knowledge and skills required to procure and manage outsourced services (such as fund managers, 3rd party administrators) are central to scheme management. Decision makers will be serviced by professionals with this knowledge, but will need to be aware of the principles and main requirements, such as those of the European Union.

4 Investment Performance and Risk Management
In schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which funds can test their current skills and competencies. Decision makers will also be aware of the requirements to apply the same rigour to an assessment of their own performance and the performance of those who work on their behalf. Frameworks and targets must be devised and set, and performance monitored against them and reported to stakeholders.

5 Financial Markets and Products Knowledge
In schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree on the fund's particular approach to investment management. The decision-making body will need to relate the longer term liabilities of the fund to the strategy for the

investment of its assets and generation of cash flows. Investor engagement will be a key consideration in terms of getting value from the fund's investments and in applying ethical and other good governance principles to companies that the fund invests in. An understanding of risk is also fundamental.

6 Actuarial Methods, Standards and Practices

The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme decision-making body will need to be able to do more than simply ensure that the relationship with the actuary is properly managed. It will need to understand the work of the actuary and the way in which actuarial information impacts both the finances of the scheme and the scheme employers.

Appendix 9

Avon Pension Fund Committee Training Programme 2011-13

General Topics

Topic	Content	Timing
Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority - How AA exercises its powers (delegation, role of statutory 151 Officer) - Governance Policy Statement • Members duties and responsibilities - LGPS specific – duties under regulatory framework o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - FoI Officer/Data Protection - Internal Audit - External Audit - Risk Register	June/Sept 2011
Manager selection and monitoring *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management)*	• What look for in a manager – people, philosophy and process • How to select the right manager – roles of officers & members, procurement, selection criteria, evaluation • Monitoring performance & de-selection • Fees	2011

Asset Allocation *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management, Financial Markets & Products)*	• Basic concepts – Expected Return, Risk Budget, efficient markets • Why is asset allocation important – correlations, strategic vs. tactical allocation • Implementation of strategy – active/passive investing, large/mid/small cap, UK/overseas, relative/absolute return, quantitative/fundamental investment approaches	2012
Actuarial valuation and practices *(relates to CIPFA Knowledge & Skills Framework areas: Actuarial Methods, Standards and Practices)*	• Understanding the valuation process - Future and past service contributions - Financial Assumptions - Demographic Assumptions including longevity • Importance of Funding Strategy Statement • Inter-valuation monitoring • Managing Admissions/cessations • Managing Outsourcings/bulk transfers	Late 2012 ahead of 2013 valuation

Planned Committee Workshops 2011/12

Workshop	Content	Timing
SRI - Stage 1	Overview and Direction of Policy	July 2011
SRI – Stage 2	Implementation options	4Q11

Investment Market Topics

Topic	Content	Timing
Current market outlook - (delivered by a manager)	- focus on inflation risk and impact on quantitative easing in particular on bonds	June/ Sep 2011
Emerging markets – (delivered by a manager)	potential opportunities/risks	2012
Infrastructure	introduction to opportunities	2011
Private Equity	introduction to the asset class	2012

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2011**	**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 12 January 2011		

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 12 January 2011 are in Appendix 1.

2 RECOMMENDATION

2.1 That the Committee notes the *draft* minutes of the Investment Panel meeting held on 12 January 2011.

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

Wednesday, 12th January, 2011, 9.30 am

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), Dave Lyons (JLT Benefit Solutions) and Jignesh Sheth (JLT Benefit Solutions)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

28 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

29 DECLARATIONS OF INTEREST

There were none.

30 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

31 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

33 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

34 MINUTES: 11 NOVEMBER 2010

These were approved as a correct record and signed by the Chair, subject to the following amendment:

at the end of items 24 and 25 after “presenting to the Panel” add

> “and noted that the Panel's comments on the managers would feed into the Hedge Fund Committee Workshop on 2 March 2011."

35 RECAP ON HEDGE FUND MANAGERS PAPER

The Chair commented that, while there was a great deal of information about each of the hedge fund managers in the report, it was very difficult to make direct comparisons between them. For example, the first sentence of paragraph 5.6 of the covering report spoke about Gottex, Signet and Stenham, whereas the second sentence stated that “Stenham…are not reliant on leverage to enhance returns”, which left open the question of leverage in Gottex and Signet. The same applied to diversification. He suggested that officers should produce a table collating basic information about each of the hedge fund managers, including columns about leverage and diversification, for example.

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 discussion about appendix 1 of the report and for the following three items of business.

Mr Lyons distributed and commented on an update to appendix 1.

RESOLVED to identify issues with the individual hedge fund managers to be incorporated into the review of the Fund’s hedge fund investments.

36 PRESENTATION BY SIGNET - CLOSED SESSION

Seymour Banks (Director of Client Relations) and Robert Marquardt (Chairman & Co-Head of Investment Management) of Signet Group presented to the Panel. Copies of their presentation were distributed 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 the 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 Signet Group for presenting to the panel and noted that the Panel's comments on the managers would feed into the Hedge Fund Committee Workshop on 2 March 2011.

37 PRESENTATION BY STENHAM - CLOSED SESSION

Kevin Arenson (Chief Investment Officer) and Harry Wulfsohn (Director Business Development) of Stenham Asset Management presented to the Panel. Copies of their presentation were distributed 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 the 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 Stenham for presenting to the panel and noted that the Panel's comments on the managers would feed into the Hedge Fund Committee Workshop on 2 March 2011.

38 PRESENTATION BY LYSTER WATSON - CLOSED SESSION

Robert Watson (Chief Investment Officer) of Lyster Watson & Company presented to the Panel. Copies of his presentation were distributed 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 the 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 Mr Watson for presenting to the panel and noted that the Panel's comments on the managers would feed into the Hedge Fund Committee Workshop on 2 March 2011.

39 SUMMARISE CONCLUSIONS - CLOSED SESSION

The Panel discussed the presentations made by the fund managers and their responses to questions from Members, and considered the format for the hedge fund workshop scheduled for 2nd March 2011, to which all Members of the Avon Pension Fund Committee had been invited.

The Chair asked officers to ensure that the briefing material for the workshop be distributed to Committee members as early as possible as it was important that Members should be able to give it full consideration before the workshop. He suggested that there should be no presentations at the workshop, because they would take up valuable time that should be spent on discussion. He also advised that no fresh information should be presented at the workshop unless circulated beforehand, as Members would have no time to absorb it. The Chair was concerned that Members of the Committee who were not Members of the Panel should be able to participate fully, and requested that an executive summary of the Panel’s discussions about the managers should be prepared. In addition Members of the Committee should be invited to submit questions before the workshop having received the background papers. It was agreed that Panel Members would give a verbal summary to the workshop of the Panel’s work on hedge funds.

The workshop would need to review its original decision to invest in hedge funds and the allocation between managers and strategies, given the changes that had taken place since the portfolio was established.

The Investments Manager said that a comparative table for the five hedge fund managers would be prepared, giving information on leverage, diversification, performance etc.

It was agreed that the conclusions of the workshop would be on the agenda of the meeting of the Committee scheduled for 18 March 2011.

40 AGREE BRIEF FOR SRI REVIEW

The Panel returned to open session.

The Investments Manager presented the report on the draft brief for the review of the Fund’s policy on socially responsible investment (SRI).

The Chair suggested that the date for the workshop should be mid-July, rather than 24 June as suggested in report. The Investments Manager advised that the SRI workshop would be a Committee event and that the Committee would need to agree the date.

A Member thought the brief was well-structured. She suggested it would be helpful if examples were given of other pension funds’ policies on SRI to illustrate the full spectrum of approaches, from funds which fully integrated SRI into their investment strategy, those which pursued it as a separate goal and those which ignored it altogether. She also suggested that there should be a gap analysis of where the Fund was in relation to SRI and how it might progress to its agreed goals. The Panel agreed.

RESOLVED to recommend to the Avon Pension Fund Committee the brief for the SRI review as amended.

The meeting ended at 1.39 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2011**	**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 December 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 The Committee has agreed to review the Fund's policy towards Socially Responsible Investing (SRI) during 2011. The Panel have recommended a brief for the review. It is envisaged that the SRI policy will be reviewed by the full Committee after the new Committee is confirmed following the May 2011 local elections. The review will be in two stages, the first to understand the background to SRI and agree an overall policy direction and the second to start developing an implementation strategy whilst recognising the impact/constraints of our existing investment strategy.

2 RECOMMENDATION

2.1 **That the Committee agrees the recommendation from the Investment Panel regarding the review of the SRI policy:**

(i) to agree the brief for the review as set out in section 4.2 below

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for investment advice to review the SRI policy.

4 PROPOSED REVIEW OF SRI POLICY

4.1 The Investment Panel recommend the following brief for the review of the Fund's SRI policy:

4.2 The project has been divided into two Committee workshops which will enable work to be developed once objectives and direction of travel agreed following the first workshop. It is proposed that the first workshop will be held in July 2011. Papers will be prepared ahead of the workshop to provide information.

First workshop

Overview & Direction of Policy		
1	Overview of SRI/ESG investing	• How investment approaches to SRI/ESG/corporate governance have evolved • How UK regulations are influencing behaviour of UK plc - Examples of good/poor practice of UK plc • Investment/Regulatory framework - Ethical debate versus legal framework – including responsibilities of trustees - UK versus overseas equities - Stewardship codes & compliance regime - UN PRI – what it would mean for us to comply
2	Policy Development	• Preferred v Deliverable policy (including case studies of approaches adopted by other funds) • Conflict of interest • Conflict of objectives • Timescales
3	Define Fund's objectives	• Define high level objective as to the Fund's role as a responsible investor and set realistic long term targets (direction of travel)

Second workshop

Implementation of direction of travel		
1	Recap of the Fund's current policy	• UK SRI equity portfolio • UK Stewardship Code compliance and voting policy • Manager selection process • Limitations of current investment structure – pooled funds, overseas assets

2	Gap analysis of Fund's current approach with revised policy objectives	• Voting policy • Jupiter portfolio • Other portfolios
3	Implementation Assessment & options	• Policy impact assessment • Overlays • Specialist mandates (ranging from "screened" to "sustainability" portfolios) • Activism / voting policy
6	Action points	• Agree direction of travel and action points

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:	**18 March 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Quarter Ending 31 December 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 – Council's Full Treasury Counterparty Listing		

1 THE ISSUE

1.1 This report contains performance statistics for the quarter ending 31 December 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.

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 Notes the information as set out in the report.

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 15 and 16), the investment managers (pages 17 to 42) and a commentary on investment markets (pages 5 to 11). In the section on the Fund (page 12 to 14), 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 31 December 2010:

	3 months	**12 months**	**3 years (p.a.)**
Avon Pension Fund	5.2%	13.4%	*3.8%*
Strategic benchmark *(Fund relative to benchmark)*	5.2% *(=)*	13.1% *(+0.3%)*	2.6% *(+1.2%)*
Customised benchmark *(Fund relative to benchmark)*	4.9% *(+0.3%)*	12.7% *(+0.7%)*	4.5% *(-0.7%)*
WM Local Authority Average Fund *(Fund relative to universe)*	5.7% *(-0.5%)*	13.4% *(=)*	1.3% *(+2.5%)*

4.4 The Fund's assets rose in value by £134m (+5.2%) in the quarter giving a value for the Fund of £2,626m at 31 December 2010. This investment return was driven mainly by the growth in equity markets offsetting the small negative returns of bonds over the period.

4.5 More importantly over the last twelve months the Fund's assets rose by £330m (+13.4%), driven by positive returns across all asset classes.

4.6 The initial estimate for the Fund's return in January is -0.9%, reflecting the falls in global bond markets. The UK FTSE All Share index fell slightly during the month.

4.7 **Against its strategic benchmark** (60% equities, 20% bonds, 10% property, 10% hedge funds) the Fund outperformed over the year by +0.3%. This is a result of the performance of the Fund's active managers outperforming the benchmark asset returns used in the strategic benchmark.

4.8 **Against its customised benchmark** (which measures the relative performance of the managers), the Fund marginally outperformed in the quarter (+0.3%). This was a result of outperformance by Invesco, Man, Stenham and Lyster Watson over the quarter. Most of the other managers were in line with, or ahead of, their benchmarks in the quarter, with only Jupiter significantly underperforming their benchmark.

4.9 Over the year the Fund outperformed the customised benchmark (+0.7%) mainly due to the outperformance of Jupiter, Royal London, Genesis and Signet.

4.10 Over the last three years the Fund has generated a return of 3.8% p.a. underperforming the customised benchmark return by -0.7%. This is attributable to manager performance.

4.11 **Compared to the WM Local Authority Fund universe**, the Fund performed in line over the year and outperformed by 2.5% 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 and significant volatility relative to the benchmark. This will be addressed as part of the forthcoming review of the Fund's SRI policy.

4.13 During the quarter the Investment Panel received presentations from three 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. This completes the Panel's review of the 5 Fund of Hedge Fund managers, the results of which have been fed into the strategic review of the Funds investments in hedge funds which is addressed in another agenda item.

4.14 The Committee agreed in December 2010 to appoint Schroder to manage the Fund's active global equity mandate. Officers are currently finalising the legal contract and preparing to transition assets.

4.15 In October 2010, Man Group plc completed the acquisition of GLG Partners which created a multi-style alternative asset manager with funds of $63 billion under management. The impact of this was incorporated into the review of hedge funds elsewhere in the agenda.

4.16 In January 2011, State Street Global Advisors ("SSgA") completed the acquisition of Bank of Ireland Asset Management ("BIAM") for approximately €57 million, which SSgA stated enhances their Global Investment Platform.

5 INVESTMENT STRATEGY

5.1 JLT's report did not highlight any new strategy issues for consideration outside of those already under consideration by the Investment Panel. The report does highlight the risk return profile of the Fund and the impact on risk/return by each of the managers on pages 17 to 20. 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 The outcome of the Fund's review of its investments in hedge funds is considered elsewhere in the agenda and follows a Committee workshop held on Wednesday 2 March 2010.

6 ACTUARIAL VALUATION UPDATE

6.1 The Fund's actuary will present the outcome to the Fund's triennial valuation earlier on the agenda. The funding level at 31 December 2010 is estimated to be unchanged from 31 March 2010 at c. 82% adopting consistent assumptions, updated for investment returns, market conditions and cashflows.

6.2 The Actuary estimated assets to have risen by £196m to £2,655m (c. 8% increase) and liabilities have risen £194m to £3,226m. The liabilities have increased due to a fall in real yields of 0.1%.

6.3 The table below shows the change in financial assumptions:

	31 March 2010	31 December 2010
UK Gilt yield	4.5%	4.2%
Real yield	0.7%	0.6%
Implied RPI inflation p.a.	3.8%	3.6%
Inflation adjustment p.a.	0.8%	0.8%
CPI Inflation p.a.	3.0%	2.8%

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. The Fund adopts the Council's counterparty list and the latest list approved by the Council in February 2011 is attached as Appendix 3 to this report.

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 31 January 2011 the Equity:Bond allocation was estimated at 76.4:23.6.

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) **Positive engagement outcome – Associated British Foods (ABF)** - LAPFF has a history of engagement with ABF on overseas employment standards, its approach to health and nutrition as well as overarching governance concerns. LAPFF has pressed the company to address ESG issues at the group level rather than leaving the management of these issues to its respective brands. In January 2010 the Forum requested and received a commitment by the company to publish a group-wide corporate responsibility report. ABF completed the CR report in advance of its 10 December 2010 AGM. This marks a clear step in the right direction by the company.

(2) **Current engagement projects:**

a) **Engaging over non monetary rewards –** In January LAPFF held its first round of meetings with companies relating to its project on non monetary reward. The idea behind this project is to try and identify the sorts of measures that companies can use to motivate those employed, beyond relying exclusively on financial incentives. The Forum's findings from these meetings will then feed into the design of a survey on non-monetary reward to go to a wider group of UK listed companies.

b) **Engaging on Obesity** - LAPFF is currently in the process of conducting a targeted engagement campaign focussing on the risks and opportunities created by obesity with companies in the food and drinks sector.

(3) **Update on BP engagement following Gulf of Mexico Oil Spill** – A Shareholder coalition have dropped their resolution from the BP AGM in order to facilitate further engagement with the company on the issues identified. The proposed resolution pushed BP to examine its risk assessment and risk management in North America during the wake of the Gulf of Mexico oil spill. Should further engagement not prove productive, the shareholder coalition will reinstate the resolution.

10 RISK MANAGEMENT

10.1 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.

11 EQUALITIES

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

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

14.1 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 papers	LAPPF Member Bulletins Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND VALUATION – 31 DECEMBER 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	489.5	15.8	131.5	100.6								737.4	27.5%
North America	122.3	8.5										130.8	4.7%
Europe	123.3	5.8					31.2					160.3	5.9%
Japan	37.9						31.5					69.4	2.6%
Pacific Rim	48.9						28.5					77.4	2.9%
Emerging Markets					149.5							149.5	5.7%
Global ex-UK						166.5						166.5	6.4%
Global inc-UK	152.6											152.6	5.8%
Total Overseas	***485.0***	***14.3***			***149.5***	***166.5***	***91.2***					***906.5***	***34.0%***
Total Equities	**974.5**	**30.1**	**131.5**	**100.6**	**149.5**	**166.5**	**91.2**					**1643.9**	**61.5%**
BONDS													
Index Linked Gilts	158.6											158.6	6.0%
Conventional Gilts	146.2	35.8										182.0	5.6%
Sterling Corporate	3.7							129.0				132.7	5.0%
Overseas Bonds	75.4											75.4	2.9%
Total Bonds	**383.9**	**35.8**						**129.0**				548.7	**19.5%**
Hedge Funds									220.2			220.2	8.4%
Property										157.6		157.6	9.5%
Cash	4.6	27.3	1.1	7.1					0.2	0.5	15.0	55.8	1.1%
TOTAL	**1363.0**	**93.2**	**132.6**	**107.7**	**149.5**	**166.5**	**91.2**	**129.0**	**220.4**	**158.1**	**15.0**	**2626.2**	**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 31 December 2010

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Bekki Jones, BSc (Hons), IMC
Investment Consultancy Analyst

Dave Lyons, BA (Hons), IMC
Divisional Director

February 2011

Section One – Executive Summary

- This report is produced by JLT Investment Consulting ("JLT") 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 £134m over the fourth quarter of 2010, to £2,626m as at the end of December 2010.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 5.2%, outperforming the customised benchmark by 0.3%. Over the last year, the Fund produced a return of 13.4%, which was 0.7% ahead of the customised benchmark return of 12.7%. Over 3 years, the Fund has produced a return of 3.8% p.a., underperforming the customised benchmark by 0.7% p.a.
- The positive absolute performance over the quarter was driven by all managers producing positive absolute returns, except RLAM. The returns from the equity funds were the primary drivers of positive returns, followed by fund of hedge funds and property.
- Over the one year period, absolute performance remains positive due to strong positive returns in the first, third and fourth quarters of 2010 more than offsetting negative returns in the second quarter.
- The relative outperformance over the quarter resulted from the outperformance of almost all managers, in particular Partners, MAN, Invesco, Stenham and Lyster Watson. Apart from negative relative returns from Jupiter and Genesis, all managers contributed positively to relative returns for the quarter. The assets with BlackRock and RLAM performed broadly in line with their benchmarks.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.
- In October 2010, Man Group plc completed the acquisition of GLG Partners, Inc ("GLG"), which created a multi-style alternative asset manager with funds of $63 billion under management. GLG is now a wholly owned subsidiary of Man.
- In January 2011, State Street Global Advisors ("SSgA") completed the acquisition of Bank of Ireland Asset Management ("BIAM") for approximately €57 million, which SSgA stated enhances their Global Investment Platform.

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. The Fund is currently progressing the appointment of a global equity manager, identified through the search that took place over the latter half of 2010. We also note that the Pre Qualification Questionnaire stage of the Fund's search for an active hedging currency manager is completed and the Invitation to Tender stage closes at the end of March 2011.
- Manager Performance: We have identified no areas of significant concern regarding the managers.

- The largest negative return over the quarter came from Jupiter, whose performance has generally been volatile relative to the benchmark, although this is in part a function of the Socially Responsible Investment ("SRI") constraints given to Jupiter. The Fund will be reviewing its approach to SRI in the near future and it is therefore appropriate to not invest new monies with Jupiter as part of any rebalancing that is required until the conclusions of this review are known.
- A review of the Fund's fund of hedge fund allocation is also underway, thus implying that this part of the portfolio should not be included in any investment of new monies. These areas aside, we see no reason not to invest with any of the active managers during any rebalancing process.

Section Two – Market Background

- The table below summarises the various market returns to 31st December 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	7.4	14.5
Overseas Equities	9.6	17.2
USA	11.5	18.8
Europe	5.1	6.6
Japan	12.8	19.0
Asia Pacific (ex Japan)	8.3	23.9
Emerging Markets	8.1	23.6
Property	2.2	14.5
Hedge Funds	4.8	11.3
Commodities	14.1	12.5
High Yield	2.8	17.5
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-3.5	8.8
Index-Linked Gilts (>5 yrs)	1.1	9.0
Corporate Bonds (>15 yrs AA)	-3.7	9.6
Non-Gilts (>15 yrs)	-3.9	9.5
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	1.4	4.8
Consumer Price Index (CPI)	1.7	3.7
Earnings Inflation *	0.1	2.3

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.6	-3.0
Against Euro	1.1	3.7
Against Yen	-3.5	-15.5
Yields as at 31 Dec 2010	**% p.a.**	
UK Equities	2.89	
UK Gilts (>15 yrs)	4.14	
Real Yield (>5 yrs ILG)	0.49	
Corporate Bonds (>15 yrs AA)	5.42	
Non-Gilts (>15 yrs)	5.40	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	0.3	-0.3
Index-Linked Gilts (>5 yrs)	0.0	-0.2
Corporate Bonds (>15 yrs AA)	0.5	-0.2
Non-Gilts (>15 yrs)	0.4	-0.3

* is subject to 1 month lag

Statistical highlights

- During the quarter, the rate of CPI inflation increased from 3.1% to 3.7% and it remains persistently above the Bank of England's 2% target level, with one year Retail Price Index ("RPI") inflation running at 4.8%.

- The Bank of England's Monetary Policy Committee again kept interest rates on hold at 0.5%, and unveiled no new quantitative easing measures. The last change in interest rates was in March 2009 (a reduction from 1.0%). There is a difference of opinion with a growing minority of members now voting in favour of increasing interest rates, another voting for an extension of the policy of quantitative easing and the other members voting for no change.
- The latest economic figures, which saw UK Gross Domestic Product revised down from -0.5% to -0.6% for the fourth quarter of 2010, have increased concerns that the rate of economic growth will slow further in 2011 as a result of the impact of the government's £85 billion spending cuts and VAT rising to 20% from 17.5% on 4 January 2011.
- The political and financial situation in Europe remains uncertain with speculation that further international bailouts will be required. Sterling appreciated by 1.1% against the Euro over the quarter as the Euro was adversely affected by increasing concerns about sovereign debt problems within the peripheral Eurozone countries.
- At the beginning of the quarter, US stocks benefited from expectations that the US Federal Reserve would unveil another round of quantitative easing in order to help maintain the economic recovery. The Federal Reserve duly announced a further $600 billion of US Treasury purchases in November and encouraging economic data towards the end of the fourth quarter led to an improvement in market confidence.
- Equities continued their positive run over Q4 2010 with all major equity markets producing strong positive returns. In sterling terms, each region posted a positive return over the quarter. The Japanese market posted the strongest return over the quarter (+12.8%) closely followed by USA (+11.5%), Asia Pacific (ex Japan) (+8.3%) and Emerging Markets (+8.1%).
- The majority of fixed interest assets produced negative returns over the fourth quarter with, for example, long-dated gilts producing a return of -3.5%.

UK market events – Q4 2010

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **Government Debt:** At the end of January 2011 UK national debt stood at £867.2 billion or 57.6% of GDP as compared to £720.9 billion (50.4% of GDP) at the end of January 2010.
- **Unemployment:** The number of people unemployed in the UK increased by 44,000 over the quarter to reach 2.49 million. The unemployment rate for the three months to December 2010 was 7.9%, up 0.1% on the previous quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 2,400 between December 2010 and January 2011 to reach 1.46 million according to the Office for National Statistics.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey rose to a record high figure of 62.0 in January after rising to 58.7 in December and as compared to 53.5 in September 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 4% in January 2011, up from 3.7% in December 2010. RPI annual inflation was 5.1% up from 4.8% in December 2010. RPIX inflation, which excludes mortgage interest payments was 5.1% in January, up from 4.7% in December 2010.

The equivalent annualised EU CPI figure for December was 2.6%. The largest downward pressures to the change in CPI inflation came from recreation and culture, miscellaneous goods & services and clothing & footwear while the largest upward pressures came from restaurants and cafes, alcoholic beverages, purchase of vehicles, furniture & furnishings and fuel & lubricants prices, where the price of petrol stood at £1.27 per litre in January 2011, a record high.

- **Gross Domestic Product:** In the fourth quarter of 2010, GDP decreased by 0.6% revised down from the previously estimated fall of 0.5%. GDP in the fourth quarter of 2010 is now 1.5% higher than the fourth quarter of 2009. The decline in the fourth quarter was due to decreases in two of the component aggregate series, namely services and construction. Total services output decreased by 0.7% in the fourth quarter compared with a rise of 0.5% in the previous quarter while construction output decreased by 2.5% in the fourth quarter, compared with a rise of 3.9% 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 the situation since March 2009. Given the GDP figures for the fourth quarter of 2010 the Bank of England faces a difficult choice - either keep interest rates low to try to aid the economic recovery, or raise them to try to cool inflation.

Europe market events – Q4 2010

- **European Sovereign Debt Crisis:** The European Union is again struggling to persuade investors that it has the cash and the will to address the root cause of its growing debt burden that is adversely impacting a number of European Union governments and their banking systems. While Eurozone member states benefited enormously from low borrowing costs and currency stability, several – especially countries such as Portugal and Greece on the Eurozone's periphery – neglected fiscal discipline and underwent a severe loss of competitiveness, with near catastrophic results. In Ireland, a banking crisis added another dimension to the problems. The aim now is not just to fight the current crisis but to avert future disasters as well. However, on the back of all these problems, European financial stocks had their best January in more than a decade as investors bet policymakers will backstop the Euro region's indebted nations and preserve the currency union.
- **Ireland:** Ireland had to be rescued with a €85bn bail-out by the European Union and International Monetary Fund in November, after its cost of borrowing rocketed in the wake of a banking and property crash and one of the deepest recessions of any industrialised economy. Ireland's central bank has more than halved its growth forecast for 2011 following the austerity budget in December, with employment set to continue falling, slower exports and lower consumption following the introduction of higher taxes. The central bank's latest quarterly economic forecast, published on January 31st, expects GDP to grow this year by 1%, compared with the 2.3% predicted in its October forecast.
- **Greece:** Fitch cut Greece's credit rating to junk status in January, highlighting persisting doubts over the country's ability to pull itself out of a severe debt crisis that has shaken the Eurozone. The rating agency cut Greece's rating to BB+ from BBB- and maintained its negative outlook. Greek debt is now rated junk by all three major rating agencies. Its debt is about €300bn ($419bn; £259bn), and the government estimates it will need to borrow about €53bn this year to cover budget shortfalls. Debt servicing is now costing Greece 11.6% of its

GDP and it has to pay more interest on loans due to its credit rating downgrade. Eight months after a European Union-led bailout, investors are still charging Greece 8.1% more to lend to it over 10-years than to Germany. That spread reached a record 9.7% on 7 January 2011.

- **Spain:** Spain is in a much more secure position than its "Club Med" neighbours, because it starts with a level of national debt that is comparable to the UK, France and Germany – around 60% of GDP (against well over 100% in Greece). Spain's banks are strong and acquisitive, stronger than most other countries' institutions. But Spain's annual budget deficit, like the UK's and Greece's, has spiralled into double figures – at almost 12% of GDP. Fourth-quarter unemployment stood at 20.3%, up from 19.8% in the third quarter, and the highest level since the second quarter of 1997, when it was at 20.7%.
- **Germany:** Germany enjoyed its fastest economic expansion in two decades last year as booming exports spurred hiring and consumer spending. GDP jumped 3.6%, the most since data for a reunified Germany began in 1992, after slumping 4.7% in 2009 according to the Federal Statistics Office. The German government has recently raised its economic growth forecast for the year to 2.3% as rising exports help to offset concerns about Europe's debt crisis. Private consumption rose 0.5%, state spending increased 2.2% and capital investment jumped 5.5%. Unemployment dropped by 262,000 in 2010, while net trade contributed 1.1% to growth, with exports surging 14.2% and imports up 13%.
- **Unemployment:** The EU27 unemployment rate was at 9.6% in December 2010, unchanged compared to November 2010. The unemployment rate was 9.5% in December 2009. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.3%), Luxembourg (4.9%) and Austria (5.0%), and the highest in Spain (20.2%), Slovakia (14.5%) and Ireland (13.8%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI increased to 56.3 in January 2011 from 55.5 in December 2010, driven by a sharp increase in the services PMI from 54.2 in December to 55.2 in January. This indicates that the recovery is maturing and that private consumption should contribute more to this year's growth. The manufacturing PMI decreased slightly from 57.1 to 56.9, still at a reasonable level.
- **Inflation:** The annual inflation rate in the Euro area was reported at 2.5% in January 2011.
- **Gross Domestic Product:** GDP increased by 0.3% in the Euro Area (EA16) and by 0.2% in the EU27 during the fourth 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 – Q4 2010

- **Unemployment:** The rate of unemployment in the US decreased from 9.4% in December 2010 to 9.0% in January 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.8% in December after having risen 0.3% in November. For the fourth quarter as a whole, industrial production increased at an annual rate of 2.4%, a slower pace than in the earlier quarters of the year. In the manufacturing sector, output moved up 0.4% in December with gains in both durables and nondurables.

- **Inflation:** The annual inflation rate in the United States was reported at 1.6% in January 2011.
- **Gross Domestic Product:** US real GDP increased by 2.8% over the fourth quarter of 2010, against a (revised upwards) 2.6% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q4 2010

- Emerging Markets remained very much in the spotlight. With the prospect of significant capital inflows to the region continuing, many emerging countries are embarking on capital controls in an attempt to prevent excessive destabilisation of their domestic economies. China will continue to lead the world's economic output in 2011, with its economy projected to grow 9.6% year-on-year in 2011, according to the International Monetary Fund ("IMF").
- Over the quarter, policy tightening has been the major theme across the developing Asian countries following stronger than expected economic data. In China, further administrative measures were put in place to curb property market price growth, as well as interest rate increases and reserve requirement hikes in order to keep inflation, which rose to 4.9% in January 2011, under control.
- Rising food prices – with food representing up to 60% of the consumer price index in some emerging markets – are also increasing inflationary pressures. The UN's Food and Agriculture Organisation has warned that the world is "dangerously close" to another food crisis in 2011, citing a global shortage of corn and wheat.
- India's annual GDP growth is expected to race ahead at 8.5% this year. The major issue in India is food inflation, which reached 17.1% in February 2011.

Market events – Global summary – 1 year

- The major market events over the 12 month period to 31 December 2010 were the sovereign debt problems within the Eurozone; in particular, the possibility that the Greek government might default on its debt. There were also fears that similar problems would affect the government bond markets in Spain, Portugal, Italy and Ireland. Eventually, 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. The Irish economy was rescued in November 2010 with the Irish government agreeing to an €85bn bailout, with €35bn going towards propping up the Irish banking system and the remaining €50bn to help the government's day to day spending.
- In the UK, the Bank of England has not raised interest rates over the past 12 months or extended its Quantitative Easing programme; consequently, total asset purchases by the Bank of England through this scheme remained at £200bn. Towards the end of 2010, there was a clear split emerging in the Bank of England's Monetary Policy Committee, with a growing minority of members voting in favour of increasing interest rates and one voting for an extension of the policy of Quantitative Easing.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively. Japan's central bank cut its interest rates to almost zero as it tried to

stimulate the country's faltering economy. A near zero policy means that the rate moves within a small range between 0% and 0.1%, although no fixed rate is set. In contrast, in India the central bank has raised interest rates seven times over the course of 2010 ending the year at 5.25%. India has been facing rising food prices, as the soaring cost of staple goods such as grain, pulses, fruit and vegetables has caused economic as well as political tension.

- UK GDP grew during the first three quarters of 2010, although the economy contracted by 0.6% in the fourth quarter of 2010, with the most recent data leading to concerns the UK economy may slide back into recession as the impact of the cuts in public spending began to be felt. Despite the problems in Greece, GDP growth in the Eurozone remained positive throughout the year (mainly driven by Germany) as did GDP growth in the United States.
- Sterling appreciated by 3.7% against the Euro over the year as the Euro was adversely affected by the sovereign debt problems within the peripheral Eurozone countries. At the same time, sterling was supported over the second half of the year by speculation that increasing UK inflationary pressures might lead to the Bank of England raising interest rates over the coming months.

Equities

- Equities produced a strong absolute return over the year to 31 December 2010 despite a poor Q2 2010 and a stumble in the early part of Q4.
- The global economy continued its rally in the first half of the year despite a brief setback in Q2 2010, which was due to a moderation in the pace of economic recovery in both the Eurozone and the United States, 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 and Q4 2010 saw equities bounce back following better than expected corporate profits in the major economies.
- In sterling terms, Asia Pacific (ex Japan) and Emerging Markets produced the strongest returns, followed by Japan and USA. Japanese equities produced the weakest returns in local currency terms.
- Sterling investors will have generally benefited from currency movements if they were unhedged as sterling generally weakened against each of the major currencies, except the Euro, over the year to 31 December 2010.

Bonds & credit

- 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. There were also fears that gilt prices could fall if the policy of Quantitative Easing programme were to be unwound, although these fears were not realised over the year to 31 December 2010 as the programme was not unwound.
- Longer-dated gilt yields fell by around 0.3% over the one year period to 31 December 2010 as investors sought more secure investments on fears over a possible 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, due to a strong corporate profitability, although the fourth quarter saw some investors begin to take profits after a strong rally and further evidence of an economic recovery that might benefit equity markets.
- The real yield on index-linked gilts also fell over the 12 month period as concerns surrounding potential inflation led to excess demand relative to supply.

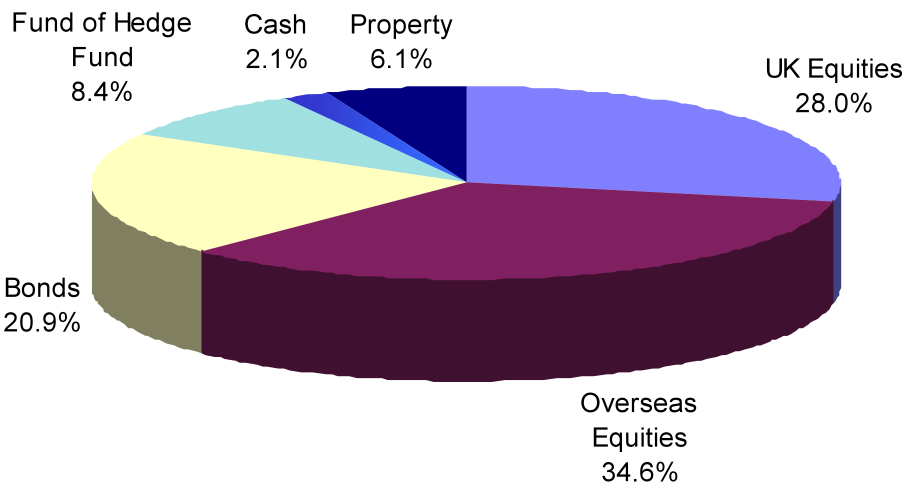
Alternative asset classes

- UK commercial 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 also played a notable role. The property return was driven by investors' belief that property prices bottomed out in mid 2009 and there was a significant increase in investor interest in this sector, although some analysts have suggested that the recent performance was the result of excess demand rather than an improvement in underlying fundamentals. This view is illustrated by the number of investors currently held in queues to enter property funds.
- Hedge funds have also had a positive year, with double-digit returns, but, as would be expected in strongly rising equity markets, have underperformed the majority of the regional equity indices. However, the hedge fund returns were achieved with significantly less volatility than equities. The Dow Jones Credit Suisse Hedge Fund Index has now recaptured all of its losses suffered during the recent financial crisis and there were significant inflows into this sector in 2010.
- Commodities produced a strong rally in the fourth quarter of 2010 to achieve a 12.5% return for the year as a whole. Global food prices rose to fresh highs in December 2010 and are well above the level in 2008, when there were riots in several countries that were provoked by the high level of food prices at that time.
- High yield bonds also performed strongly with spreads relative to government bonds falling substantially - benefitting from liquidity being pumped into the global financial markets, loose monetary policy in many developed economies and generally improving sentiment around the prospects for global growth.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 31 December 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 31 December 2010



Asset Class	31 December 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	735,814	28.0	27.0
Overseas Equities	911,769	34.7	33.0
Bonds	548,764	20.9	20.0
Fund of Hedge Funds	220,240	8.4	10.0
Cash	55,395	2.1	-
Property	159,773	6.1	10.0
Reconciling differences and rounding	-5,611	-0.2	-
TOTAL FUND VALUE	**2,626,144**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £134m over the fourth quarter of 2010 to £2,626m, mainly as a result of positive absolute investment performance from all asset classes except bonds. UK Equities and Overseas Equities produced the highest absolute returns; 7.3% and 9.4% respectively. These assets comprise approximately 63% of the Fund's investments.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There was some further funding of property investments over the quarter.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2010 Value £'000	30 September 2010 Proportion of Total %	Net New Money £'000	31 December 2010 Value £'000	31 December 2010 Proportion of Total %
Jupiter	UK Equities	101,567	4.1	-	107,692	4.1
TT International	UK Equities	123,106	4.9	-	132,581	5.0
Invesco	Global ex-UK Equities	148,145	5.9	-	166,525	6.3
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	83,690	3.3	-	91,189	3.5
Genesis	Emerging Market Equities	138,629	5.6	-	149,537	5.7
Lyster Watson	Fund of Hedge Funds	9,874	0.4	-	9,752	0.4
MAN	Fund of Hedge Funds	95,591	3.8	-	99,699	3.8
Signet	Fund of Hedge Funds	46,328	1.9	-	46,867	1.8
Stenham	Fund of Hedge Funds	11,427	0.4	-	11,689	0.4
Gottex	Fund of Hedge Funds	51,433	2.1	-	52,232	2.0
BlackRock	Passive Multi-asset	1,293,335	51.9	-	1,362,979	51.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	113,428	4.6	-21,350	93,157	3.5
RLAM	Bonds	131,988	5.3	-	128,979	4.9
Schroder	UK Property	93,810	3.8	20,100	115,988	4.4
Partners*	Property	34,192	1.4	3,235	41,786	1.6
Internal Cash*	Cash	15,799	0.6	-1,985	15,491	0.6
Rounding		0	0.0	-	1	0.1
TOTAL		**2,492,342**	**100.0**	**-**	**2,626,144**	**100.0**

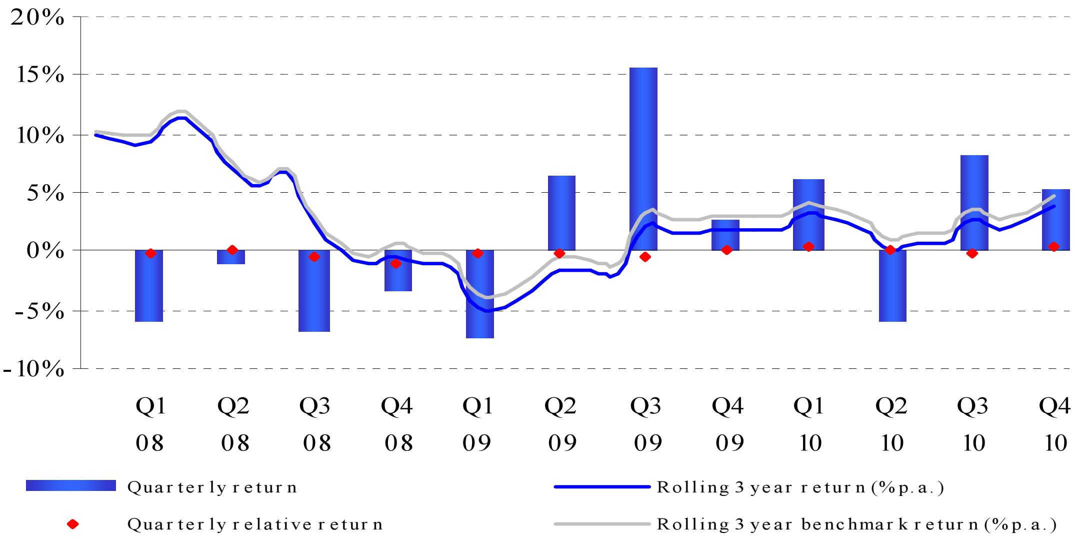
Source: Data provided by WM Performance Services
* Cashflows include two transactions each of which have been converted to GBP

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

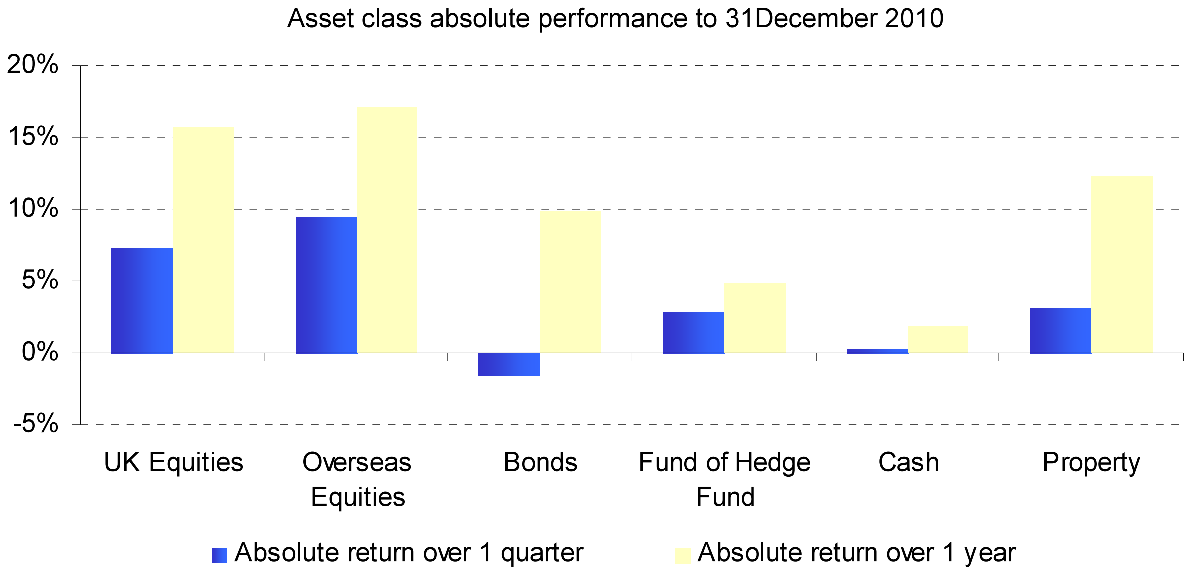


Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns shown in earlier 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 5.2%, outperforming the customised benchmark by 0.3%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 13.4%, outperforming the customised benchmark by 0.7%.
- Over the last 3 years (blue versus grey line), the total Fund's assets produced a positive return of 3.8% p.a., underperforming the customised benchmark by 0.7% p.a.
- The driver of positive absolute performance over the last quarter was the positive absolute returns from all of the Fund's managers, except RLAM (see page 17) and across all asset classes, except bonds (see page 15).
- The slight outperformance over the quarter arose from positive relative returns from a number of managers, most notably Partners, MAN and Invesco. BlackRock (multi asset) and RLAM performed broadly in line with their benchmarks. There were two underperforming managers (Jupiter and Genesis) but these were outweighed by the positive relative returns.

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 31 December 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 fourth quarter of 2010, all asset classes produced positive absolute returns except bonds.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 7.4% and 9.6% respectively.
- Sterling depreciated against the Dollar and Yen over the quarter, meaning a higher return on the Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro 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 Japan region and the lowest from the Europe (ex UK) region.
- Bonds produced negative absolute returns of 1.6% over the quarter due to the rising yield (falling price) on UK Government bonds (gilts). However, positive returns from UK index-linked bonds mitigated the negative impact from conventional gilts to a certain extent.
- The fund of hedge fund portfolio produced positive returns of 2.8% over the quarter.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 31 December 2010:

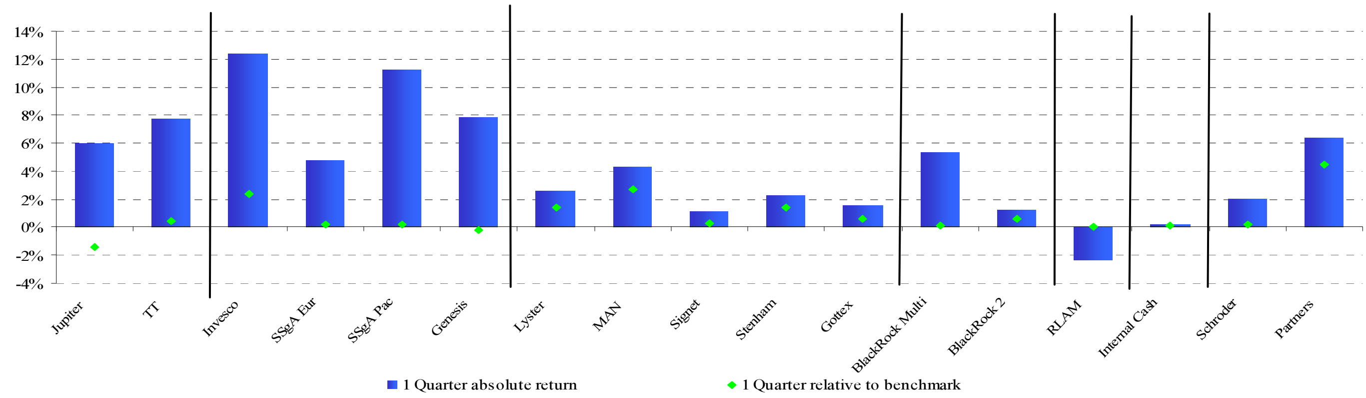
Asset Class	Weight in Strategic Benchmark	Q4 2010 (index returns)	1 year (index returns)
UK Equities	27%	7.4%	14.5%
Overseas Equities	33%	9.6%	17.2%
Index Linked Bonds *	6%	1.1%	8.9%
Gov Bonds – Fixed *	14%	-2.1%	7.2%
Corporate Bonds *		-2.6%	8.7%
Hedge Funds	10%	4.8%	11.3%
Property	10%	2.2%	14.5%
Total Fund	**100%**		

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

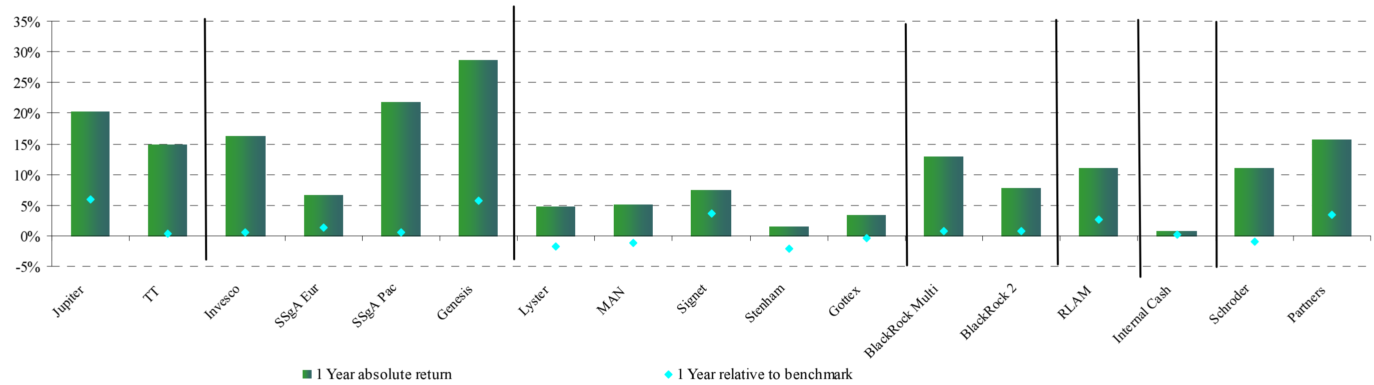
Manager performance

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

Absolute and relative performance - quarter to 31 December 2010



Absolute and relative performance - year to 31 December 2010

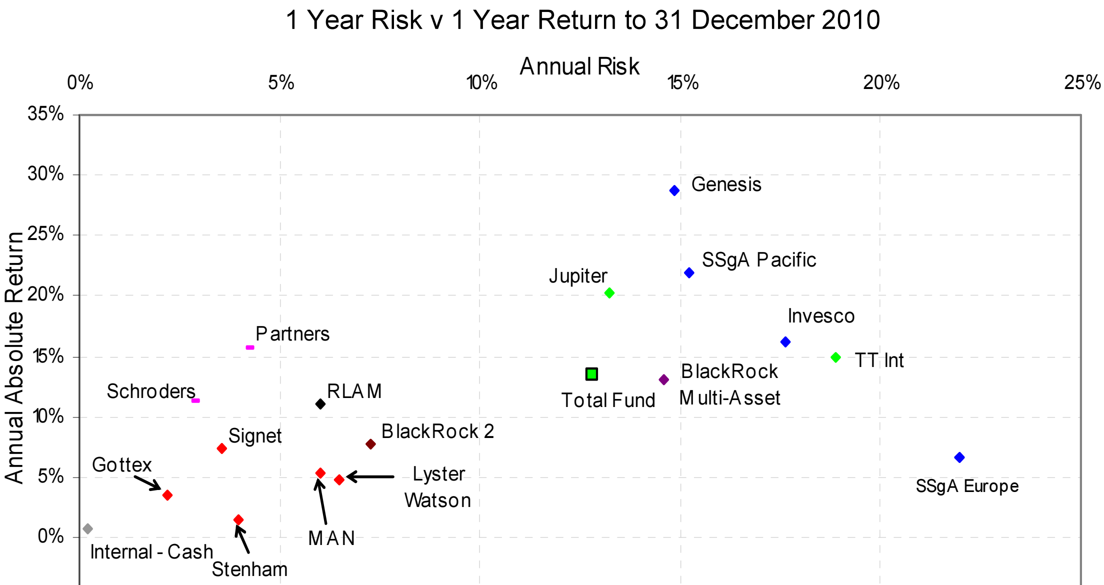


Source: Data provided by WM Performance Services

- All of the Fund's investment managers produced positive absolute returns over the quarter except RLAM.
- Over the quarter, the strongest absolute performance came from Invesco. In relative terms, Partners performed the best over the quarter, outperforming their benchmark by 4.5%, whilst the worst relative performance came from Jupiter, underperforming their benchmark by 1.4%.
- Over the year, all absolute returns were positive. Continuing to be of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 28.5%, well ahead of the benchmark return of 22.9%.

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 December 2010 of each of the funds, along with the total Fund.



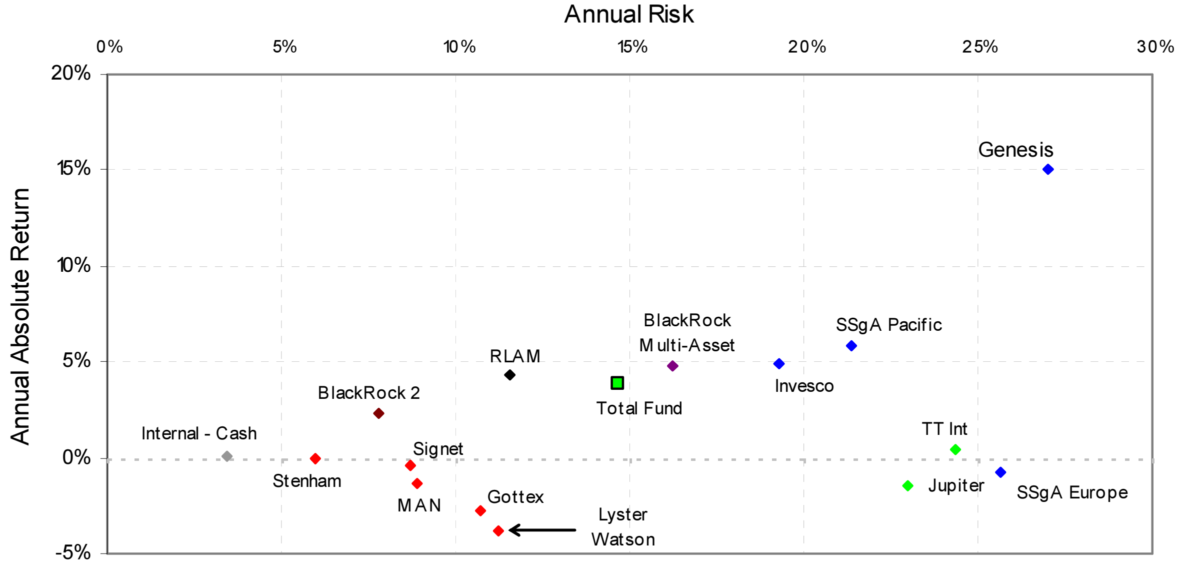
Source: Data provided by WM Performance Services

- 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

- The volatility of returns over the year has remained broadly in line with the previous quarter. The fund where volatility decreased notably compared with the last quarter was Schroders while others were broadly in line with the previous quarter. Partners is shown for the first time in the above chart.
- There has been a general shift upwards in the annual returns compared to the last quarter. This was driven by consistent strong absolute performance over the last four quarters, the exception being the negative absolute returns achieved in Q2 2010.

- 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 (to the extreme left).
- The very strong absolute return from Genesis over the last year has continued to provide a very good risk adjusted absolute return, when 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, despite these making up a large proportion of the total assets.

3 Year Risk v 3 Year Return to 31 December 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 continue to remain at a lower level (lower down on chart) than most of the other managers, with continued significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last 3 years has provided a very good risk adjusted absolute return, when 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 again, over the longer period, 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 one page 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

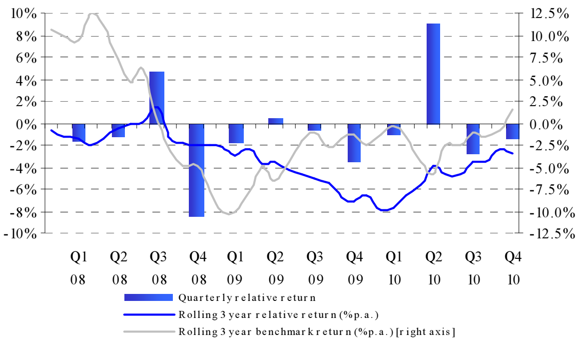
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI will be revisited in the near future by the Investment Panel and Committee, 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. Similarly, a review of the fund of hedge fund portfolio that is currently ongoing implies further thought is required before rebalancing to this part of the portfolio.
- UK Equity Funds:
  - Jupiter underperformed over the fourth quarter of 2010 partly due to their underweight allocation to the mining and Oil and Gas sectors, which produced positive absolute returns over the quarter, and overweight positions in Utilities and Consumer Services, which produced negative returns. These positions combined contributed to the negative relative returns over the period.
  - TT International outperformed its benchmark over the quarter, with continued overweight positions in Consumer services and Basic Materials, and underweight positions in Financials and Consumers Goods.
  - Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to their respective benchmarks over the quarter. Invesco, however, produced stronger positive relative returns over the quarter, although we reiterate that their relative performance can be affected by 'timing' differences in the pricing of their fund compared to their benchmark.
  - Emerging Markets: Genesis marginally underperformed their benchmark over the quarter, but produced strong positive absolute returns. The absolute return was driven by equity markets themselves, which overall produced positive returns over the quarter; the relative return was driven by stock selection. This is the first instance in the last seven quarters that the manager has underperformed its benchmark to any degree.
- Fund of Hedge Funds:
  - Stenham Asset Management produced strong relative returns for the quarter, 1.4% ahead of their benchmark, producing an absolute return of 2.3%.
  - Man produced strong relative returns of 2.7%, the second highest relative return for the quarter after Partners.
  - Hedge funds continued to underperform Equities in the last two quarters as compared to the Q2 2010 when Hedge funds outperformed Equities, although this is not unexpected.

  - All the Hedge Fund managers outperformed their benchmarks this quarter. The best performing manager in both absolute and relative terms was MAN.
  - Over the year to 31 December 2010, only Signet is ahead of their objective.

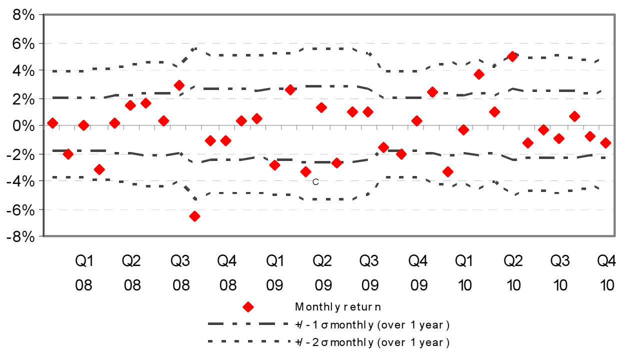
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have very marginally outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their fund.
- Property: Performance of the property funds over the quarter was positive in both absolute and relative terms. 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.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

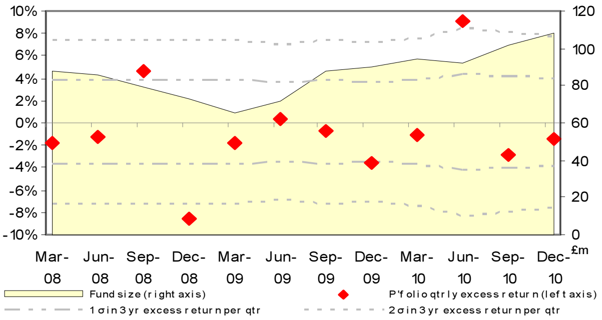
Relative returns [#1]



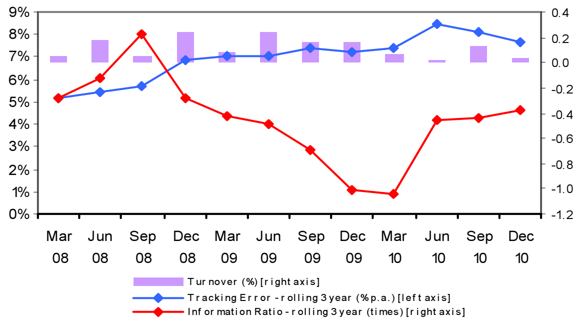
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



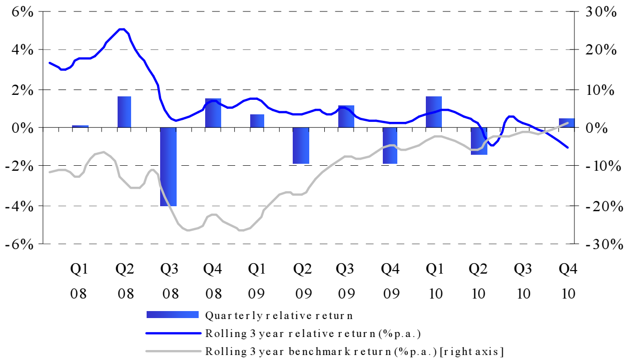
Source: Data provided by WM Performance Services, and Jupiter

Comments:

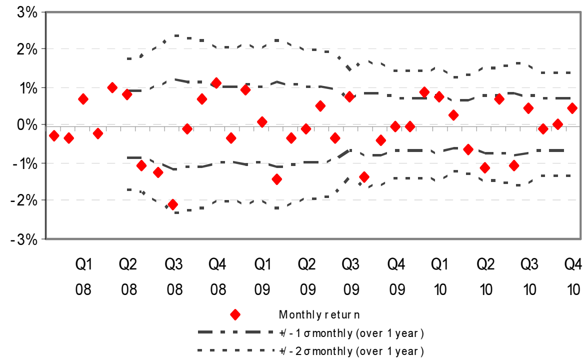
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of 6.0%.
- Over the last year, the Fund outperformed the benchmark by 5.8%, producing an absolute return of 20.3%. Over the last 3 years, the Fund underperformed the benchmark by 2.9% p.a., producing an absolute return of -1.5% p.a.
- The Fund's exposure to cash (6.6%) has been steadily increasing over the last five consecutive quarters.
- The industry allocation has remained 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 Q4 2010, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer goods and Financials, with significantly overweight positions in Industrial, Utilities and Consumer Services. These relative allocations were also consistent with most recent historical quarters.

TT International – UK Equities (Unconstrained)

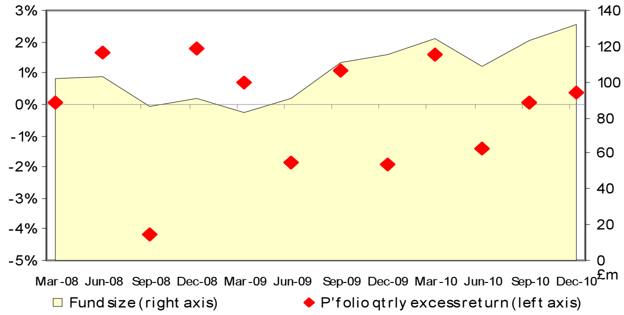
Relative returns [#1]



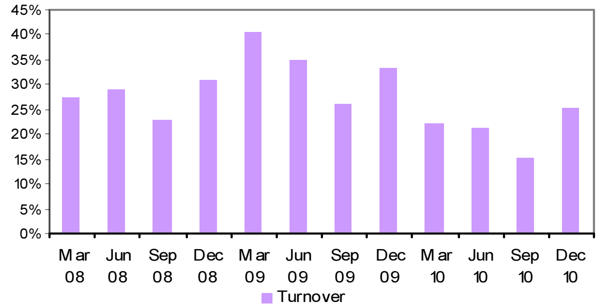
Monthly relative returns [#2]



Performance v fund size [#3]



Turnover [#4]



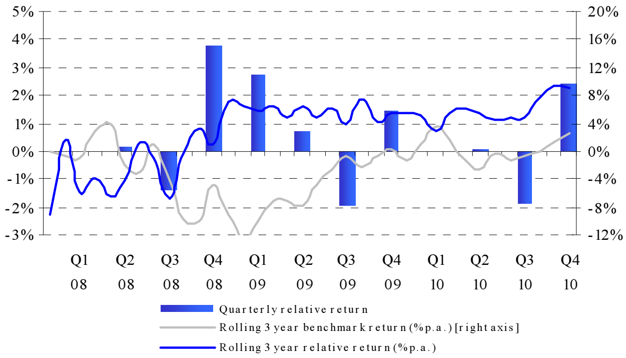
Source: Data provided by WM Performance Services, and TT International

Comments:

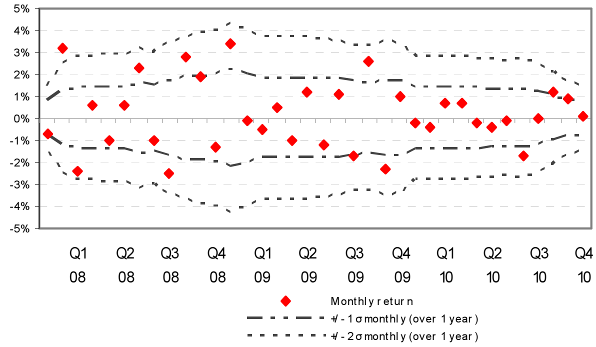
- Over the last quarter the Fund outperformed the benchmark by 0.4%, producing an absolute return of 7.8%.
- Over the last year, the Fund marginally outperformed the benchmark by 0.4%, producing an absolute return of 14.9%. Over the last three years, the Fund underperformed the benchmark by 0.9% p.a., producing an absolute return of -0.5% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials, having increased these slightly to 8.5% and 5.3% respectively, and is underweight to Financials by 6.4%, which also represents a slight increase on the last quarter.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has risen slightly to 25.3% for Q4 2010 as compared to 15.1% 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 whilst TT International is more unconstrained in approach, their sector positions are better able to reflect those of the benchmark than Jupiter's (which are, in part, a function 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 later in 2011.

Invesco – Global ex-UK Equities Enhanced (Enhanced Indexation)

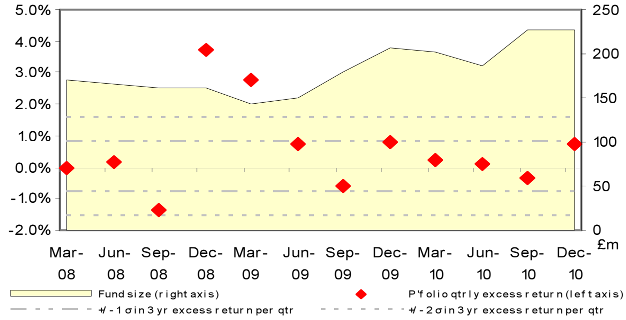
Relative returns [#1]



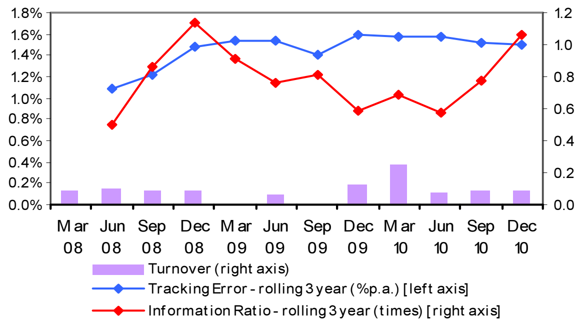
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



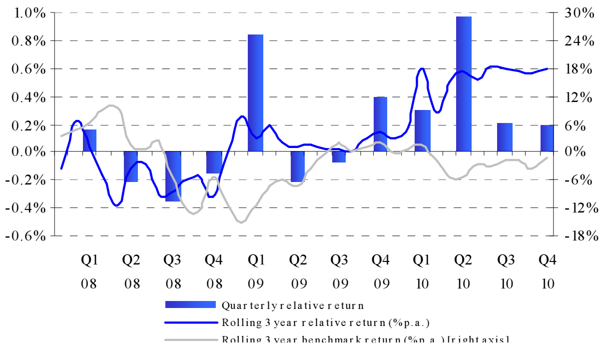
Source: Data provided by WM Performance Services, and Invesco

Comments:

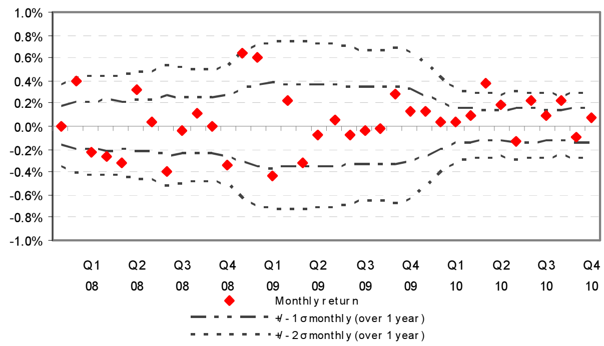
- Over the last quarter the Fund outperformed its benchmark by 2.4%, producing an absolute return of 12.4%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 16.2%. Over three years, the Fund outperformed, by 1.6% p.a., producing an absolute return of 4.9% p.a.
- Over the last quarter, stock selection and style selection have been the main contributors. There were no material negative contributors over the quarter. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the volatility of 2008 has rolled out of the calculations. However, there is a marginal increase in the current quarter compared to earlier quarters.
- Turnover increased slightly over Q4 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, as Information Technology remained an overweight position (at 1.9%) and Consumer Staples continued to be an underweight position (in the 1.8% to 2% range).

SSgA – Europe ex-UK Equities (Enhanced Indexation)

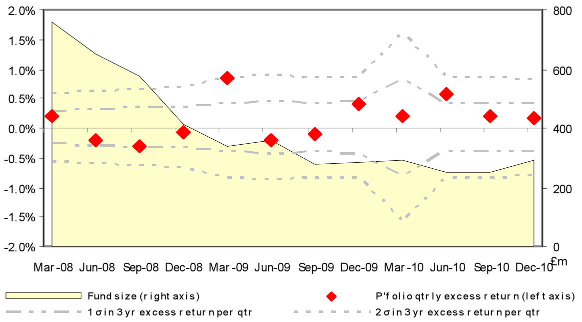
Relative returns #1



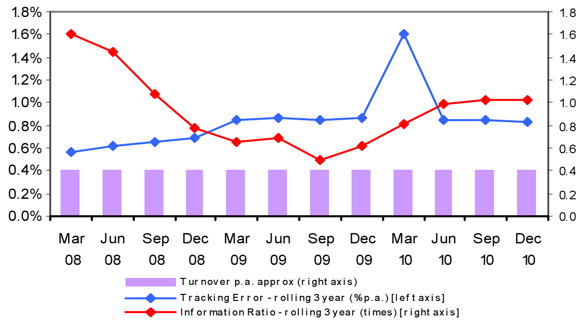
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



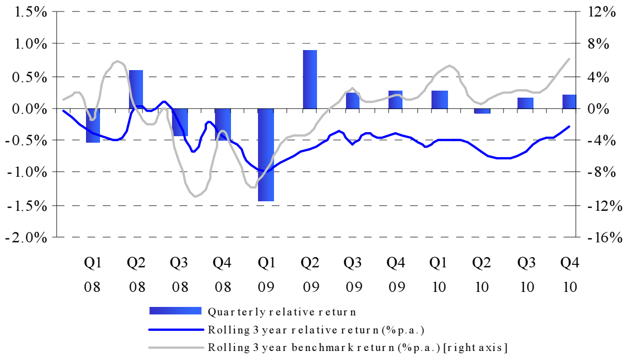
Source: Data provided by WM Performance Services, and SSgA

Comments:

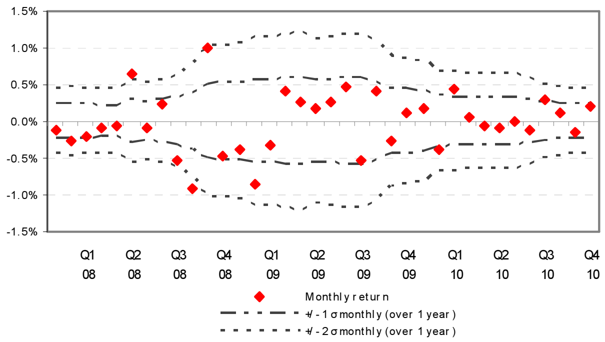
- In January 2011, State Street Global Advisors ("SSgA") completed the acquisition of Bank of Ireland Asset Management ("BIAM") for approximately €57 million inclusive of the estimated net assets of the business of €14 million. SSgA claim that this acquisition enhances their Global Investment Platform and our view is that this acquisition will have no impact at all on the funds in which the Avon Pension Fund invests with SSgA.
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 4.8%.
- Over the last year, the Fund outperformed the benchmark by 1.9%, producing an absolute return of 6.7%. Over the last 3 years, the Fund outperformed the benchmark by 1.3% p.a., producing an absolute return of -0.7% p.a.
- Stock selection continued to be 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, reflecting conditions in the underlying equity markets. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years while the number of stocks increased very slightly over the quarter. The tracking error has remained constant compared to 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)

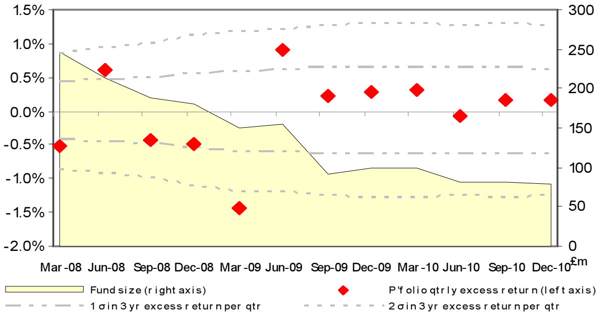
Relative returns #1



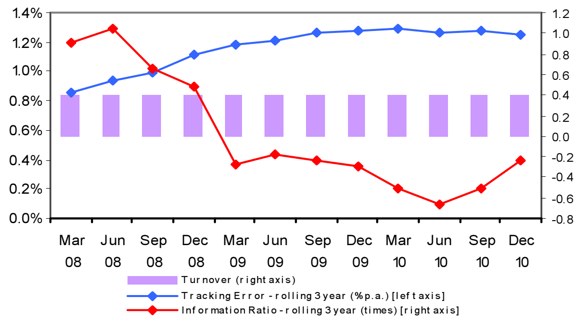
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



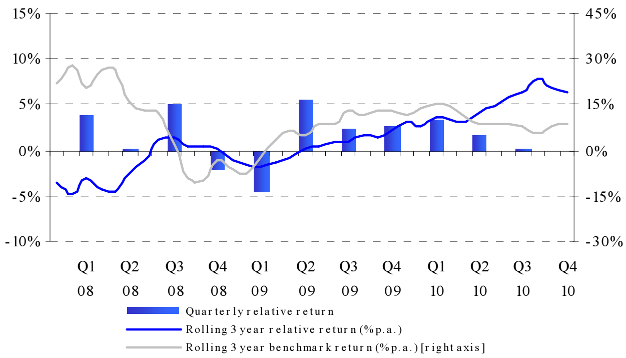
Source: Data provided by WM Performance Services, and SSgA

Comments:

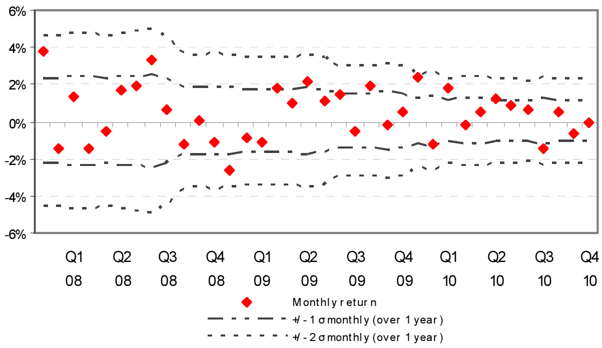
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 11.2%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of 22.1%. Over the last 3 years, the Fund underperformed the benchmark by 0.1% p.a., producing an absolute return of 6.0% p.a.
- Similar to the other SSgA portfolio, stock selection continued to be the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- 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

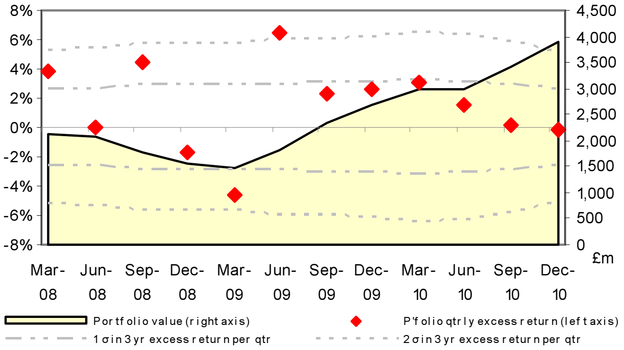
Relative returns #1



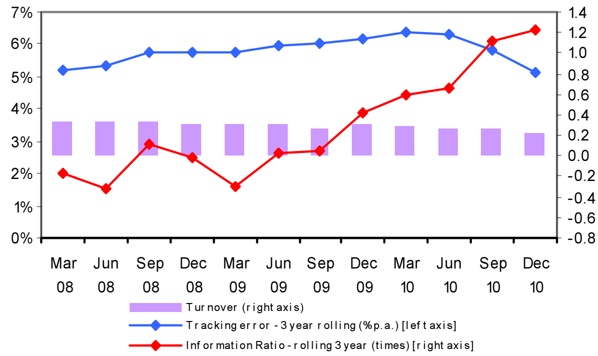
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4

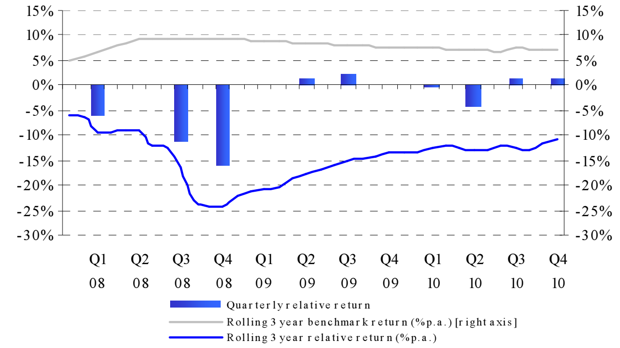


Source: Data provided by WM Performance Services, and Genesis

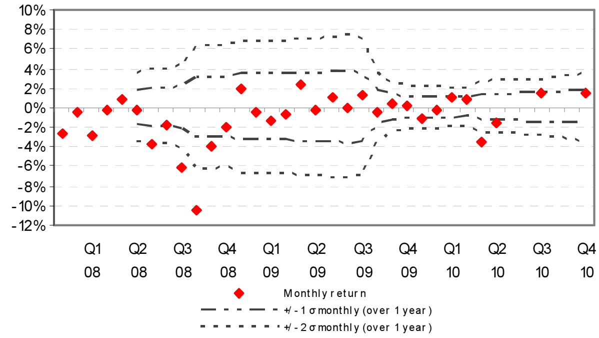
Comments:

- Over the last quarter the Fund underperformed the benchmark very marginally, by 0.2%, producing an absolute return of 7.9%.
- Over the last year, the Fund outperformed the benchmark by 5.6%, producing an absolute return of 28.5%. Over the last 3 years, the Fund outperformed the benchmark by 6.7% p.a., producing an absolute return of 15.0% p.a.
- The Fund remains overweight to South Africa and has moved overweight in India, whilst moving underweight in Brazil. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) continued to fall over the latest quarter. The 3 year information ratio (risk adjusted return), again, continued to rise over the quarter to 1.23 in Q4 2010 as compared to 1.11 in Q3 2010. This is particularly impressive.
- On an industry basis, the Fund continued to be significantly overweight in Consumer Staples (+8.5%) and underweight Information Technology, Consumer Discretionary (-3.9%) and Energy (-3.9%).

Relative returns #1

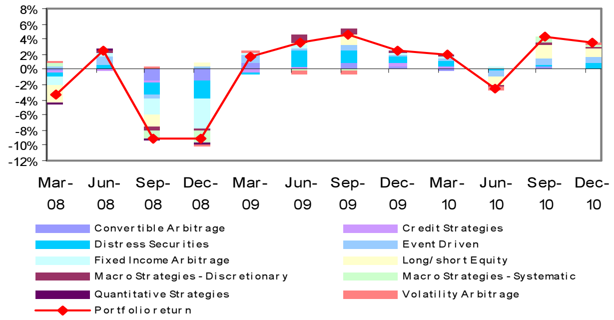


Monthly / Quarterly relative returns #2

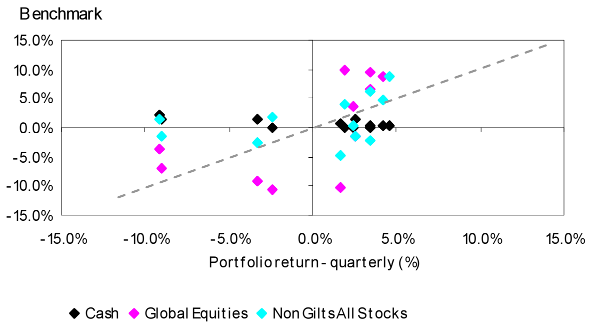


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return #6



Correlation with indices #7



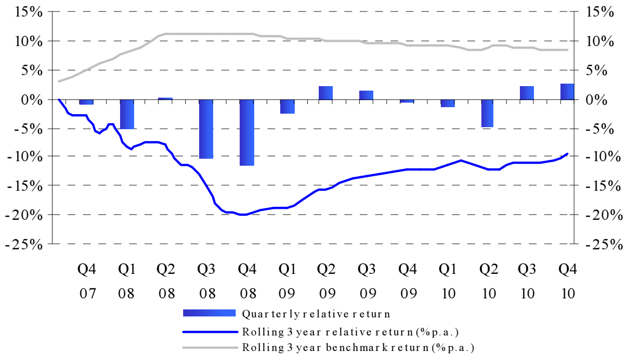
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

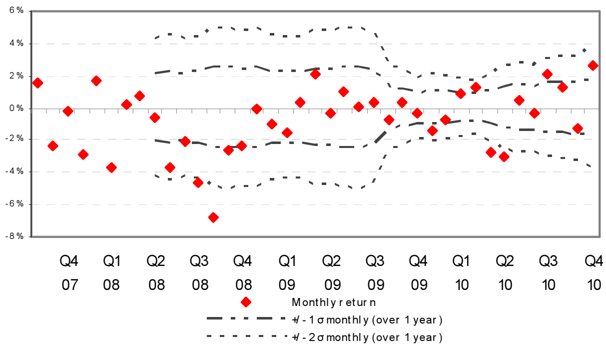
- Over the last quarter, the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.6%.
- Over the last year, the Fund performed in line with the benchmark, producing an absolute return of 4.7%. Over the three year period, the Fund underperformed the benchmark by 10.2% p.a., producing an absolute return of -3.7% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation (now 41.9%) 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

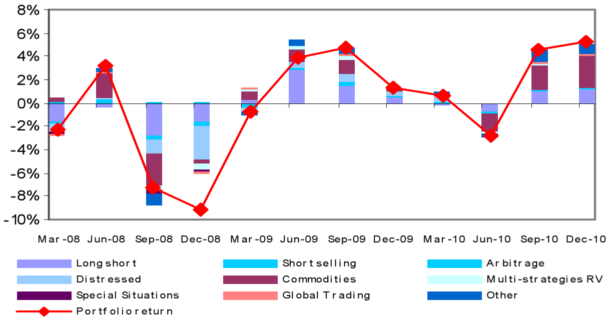
Relative returns #1



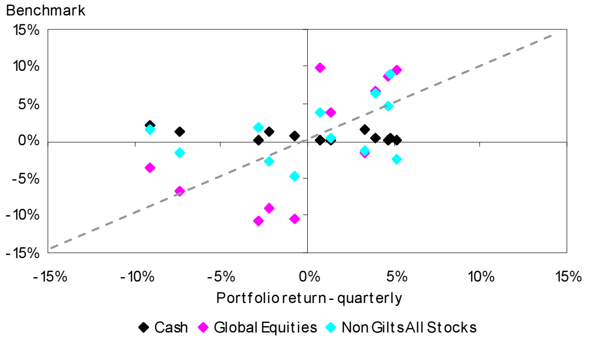
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



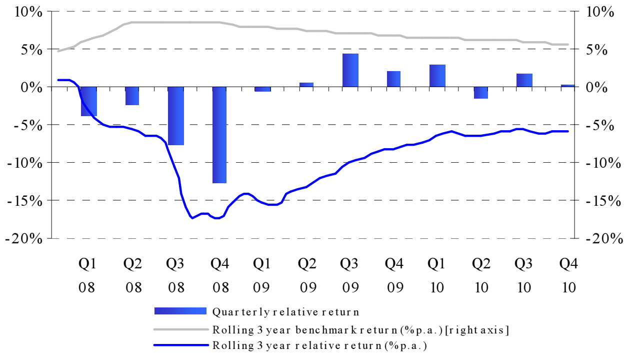
Source: Data provided by WM Performance Services, and MAN

Comments:

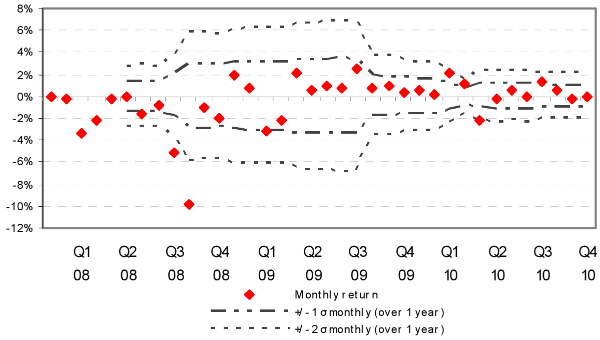
- In October 2010, Man Group plc completed the acquisition of GLG Partners, Inc (GLG), which helped to create a multi-style alternative asset manager with funds of $63 billion under management. GLG is now a wholly owned subsidiary of Man. We have no additional concerns surrounding this corporate development in respect of the Avon Pension Fund's investment with Man to add to the discussion had as part of the ongoing review of the Fund of Hedge Funds.
- Over the last quarter the Fund outperformed the benchmark by 2.7%, producing an absolute return of 4.3%.
- Over the last year, the Fund underperformed the benchmark by 1.3%, producing an absolute return of 5.2%. Over the last 3 years, the Fund underperformed the benchmark by 9.6% p.a., producing an absolute return of -1.4% p.a.
- The key drivers of performance were the high allocations to Commodities and Long / Short strategies which produced strong returns, except for the Long / Short Global strategy which produced negative returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, although 63.7% 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

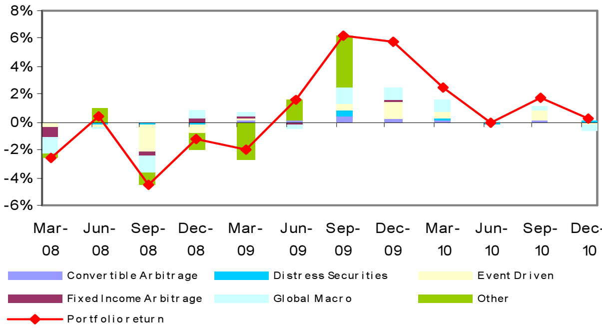
Relative returns #1



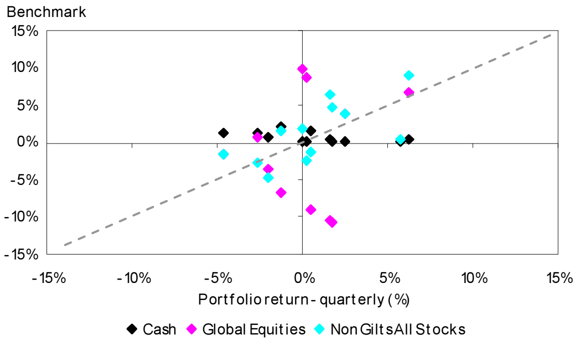
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



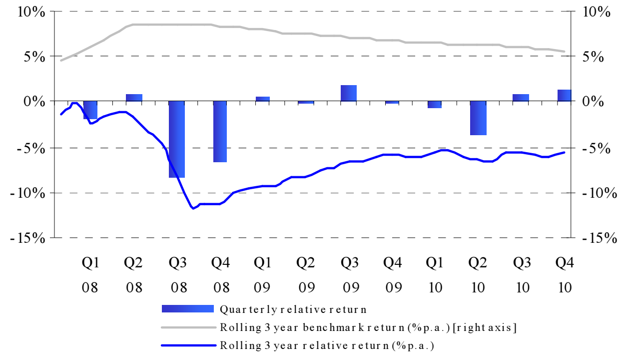
Source: Data provided by WM Performance Services, and Signet

Comments:

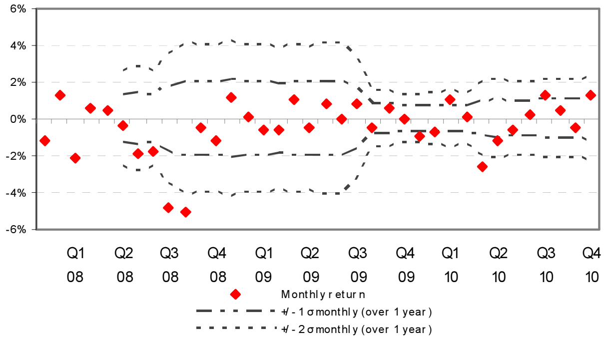
- Over the last quarter, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 1.2%.
- Over the last year, the Fund outperformed the benchmark by 3.7%, producing an absolute return of 7.4%. Over the 3 year period the Fund underperformed the benchmark by 6.0% p.a., producing an absolute return of 0.5% 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.
- The reduction in the volatility of monthly returns since the middle of 2009 is marked, and a trend identifiable in all of the Fund of Hedge Fund managers' monthly returns.

Stenham – Fund of Hedge Funds

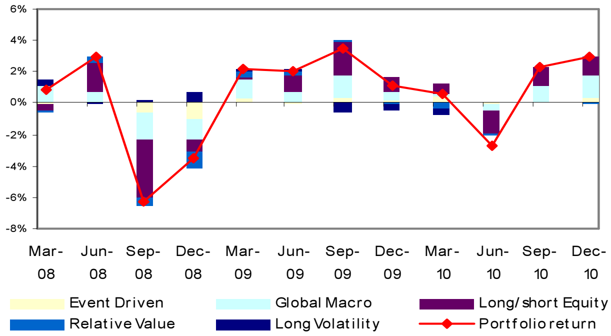
Relative returns #1



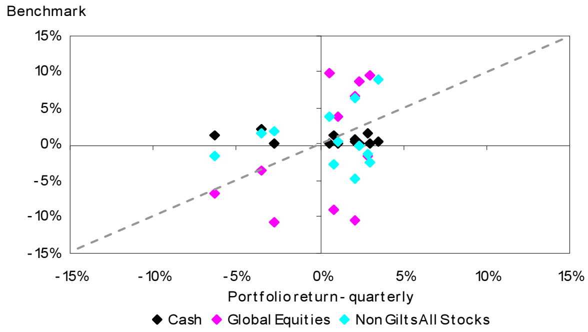
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



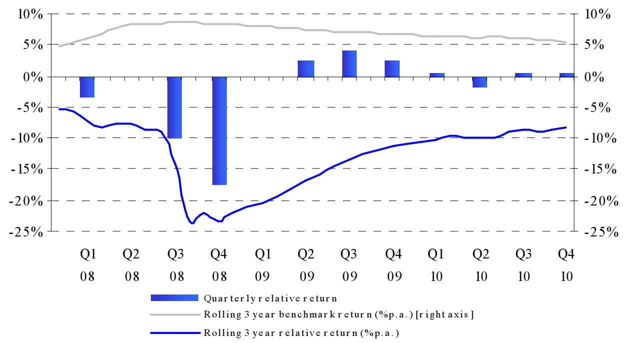
Source: Data provided by WM Performance Services, and Stenham

Comments:

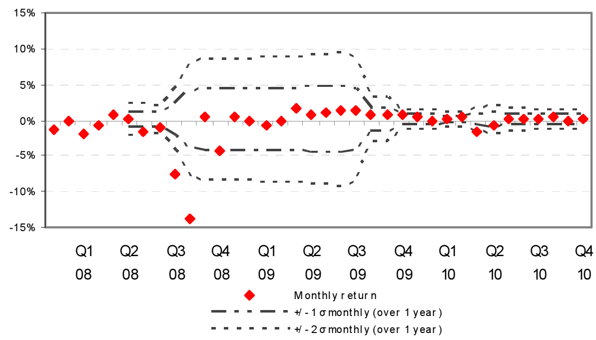
- Over the last quarter the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.3%.
- Over the last year, the Fund underperformed the benchmark by 2.2%, producing an absolute return of 1.5%. Over the last 3 years, the Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of -0.1% p.a.
- The main contributors to the positive absolute performance continued to be Global Macro and Long / Short Equity strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 68% of the total Fund allocation. The allocation to Event Driven strategies rose from 10.4% to 16.5% 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

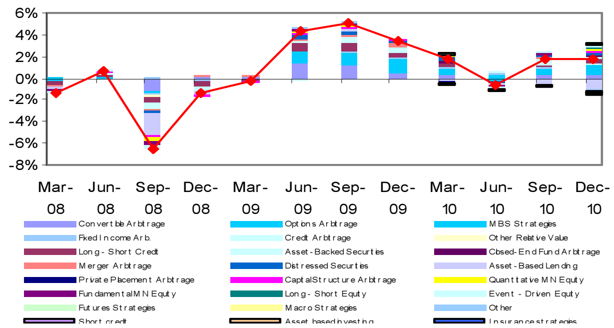
Relative returns [#1]



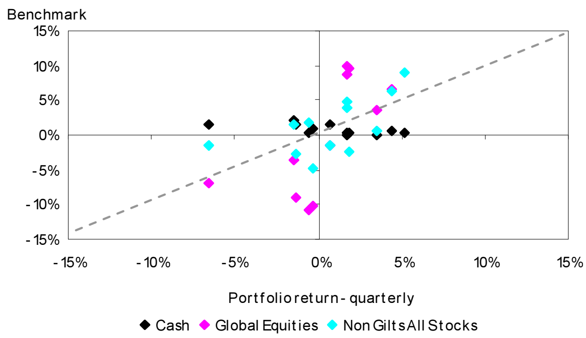
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



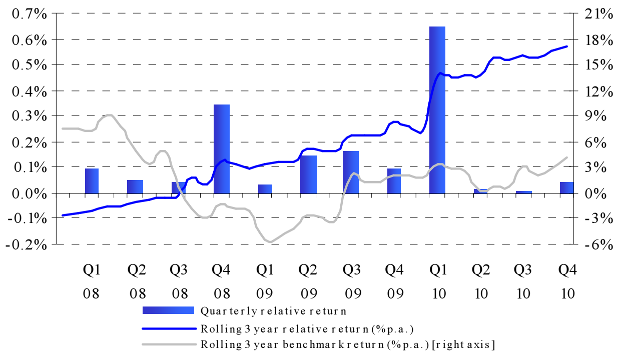
Source: Data provided by WM Performance Services, and Gottex

Comments:

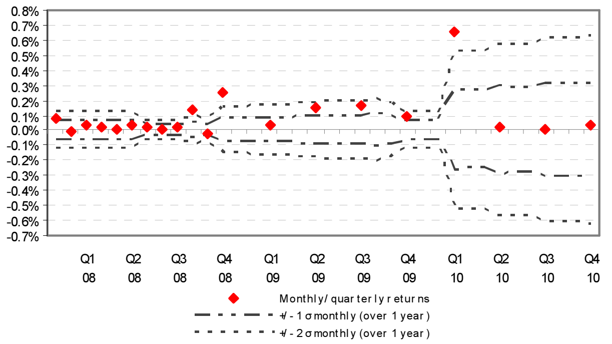
- Over the last quarter the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.5%.
- Over the last year, the Fund underperformed the benchmark by 0.2%, producing an absolute return of 3.5%. Over the last 3 years, the Fund underperformed the benchmark by 8.1% p.a., producing an absolute return of -2.6% p.a.
- The key drivers of performance were Macro and MBS strategies, Long / Short equities, Event-driven equities and Closed-End Fund Arbitrage. Performance for the quarter continued to be negatively impacted by the Asset Backed, Asset Based Lending and Other strategies.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be ABS, Long-Short Credit, MBS and convertible Arbitrage Strategies. Allocations to Asset-Backed Securities increased further, continuing the gradual increase seen over the past six 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

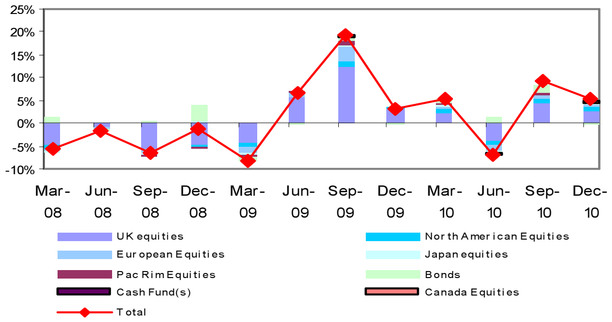


Monthly/Quarterly relative returns #2

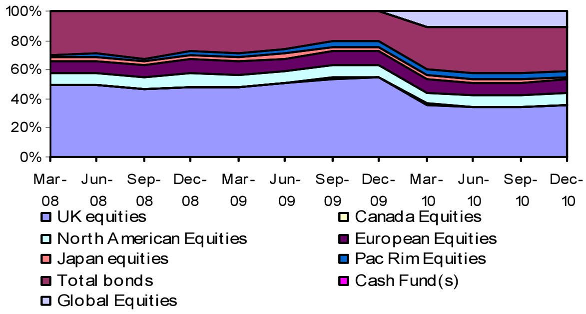


Note that return after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5



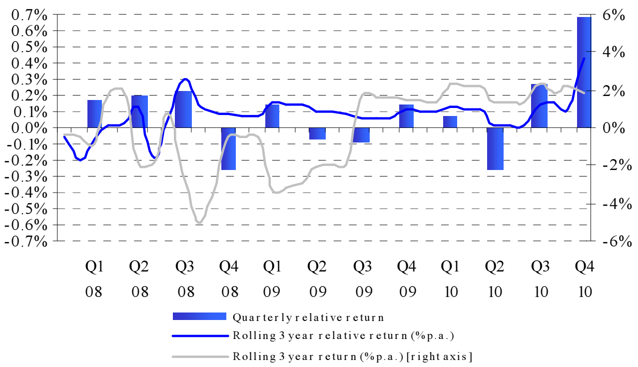
Source: Data provided by WM Performance Services, and BlackRock

Comments:

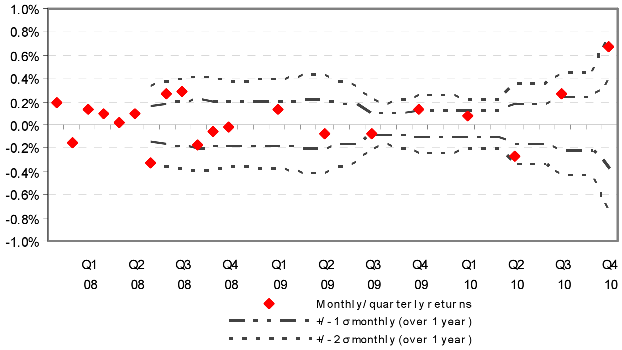
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 5.4%.
- Over the last year, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 13.1%. Over the last 3 years the Fund outperformed the benchmark by 0.4% p.a., producing an absolute return of 4.8% 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 12 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.
- Allocations have remained stable compared to Q3 2010; however, there have been significant changes to allocations compared to the same quarter in 2009. Total allocations to bonds have significantly increased while allocation to equities has been reduced steadily.

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

Relative returns #1



Monthly relative returns #2



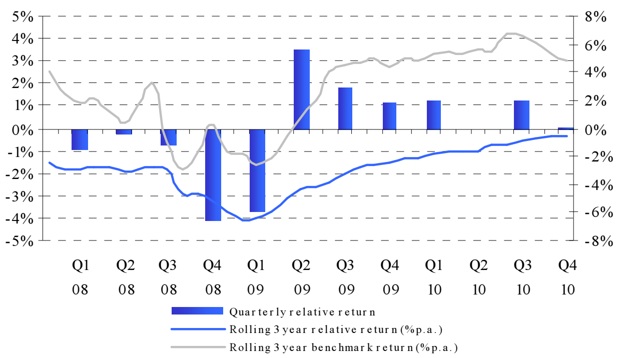
Note that returns after Q4 2008 above are quarterly returns.

Source: Data provided by WM Performance Services, and BlackRock

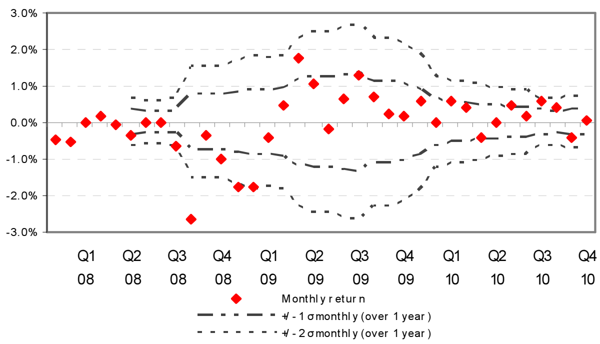
Comments:

- Over the last quarter, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.2%.
- Over the last year the Fund produced a return of 7.8%, outperforming the benchmark by 0.8%. Over a rolling 3 year period the Fund produced an absolute return of 2.3%p.a., outperforming the benchmark return by 0.4%.
- Over the quarter the Fund sold down equities and bonds to provide the cash to fund the investments made into the Fund's property managers.

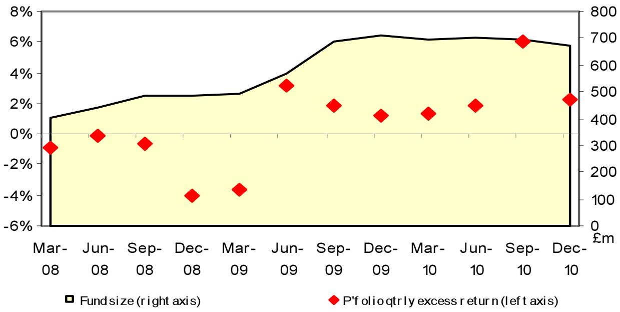
Relative returns [#1]



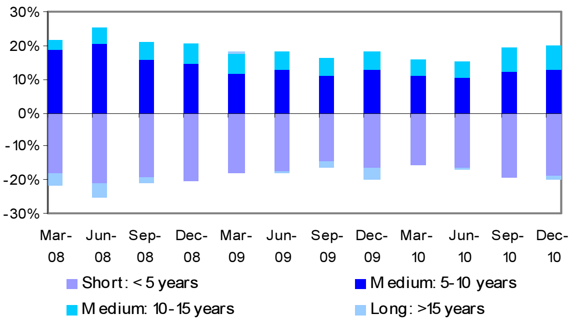
Monthly relative returns [#2]



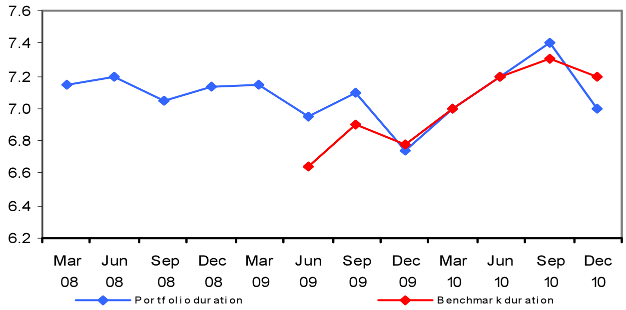
Performance v fund size [#3]



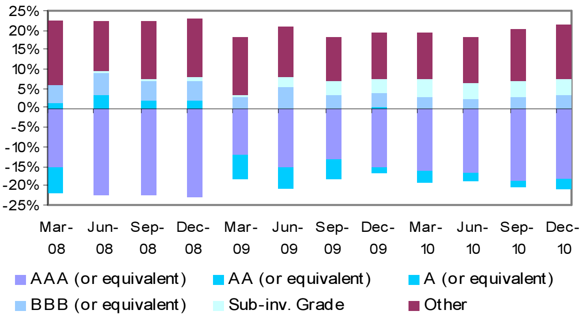
Relative Maturity exposure [#8]



Duration [#10]



Relative Ratings exposure [#9]



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund marginally outperformed the benchmark by 0.1%, producing an absolute return of -2.3%.
- Over the last year, the Fund outperformed the benchmark by 2.6%, producing an absolute return of 11.0%. Over a rolling 3 year period, the Fund underperformed the benchmark by 0.6% p.a., producing an absolute return of 4.2% p.a.
- The Fund marginally outperformed the benchmark over the last quarter despite the portfolio being underweight to AAA, and favouring 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

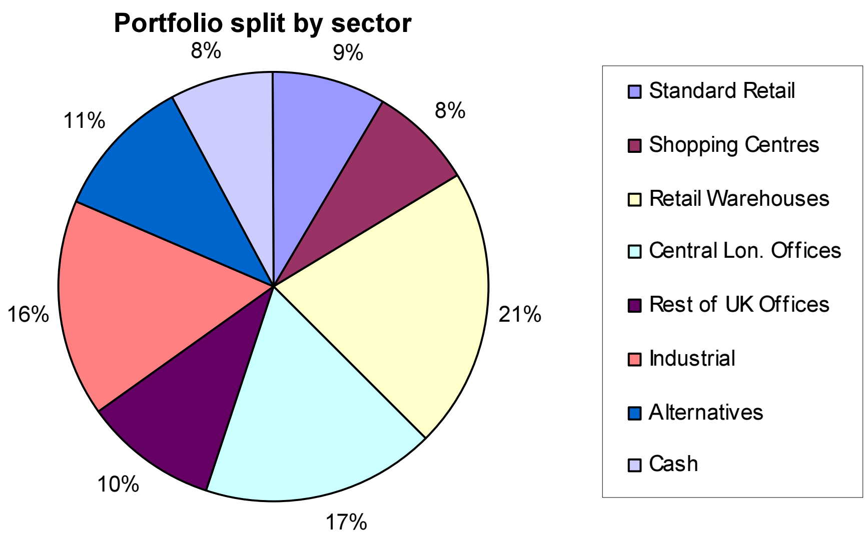
- The mandate awarded to Schroder by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- 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 31 December 2010, approximately 96% of the Fund's commitment of £120 million had been drawn by Schroder.

To date, the drawn down monies have been invested across 15 different underlying funds. Of these funds, 6 are "core" investments (comprising 63% of the total portfolio) and 9 are "value add" investments (the remaining 37% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 31 December 2010, was split between sectors as shown in the following chart.



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

Schroder believe that there is increasing evidence of a divide in property between London and the rest of the UK. Most parts of the market saw a further small fall in open markets rents, with the exception of offices and shops in central London, which have experienced some rental growth.

Schroder's current approach is to tilt portfolios moderately towards their favoured sectors, while seeking to balance funds which invest in assets with more stable income streams with those with more active management policies. While prime property is expected to continue to outperform in the near term, the pricing differential between prime and other property is at historical highs. Schroder believe that managers with undrawn commitments are in a good position to take advantage of opportunities in 'near prime' assets which are attractively valued.

Of the remaining equity, £3.1 million is committed to existing investments (i.e. Columbus UK Real Estate Fund and Threadneedle Strategic Property Fund IV) and the balance will be used to invest in an existing core fund. After this money is drawn, Schroder may consider some minor rebalancing to achieve their favoured sector positions, although they are broadly happy with the current sector weightings within the portfolio.

Performance over Q4 2010

- Schroder produced a return of 2.0% net of fees over the three months to 31 December 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 value added funds which were exposed to central London offices and good quality shopping centres, and negative contributions from the core funds partly due to the transaction costs incurred on Hermes PUT and Aviva Investors Pensions Property Fund. The West End of London PUT, a fund specialising in London offices, was the strongest contributor to relative returns for the quarter followed by the Standard Life Investments UK Shopping Centre Trust.
  - The costs associated with buying property (and therefore property funds) has weighed on short term returns as capital has been invested. A further £21 million of investments were made in the fourth quarter, representing approximately 22% of the end of Q3 2010 portfolio value.
  - Twelve month returns were negatively impacted by transaction costs of approximately 2% during which approximately £55 million of investments were made into property funds. Excluding the impact of these costs, Schroder estimates that the portfolio would have outperformed the benchmark by approximately 0.4%. The strongest contributor to relative returns over the 12 month period was the Standard Life Investments UK Shopping Centre Trust, whilst the Hansteen UK Industrial PUT negatively contributed to relative returns over the same period.

Conclusion

The Schroder property portfolio is almost fully invested, this having occurred in the expected time since they were appointed. The portfolio is well diversified by manager and sector while still showing active sector allocation according to the views of the Schroder Property Multi-Manager team. Transaction costs have a large impact in the shorter term and Schroder have shown that they take these into consideration in determining if and when to make an investment.

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 £40 million of the Fund's intended commitment of approximately £120 million. The draw downs commenced in September 2009.

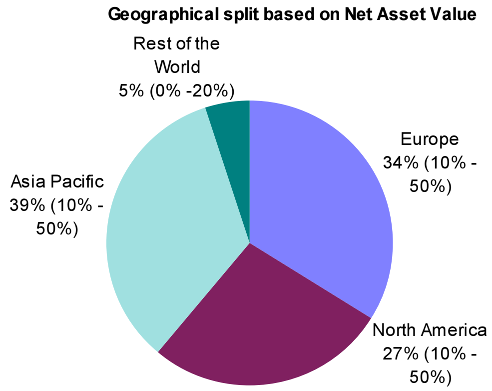
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

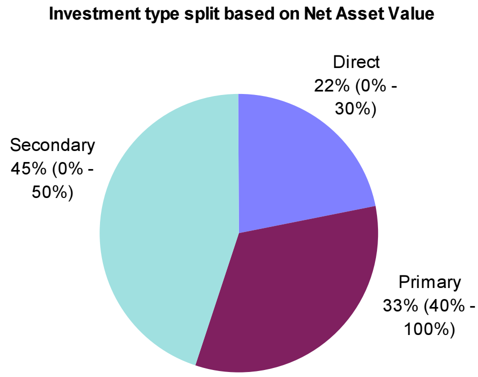
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 31 December 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	5.74	5.96
Distressed US Real Estate 2009	9.53	10.22
Global Real Estate 2008	20.07	20.50
Global Real Estate 2011	1.49	1.50
Real Estate Secondary 2009	3.28	3.61
Total	**40.11**	**41.79**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 31 December 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 allocation to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, Partners continues to be 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 high allocation to secondary investments.

Changes with respect to the asset allocation investment guidelines were implemented in October 2010 (the new guidelines are reflected in charts above); these changes included increases to 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 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 high allocation to secondary investments reflects Partners' strong view that this market offers attractive value.

Performance over Q4 2010

Partners produced a return of 6.4% over the three months to 31 December 2010. The Fund significantly outperformed its benchmark by 4.5% for the quarter.

Conclusion

Partners Group have recognised that market conditions have changed since they were appointed and therefore the change in increasing the ranges for investments in Primary, Secondary and Direct investments is sensible.

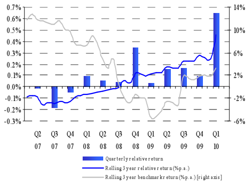
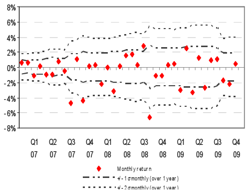
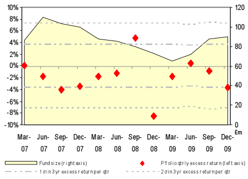
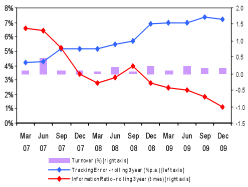
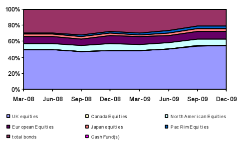
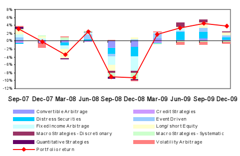
The underweight to Primary investments will reduce the initial costs expected in the private real estate investment although these costs will increase as and when Partners identifies suitable opportunities for Primary investment.

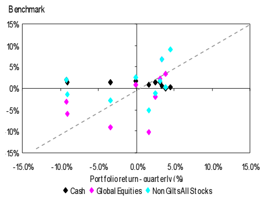
Drawdown will continue to be staggered to ensure diversification by vintage year.

We have no concerns with Partners.

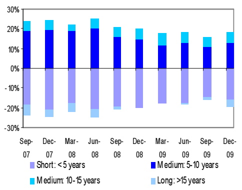
Appendix A – Glossary of Charts

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

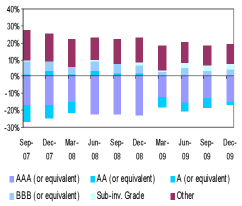
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year 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 

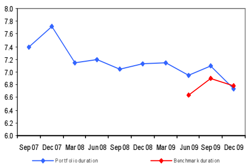
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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	

JLT Investment Consulting

St James's House, 7 Charlotte Street
Manchester, M1 4DZ
Fax +44 (0) 161 253 1169

CONTACTS

Dave Lyons
JLT Investment Consulting
Tel: +44 (0) 0161 253 1153
Email: dave_lyons@jltgroup.com

Bekki Jones
JLT Investment Consulting
Tel: +44 (0) 0161 253 1159
Email: bekkijones@jltgroup.com

Proposed Counterparty List
2011/12

CRITERIA									
			FITCH RATINGS			Moody's Ratings		S&P Ratings	
			S/Term	L/Term	Support	S/Term	L/Term	S/Term	L/Term
	Duration	Council Limit (£m)	F1	A	3	P-1	A2	A-1	A
UK Banks	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Barclays Bank	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1+	AA-
HSBC Bank plc	2 Years	20	F1+	AA	1	P-1	Aa2	A-1+	AA
Lloyds Banking Group									
Lloyds TSB Bank	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1	A+
Bank of Scotland	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1	A+
RBS Group									
National Westminster Bank	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1	A+
Royal Bank of Scotland	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1	A+
Standard Chartered Bank	3 Months	5	F1+	AA-	3	P-1	A1	A-1	A+
UK Building Societies									
Nationwide	2 Years	20	F1+	AA-	1	P-1	Aa3	A-1	A+
Leeds	3 Months	5	F1	A	5	P-1	A2	-	-
Coventry	3 Months	2	F1	A	5	P-2	A3	-	-
Yorkshire	3 Months	2	F2	A-	5	P-2	Baa1	A-2	A-
Skipton	3 Months	2	F2	A-	5	P-2	Baa1	-	-
Principality	3 Months	2	F2	BBB+	5	P-2	Baa2	-	-
Norwich & Peterborough	3 Months	2	F2	BBB+	3	P-2	Baa2	-	-
Foreign Banks									
Australia	**Sovereign Rating**			**AA+**			**Aaa**		**AAA**
Australia & New Zealand Banking Group	6 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA
Commonwealth Bank of Australia	1 Year	10	F1+	AA	1	P-1	Aa1	A-1+	AA
National Australia Bank									
Clydesdale Bank	6 Months	5	F1+	AA-	1	P-1	A1	A-1	A+
National Australia Bank	1 Year	10	F1+	AA	1	P-1	Aa1	A-1+	AA
Westpac Banking Corporation	6 Months	10	F1+	AA	1	P-1	Aa1	A-1+	AA
Austria	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Raiffeisen Zentralbank Österreich AG	3 Months	5	F1	A	1	P-1	A1	A-1	A
Belgium	**Sovereign Rating**			**AA+**			**Aa1**		**AA+**
Dexia Bank									
Dexia Bank Belgium	3 Months	5	F1+	A+	1	P-1	A1	A-1	A
Dexia Banque Internationale a Luxembourg	3 Months	5	F1+	A+	1	P-1	A1	A-1	A
Dexia Credit Local	3 Months	5	F1+	A+	1	P-1	A1	A-1	A
KBC Bank									
KBC Bank	3 Months	5	F1+	A	1	P-1	Aa3	A-1	A
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	6 Months	5	F1+	AA-	1	P-1	Aa2	A-1	A+
Bank of Nova Scotia	6 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Canadian Imperial Bank of Commerce	6 Months	5	F1+	AA-	1	P-1	Aa2	A-1	A+
National Bank of Canada	3 Months	5	F1	A+	2	P-1	Aa2	A-1	A
Royal Bank of Canada	6 Months	10	F1+	AA	1	P-1	Aaa	A-1+	AA-
Toronto-Dominion Bank	6 Months	10	F1+	AA-	1	P-1	Aaa	A-1+	AA-
Denmark	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Danske Bank	3 Months	5	F1	A+	1	P-1	Aa3	A-1	A
France	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
BNP Paribas									
BNP Paribas	6 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA
Fortis Bank	6 Months	5	F1+	A+	1	P-1	A1	A-1+	AA
Caisse Federative du Credit Mutuel									
Banque Federative du Credit Mutuel	6 Months	5	F1+	AA-	1	P-1	Aa3	A-1	A+
Credit Industriel et Commercial	6 Months	5	F1+	AA-	1	P-1	Aa3	A-1	A+
Group BPCE									
BPCE	6 Months	5	F1+	A+	1	P-1	Aa3	A-1	A+
Credit Foncier de France	3 Months	5	F1+	A+	1	P-1	Aa3	A-1	A
Group Credit Agricole									
Credit Agricole	6 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Credit Agricole Corp. & Investment Bank	6 Months	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Societe Generale	6 Months	5	F1+	A+	1	P-1	Aa2	A-1	A+

Proposed Counterparty List

2011/12

CRITERIA

	Duration	Council Limit (£m)	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Support	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
			F1	A	3	P-1	A2	A-1	A
Germany	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Commerzbank Group									
Commerzbank AG	3 Months	5	F1+	A+	1	P-1	Aa3	A-1	A
Deutsche Bank	6 Months	5	F1+	AA-	1	P-1	Aa3	A-1	A+
DZ Bank	6 Months	5	F1+	A+	1	P-1	Aa3	A-1	A+
Landesbank Hessen-Thuringen	3 Months	5	F1+	A+	1	P-1	Aa2	A-1	A
Netherlands	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
ING Bank NV	3 Months	5	F1+	A+	1	P-1	Aa3	A-1	A+
Rabobank Group	2 Years	10	F1+	AA+	1	P-1	Aaa	A-1+	AAA
Norway	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
DnB NOR Bank	3 Months	5	F1	A+	1	P-1	Aa3	A-1	A+
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Development Bank of Singapore	6 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	3 Months	5	F1+	AA-	1	P-1	Aa1	A-1	A+
United Overseas Bank	3 Months	5	F1+	AA-	1	P-1	Aa1	A-1	A+
Sweden	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Nordea Group									
Nordea Bank AB	6 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Nordea Bank Finland plc	6 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Skandinaviska Enskilda Banken (SEB)	3 Months	5	F1	A+	1	P-1	A1	A-1	A
Svenska Handelsbanken	6 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Switzerland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Credit Suisse	6 Months	5	F1+	AA-	1	P-1	Aa1	A-1	A+
UBS AG	6 Months	5	F1+	A+	1	P-1	Aa3	A-1	A+
USA	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of America Corporation									
Bank of America NA	6 Months	5	F1+	A+	1	P-1	Aa3	A-1	A+
Bank of New York Mellon	6 Months	10	F1+	AA-	2	P-1	Aaa	A-1+	AA
Citigroup									
Citibank NA	6 Months	5	F1+	A+	1	P-1	A1	A-1	A+
Citibank International plc	3 Months	5	F1+	A+	1	P-1	A2	A-1	A+
J P Morgan Chase Bank NA	6 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Northern Trust Company	6 Months	10	F1+	AA-	3	P-1	Aa3	A-1+	AA
State Street Bank and Trust Co	6 Months	5	F1+	A+	1	P-1	Aa2	A-1+	AA-
Wells Fargo & Co									
Wells Fargo Bank NA	6 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA

Credit Rating Matrix - UK Banks & Building Societies from 1st April 2011

Total Limit	Maximum Term	Short Term	Long Term	Support	Short Term	Long Term	Short Term	Long Term
£5M	3 months	F1	A	3	P-1	A2	A-1	A
£20M*	2 Years*	F1+	A+	1	P-1	A1	A-1	A+
£20M	2 Years	F1+	AA+	1	P-1	Aa1	A-1+	AA+
£20M	5 Years	F1+	AAA	1	P-1	Aaa	A-1+	AAA

* It is proposed that where taking the lowest of the Credit Rating Agencies, the Long Term Rating is A+ or equvilant, the maximum investment limit is raised from £10m to £20m and duration up to 2 years for UK Banks . This is to allow the proposed investment strategy of increased limits for UK banks and Building Socieites with implicit or expected Government Support.

Credit Rating Matrix - Foreign Banks from 1st April 2011

Total Limit	Maximum Term	Short Term	Long Term	Support	Short Term	Long Term	Short Term	Long Term
£5M	3 months	F1	A	3	P-1	A2	A-1	A
£5M	6 Months	F1	A+	3	P-1	A1	A-1	A+
£10M	6 Months	F1	AA-	3	P-1	Aa3	A-1	AA-
£10M	1 Year	F1+	AA	2	P-1	Aa2	A-1+	AA
£10M	2 Years	F1+	AA+	2	P-1	Aa1	A-1+	AA+
£10M	5 Years	F1+	AAA	1	P-1	Aaa	A-1+	AAA

Agenda Item 16

Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	18 March 2011	**AGENDA ITEM NUMBER**
TITLE:	Applications for 3 Community Admission Bodies to be admitted to the Avon Pension Fund	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1: Local Government Pension Scheme (Administration) Regulations 2008: regulation 5

Appendix 2: North Somerset Council: Executive Minutes 14/12/2010 [EXE65]

Appendix 3: Bristol City Council: Cabinet Decision Recording Form 22 July 2010

1 THE ISSUE

1.1 Under regulation 5 of the Local Government Pension Scheme (Administration) Regulations 2008 [LGPS (Admin) Regs 2008], an administering authority may make an admission agreement with a community admission body.

1.2 Two applications to become members of the Avon Pension Fund have been received from North Somerset Council in respect of Clevedon School Sports Centre (Swiss Valley) and Gordano School Community Trust.

1.3 Another application has also been received from Bristol City Council on behalf of Bristol Music Trust.

2 RECOMMENDATION

The Pension Committee is asked to agree that:

2.1 Clevedon School Sports Centre (Swiss Valley) is allowed entry into the Avon Pension Fund as a Community Admission Body with North Somerset Council acting as guarantor.

2.2 Gordano School Community Trust is allowed entry into the Avon Pension Fund as a Community Admission Body with North Somerset Council acting as guarantor

2.3 Bristol Music Trust is allowed entry into the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as guarantor.

3 FINANCIAL IMPLICATIONS

3.1 In allowing any community admission body to join the fund there is always a need to consider the financial risks such a body may present. However, in such cases, where, at the date that an admission agreement is made with a body mentioned in LGPS (Admin) Regs 2008, Regulation 5, paragraph (2)(b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations. In all three applications contributions from Scheme employers are less than 50% of income from all sources and both Scheme employers involved have confirmed that they will act as guarantor for their respective applications.

4 THE REPORT

4.1 In all three cases trusts are to be set up to take over the provision of services from the Scheme Employer [Appendices 2 and 3]. In each case existing staff, who are members of the Local Government Pension Scheme [LGPS], will be transferred across to the new body to protect their pension provision.

4.2 In all cases the admission agreement is to be set up as a 'closed arrangement' and will only cover staff transferred and not any new employees.

4.3 The number of potential transferring scheme members is currently:

Clevedon School Sports Centre (Swiss Valley)	2
Gordano School Community Trust	1
Bristol Music Trust	26

4.4 The Pension Committee must approve any Community Admission Body who wish to join the Fund

5 RISK MANAGEMENT

5.1 In line with Pension Committee policy, officers have ensured that such admissions will only be considered if a guarantor is in place.

6 EQUALITIES.

6.1 There are no direct equality implications from this process

7 CONSULTATION

7.1 No consultation is appropriate

8 ADVICE SOUGHT

8.1 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	*Steve McMillan x 5254*
Background papers	*North Somerset Council: Report to Executive 14/12/2010 Swiss Valley and Gordano Sports Centres* *Bristol City Council: Cabinet Agenda [Item 7] 22/07/2010 Colston Hall Governance Options* *Bristol Music Trust: Articles of Association*
Please contact the report author if you need to access this report in an alternative format	

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Regulation 5 Local Government Pension Scheme (Administration) Regulations 2008

Employees of non-Scheme employers: community admission bodies

5.—(1) Subject to the requirements of this regulation and regulation 7, an administering authority may make an admission agreement with any community admission body.

(2) The following are community admission bodies—

(a) a body, other than the governors or managers of a voluntary school (within the meaning of the School Standards and Framework Act 1998, which provides a public service in the United Kingdom otherwise than for the purposes of gain and which either—

(i) has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise), or

(ii) is approved by the Secretary of State for the purposes of admission to the Scheme;

(b) a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes;

(c) a body representative of—

(i) local authorities,

(ii) local authorities and officers of local authorities,

(iii) officers of local authorities where it is formed for the purpose of consultation on the common interests of local authorities and the discussion of matters relating to local government, or

(iv) Scheme employers;

(f) a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and

(g) a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 (other than a local authority).

(3) An approval under paragraph (2)(a)(ii) may be subject to such conditions as the Secretary of State thinks fit and she may withdraw an approval at any time if such conditions are not met.

(4) Where, at the date that an admission agreement is made with a body mentioned in paragraph (2)(b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations.

(5) In paragraph (2)(c) “local authorities" and (f) “local authority" includes the Greater London Authority.

(6) For the purpose of determining whether a company is subject to the influence of a body as mentioned in paragraph (2)(g), section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

Minutes
of the Meeting of the
Executive
Tuesday, 14th December 2010
held at the Town Hall, Weston-super-Mare, Somerset.

Meeting Commenced: 2.30 p.m. Meeting Concluded: 5.02 p.m.

Councillors:
P Nigel Ashton (Chairman)
P Elfan Ap Rees (Vice-Chairman)

P Felicity Baker
P Peter Bryant
P Tony Lake
P Jeremy Blatchford
P Carl Francis-Pester

P: Present
A: Apologies for absence submitted

EXE 65 **Swiss Valley and Gordano Sports Centres (Agenda Item 14(5))**

Councillor Ashton presented a report.

The Executive noted that, in the first paragraph of Section 5 of the report, "£30,000" should be substituted by "£20,000".

Resolved:

(1) that the creation of Not-for-Profit Organisations (NPOs) at Clevedon and Gordano Schools, to take over the operation of the dual use sports facilities from the Council from 1st April 2011, be approved;

(2) that a revenue grant to each NPO of £35,000 to be spread over the next three years to help ensure a sustainable future for both organisations, be approved;

(3) that capital funding be provided of up to £160,000 at each facility for the replacement of artificial grass pitch surfacing, to be repaid to the Council over a period of up to fifteen years, this funding to be provided in each case to the school and repayment to be from the school, any outstanding balances to be immediately repayable, by the school, if the pitches were no longer available for community use during the fifteen year payback period;

(4) that the Capital Programme be amended by up to £320,000 to reflect this expenditure, this to be in addition to the sums already included in detail in Appendix 5 of the Draft Budget Report to be presented later in the meeting; and

(5) that the Director of Development and Environment, in consultation with the Director of Finance and Resources and the Leader of the Council, be authorised to finalise and approve the detailed arrangements for these transfers.

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CAB 15.7/10

CABINET

Decision Recording Form

Decision determined on **22 JULY 2010**

Decision will come into effect on 30 July 2010
(subject to any call-in referral before that date)

(a) Subject : COLSTON HALL GOVERNANCE OPTIONS
(agenda item 7)

(b) Ward : Citywide

(c) Executive members responsible for taking the decision :
Cllr Barbara Janke, Leader of the Council
Cllr Simon Cook, Deputy Leader & Executive Member, Culture, Sport & Capital Projects
Cllr Clare Campion-Smith, Executive Member, Children & Young People
Cllr Gary Hopkins, Executive Member, Strategic Transport, Waste and Targeted Improvement
Cllr Bev Knott, Executive Member, Neighbourhoods
Cllr Anthony Negus, Executive Member, Strategic Housing and Regeneration
Cllr Jon Rogers, Executive Member, Health and Care
Cllr Mark Wright, Executive Member, Efficiency and Value for Money

(d) Declarations of interest :

None.

(e) Decision :

1 **That approval be given to the establishment of an arm's length trust organisation to improve the development of music provision in Bristol, with a view to the new organisation managing the Colston Hall from April 2011, subject to a further report to be considered at a later date on the detailed governance arrangements, to include:**
- **proposed board members.**
- **draft memorandum and articles for the new company.**
- **draft heads of terms for the lease of the Colston Hall.**
- **a full business plan including proposed future funding allocations.**

2 That an application be prepared to the Avon Pension Fund Committee for the trust to be admitted to the Local Government Pension Scheme, subject to any final decision by Cabinet.

(f) Other options considered and rejected :

As set out in the report.

(g) Exempt information?

None.

(h) Decision made in exempt session?

No.

(i) Additional information/documents taken into account :

(Additional means additional to anything contained in / referred to in the documents submitted to the meeting).

None.

(j) Reason for decision :

As set out in the report.

Signed : .... **Date :** ....
(Leader of the Council on behalf of
the Cabinet)

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	18 MARCH 2011	
TITLE:	2011-14 SERVICE PLAN AND BUDGET	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Annex: 2011 – 2014 Service Plan and Budget (including 5 Appendices)

1. THE ISSUE

1.1 The purpose of this report is to present to Committee the 3-Year Service Plan and Budget for the period 1 April 2011 to 31 March 2014.

1.2 The Service Plan (Annex) reports on progress made against 2010/11 planned actions and then details new development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 **That the Committee approves the 3-Year Service Plan and Budget for 2011-14 for the Avon Pension Fund.**

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.

3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2011/14

4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three year budget supports the objectives and actions arising from the plan including work relating to the investment strategy and improvements in the administration of the Fund. Specifically the Fund is developing an administration strategy that incorporates working more closely (as partners) with the Fund's employing bodies.

4.2 Full details of the 2011/14 Service Plan are included in the Appendices. Appendix 3 shows progress of the 2010/13 plan as well as the new medium term targets for 2011/12.

5 BUDGET 2011/12 TO 2013/14

5.1 The total budget for the Pension Fund for 2011/12 is £11,330,900, an increase of £1,020,400 over the budget for 2011/12 previously approved in March 2010 as part of the three year budget. The increase of £1,020,400 is broken down as follows:

(i) The increase in expenditure as a result of investment management fees and governance and compliance costs is £1,130,300.

(ii) The budget for administration costs shows a saving of £109,900 representing a saving of 5.03% on the 2011/12 budget previously approved as part of the three year budget in March 2010.

5.2 The administration budget for 2011/12 is £2,073,000. The total budget for investment, governance and compliance for 2011/12 is £9,257,900. A detailed breakdown of the three year budget 2011/12 to 2013/14 is shown in Appendix 4 of the Service Plan.

5.3 **Savings and Inflation**: The savings are calculated by comparison of the proposed 2011/12 budget with the 2011/12 budget approved on 26 March 2010 as part of the three year budget commencing 2010/11. The inflation rate over 2010/11 assumed in the preparation of that three year budget at that time was 2% p.a. for all expenditure other than Investment Management Fees and Global Custody fees, which were increased by 6% p.a. in line with the actuarial assumption for investment returns.

In preparing the proposed 2011/12 budget salary inflation has been assumed at zero in line with the freeze on pay awards; however, some increase in costs has been assumed due to increases in pension contributions, increments and national insurance. Increases in expenditure on Investment Management Fees are still assumed to rise by 6% in line with the actuarial assumption. In all other areas the proposed budget is based on estimates of specific costs. Consequently there is no uniformly assumed inflation rate. Where inflation has been assumed for 2011/12, it has been between 2% and 3%. For 2012/13 and 2013/14 the rates of inflation assumed are between 2.5% and 3% per annum on all non salary costs apart from Investment

Management Fees which increase by 6% p.a. as explained above. The inflation rate assumed for salaries is zero for 2012/13 and 1% for 2013/14.

5.4 The Pension Fund continuously strives to reduce its costs whilst maintaining the level of services it provides through improvements in its use of resources. However within the budget, there are areas of expenditure, specifically investment management and custody fees, where although the contract sets the fee base the costs incurred are determined by the performance of the underlying markets or volume of transactions. In addition, governance costs are incurred which are a consequence of the Fund's policy response to regulations (for example, the requirement to obtain proper advice, to have a representative governance structure and to provide member training). Therefore the Fund has less scope to directly control these costs compared to the costs relating to the administration of the service provided to Fund members and employers.

BREAKDOWN OF BUDGET

6 ADMINISTRATION COSTS

6.1 The total administration budget for 2011/12 is £2,073,000. This represents a saving of £109,900 (5%) over the three year budget approved in March 2010. It is intended that these savings will be made through greater efficiency without any reduction in the level of service provided.

6.2 A detailed description of how the savings to the administration budget have been achieved is given in Section 8 of the Service Plan.

7 INVESTMENT, GOVERNANCE AND COMPLIANCE COSTS

7.1 The total investment, governance and compliance budget for 2011/12 is £9,257,900 an increase of £1,130,300 (14%) over the 2011/12 budget approved in March 2010 as part of the three year budget. A detailed breakdown of the increase in budget is given below.

7.2 **Global Custodian Fees:** Increase in Budget of £49,900 is due to the increased value of the fund and an expected one off increase in the number of transactions as a result of the appointment of the new global equity segregated manager. This budget is reduced again in 2012/13 with the removal of the cost of the one off transactions.

7.3 **Investment Management Fees:** Increase in Budget of £1,013,800 including ad valorem and performance fees. These fees are budgeted to increase by 6% per annum approximately in line with the actuarial assumption for investment returns. The increase of 13% over the previous 2011/12 budget, set as part of the three year budget in March 2010, is a result of the positive performance of investments since that time. This has raised the base level on which the 6% increase for 2011/12 is then added.

7.4 **Investment Governance and Member Training:** Increase in Budget £19,700. The increase includes advice for re-tendering the custody contract, the Socially Responsible Investing and Hedge Fund reviews (some of which have been carried forward from the 2010/11 budget). These costs are partly offset by reduction in the cost of performance monitoring. There is also a £4,000 increase in expenditure on Investment Training for Members.

7.5 **Members (and Independent Members) Allowances:** Reduction in Budget £6,700. This has been possible as the cost of allowances for the additional voting members, introduced in the budget approved in March 2010, has been less than was originally anticipated.

7.6 **Compliance Costs (net of Compliance costs recharged):** Increase in Budget £53,900 reflects the increase in work undertaken by the actuary and of legal advice relating to actuarial issues, partly offset by the reduction in external audit fees. Wherever possible actuarial costs and legal fees are recharged to the parties concerned.

8 RISK MANAGEMENT

8.1 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.

9 EQUALITIES

9.1 An equalities impact assessment is not necessary.

10 CONSULTATION

10.1 N/a

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 Are detailed in the report.

12 ADVICE SOUGHT

12.1 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 persons	**Budget** – Martin Phillips, Finance & Systems Manager (Pensions) (Tel: 01225 395259) **Service Plan** -- Tony Bartlett, Head of Business, Finance and Pensions (Tel: 01225 477302) & Steve McMillan, Pensions Manager (Tel: 01225 395254)
Background papers	Various Accounting Records

THE AVON PENSION FUND

SERVICE PLAN

2011 - 2014

PREPARED BY:

TONY BARTLETT, STEVE MCMILLAN & LIZ FEINSTEIN

MARCH 2011

CONTENTS OF SERVICE PLAN

SECTIONS

APPENDICES

1 SERVICE SCOPE AND OBJECTIVES

(a) SCOPE OF THE SERVICE

The Avon Pension Fund is responsible for:

- Administration of **Local Government Pensions Scheme** (LGPS| benefits and pensions to over 80,000 members, pensioners and deferred members of over 110 constituent bodies within the former Avon area.
- Administration of the **Fire-fighters** Pension Scheme (FFS) for Fire-fighter members in the Avon Fire Brigade. This is undertaken under fully funded SLA arrangements.
- Payment on behalf of the **Teachers** Pension Scheme of pensions arising from the award of Compensatory Added Years before 1 April 1996. This is undertaken under fully funded SLA arrangements.
- Investment of contributions from the members and member bodies to generate asset growth and additional income for the payment of fund liabilities

Statistical information for each of the last 3 Scheme years is included as **Appendix 1**. In three years since March 2008 the total LGPS membership has grown by 4,706 (6.2%). In just under 3 years since 31 March 2008 the number of new employers at February 2011 has increased by 40% from 79 to 111, mainly as a result of existing participating employers deciding to outsource services. This trend is expected to continue over the coming years and building relationships with existing and new employers has become a priority.

(b) SERVICE OBJECTIVES

- To provide an efficient effective and high quality administration service to employers of Avon Pension Fund, Avon Fire Brigade and Teachers on Compensatory Added Years. The new Pensions Administration Strategy coming into effect from April 2011 will improve the service to LGPS members of the Avon Pension Fund through a closer working relationship with scheme employers.
- To provide information advice and non-financial assistance to members of the Fund and non-members alike to enable them to make informed choices and plan for retirement
- To improve the level of knowledge of pensions issues as it affects stakeholders in an area of increasing importance
- To enable the Fund's employing bodies to make their views known to the administering authorities and Government Bodies on all issues and proposals concerned with administration and investment
- To manage the Fund's investments on a transparent, risk managed basis to maximise the Fund's assets and minimise employer contribution rates.

2 KEY ACTIVITIES AND PERFORMANCE

Appendix 2 provides details of performance indicators for the 2010 calendar year from a number of different perspectives. .

The benefits teams' work has become more time consuming as the number of employers has increased dramatically by 40% from 79 to 111 since March 2008. Also the diversity of the new employers has added to administrative complexity. A further factor has been the increase in the number of employers who have outsourced their payroll arrangements requiring pensions staff to liaise with and train their staff.

Following the contraction in public sector spending many employers are being forced to downsize and there has been an increase in requests for estimates for redundancies and visits by benefits staff to counsel affected members. This expected reduction in staff over the next 3 years, particularly by the unitary councils which account for 85% of the active membership, will result in an increased workload in processing leavers. Early indications from unitaries are that *additional* redundancies in 2011/12 will be in excess of 500 and further redundancies are expected in the other 2 years of this Service Plan.

Appendix 2A shows the performance for the calendar year. Performance was ahead of target in most areas with 88% of retirements within the target of 15 days and 96% of new joiners processed within the set 10 day target. However transfers in and out were severely delayed by the unavailability of calculation factors from the Government Actuaries Department following the change in the indexation of future benefits from RPI to CPI. All the delayed cases have now been processed.

There have been **notable successes** in the year improving service to our customers:

1. AXIS to Altair migration to updated software caused no major disruption to service and is being developed now to enhance services

2. The change from Gandlake to Heywood as the provider for Member Self Service will provide greater integration

3. Membership Data Cleansing in readiness for the triennial Actuarial Valuation

4. New Pensions Administration Strategy has been developed after consultation with employers for rollout from April 2011

3 REVIEW OF 2010-11

(a) BENEFITS ADMINISTRATION

(1) Data Cleanse

For the 2010 triennial valuation a thorough data cleanse of member records took place. Significant additional resource was put into resolving data queries and clearing errors. The cleansing was completed to allow submission of valuation data to the Scheme's actuary on time in mid July 2010. This exercise identified a significant number of member records which needed amendment due mainly to not being advised by employers of members leaving and joining at the time. The net result was that the active membership reduced by 764 to 34,800 but the deferred membership rose by 1955 to 24,544 - an increase of 8.65%.

(2) Uprating of pensions software/switchover of member & employer on-line self service and introduction of Globalscape / delivery of newsletters electronically / Annual Benefit Statement redesign

(i) Member and Employer On-Line Self Service

Following the decision in 2009 to move from **Gandlake to Heywood** for provision of member and employer electronic access the change was effected in October 2010 seamlessly for members. Employer Access was removed at the same time and the new facility for employer access will be rolled out by April 2011. The previous secure portal which was provided via Gandlake to allow employers to send information to APF was replaced by ***Globalscape,*** a product purchased by B&NES and available at lower cost than Gandlake. The Heywood replacement product includes useful facilities not included in the Gandlake facility. The switchover for member self service required individual re-registration by nearly 2,000 members.

(ii) Delivery of Newsletter electronically /Redesign of Annual Benefit Statements

For the first time the Avon Pension Fund Newsletter was **successfully delivered electronically** via in-house e-mail to the staff at UWE on a pilot basis. It is proposed to extend this to other employers in future so that significant cost savings can be achieved. Annual Benefit Statements ("ABS") were redesigned this year to a higher standard and to include additional information. The production of the new ABS on Altair proved problematical and delays to sending the 2010 statements were experienced. However this delay allowed the statements and the Newsletter to be despatched *together* saving significant postage costs. It is proposed that in future years the timing of the Newsletter will coincide with production of ABS in the autumn and there will be ongoing savings on postage costs.

(3) New Pensions Administration Strategy

2008 LGPS Regulations enabled Administering Authorities to introduce a **Pensions Administration Strategy** to improve overall performance and particularly the relationship between the administering authority and scheme employers to provide a better service to members. The strategy includes the facility for the Fund to pass on additional costs to continually underperforming employers to reflect the disproportionate administration work needed to be done by the Fund. The Strategy, having been consulted on with Employers prior to its approval by the Avon Pension Fund Committee, comes into effect on 1 April 2011. It is hoped that it will give a number of major developments renewed emphasis.

(4) Continuing increase in number of participating employers

As expected, there has also been continuing significant growth in the number of participating employers due mainly to existing employers outsourcing their in-house services. This increase has made the management of employer relationships more complex and time consuming. The new Employer Relationship Team set up in 2009 has focused on working more closely with these employers to ensure efficiency of delivery of service to the Fund.

(b) INVESTMENTS

(1) Investments strategy

The focus of work during 2010-11 was the implementation of decisions made by the Committee following the review of the investment strategy in 2009/10. An unconstrained global equity mandate was tendered and an agent appointed to monitor the voting activity of the investment managers. As the year ended, a tender to appoint a currency hedging manager was underway.

The Investment Panel focussed on monitoring the investment and operational performance of the managers and over the year met all the managers. In addition they formally reviewed the performance of the hedge fund managers as part of the Committee's review of the hedge fund portfolio in 1Q11.

(2) Actuarial Valuation

The 2010 actuarial valuation was carried out against the deteriorating environment for public sector finances. As a result the objective of the valuation was to achieve stability of employers' contribution payments. At the time of preparing the service plan any proposals arising from the review of public sector pensions by the Hutton Commission are unknown. However, it is expected that during 2011-13 the structure of the LGPS scheme will be altered and any changes will be implemented as part of the 2013 valuation (with new contributions effective from 1 April 2014).

(c) GOVERNANCE

With the new governance structure in place since June 2009, the Committee completed a self assessment exercise of their decision-making process 3Q10. This identified a few areas for improvement and an action plan will be agreed by the Committee. One area identified is the need for additional training on investment issues to supplement LGPC training and seminars/conferences and Committee workshops. The CIPFA Pensions Panel has issued a "Knowledge and Skills Framework" for pension fund elected members and officers. Any training programme will be based on this framework.

4 PROGRESS IN 2010-11 WITH CURRENT SERVICE PLAN AND MEDIUM TERM TARGETS FOR 2011-14

The 2011-14 Service Plan contains a number of planned actions predominantly focused on continuing improvements to the benefits administration through the use of technology, staff development and communications improvements. **Appendix 3** details progress in 2010/11 with current Service Plan and shows the medium-term targets for the 2011-14 Service Plan including current year targets carried forward if not completed.

Of the 15 planned ongoing or new actions for 2010/11, 86% were completed or are on target:

Summary of Actions	**Green**	**Amber**	**Red***
Administration	**7**	**1**	**0**
% of planned target developments	***46%***	***7%***	***0%***
Investment	**6**	**1**	**0**
% of planned target developments	***40%***	***7%***	***0%***
Total	***13***	***2***	***0***
% of planned target developments (10)	***86%***	***14%***	***0%***

Key: **Green = completed or progressing to schedule**
Amber = on going but need to clear a problem before proceeding
Red = No progress / on hold/not being taken forward or scheduled for later period.

Amber Actions:

1. EDI is now included in the new Pensions Administration Strategy as a requirement for compliance by 2012.

2. Review management of financial and investment risks – this will be delayed until the CLG advise as to the potential impact of Hutton Commission recommendations on the LGPS, as this may affect the funding level, cashflow forecasts or appropriateness of the investment strategy.

5 THE FUTURE

(a) BENEFITS ADMINISTRATION

A good service? Customer satisfaction continues at high levels with no complaints in 2010 from members. The implementation of the new software system, creation of the new employers' relationship team, development of the Administration Strategy and member and employer self service has established firm foundations for maintaining and improving service delivery. Significant resource will be applied in 2011 to the training and development of Fund and Employer staff. An on-line questionnaire has been sent to employers to identify training requirements and, using this gap analysis, the Fund will run courses during 2011 to bring employers staff "up to speed."

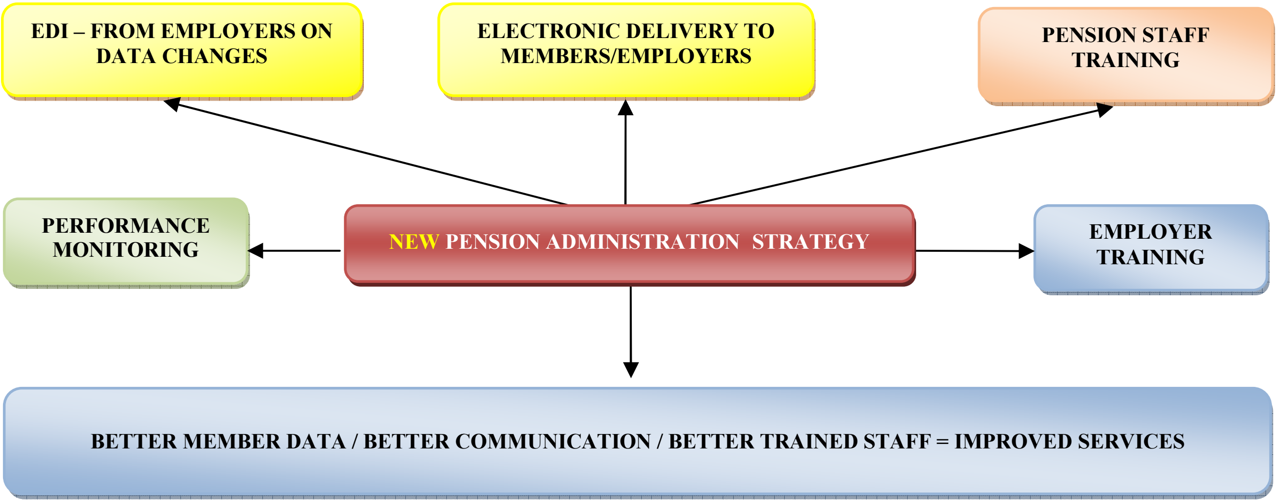
Value for money? The Fund administration costs continue to remain very competitive. The unit costs of £2.73 per member for paying pensions remains one of the lowest in the UK. The overall costs for the Fund at £18.33 per member compares very favourably with the comparator group average of £23.49 per member. In comparison with 4 (out of a possible 6) other South West Region funds who are members of the Club, Avon Pension Fund's staff costs at £5.90 per member are the cheapest and compare well against the average of £8.34 and the Fund's £18 per member cost is below the average of £20 for these South West Funds.

Budget Savings

These continue to be a driver in the Public Sector where all local authorities are under even greater pressure to make budget savings. The Fund has identified a number of areas for reducing its costs without reducing the service it gives to its stakeholders. Significant savings and improvements in the speed and effectiveness of service delivery can be made by embracing technological advances and this will be a high priority in 2011 through the medium of the new Administration Strategy. Over the three years of this Service Plan the savings from terminating Gandlake will finance the set up and ongoing costs of Altair Member Self Service and Employer Access and thereafter will generate annual savings of around £30,000 from 2013/14 onwards.

New Pensions Administration Strategy – Recent legislation encouraged all local authority pension funds to put in place an Administration Strategy Policy Document. Avon Pension Fund has done this. The new process will work through individual Partnership Agreements (SLA) with employers incorporating mutual targets for key performance areas.

This new Strategy embraces a wide range of existing strategies such as communication, technological enhancement/development (e.g. Electronic Data Interface ("EDI")) and employer staff training. The following chart captures each of the integral actions which should result in better member and an improved service to members:



Effective from April 2011, performance monitoring and regular review meetings will be integral to a successful outcome. Quarterly summary reports on employers' performance will be brought to Committee for information.

The focus of this Administration Strategy will be to develop greater partnership working between the Fund and the employing bodies. However, the strategy will permit the Fund to pass through costs to employers that arise due to persistent failure to provide information within the framework set out in the SLA.

Expected changes to benefit structure post Lord Hutton's Review of Public Sector pensions - The government continues to consider measures to control the costs of LGPS and to cap employers' ongoing costs including the *Cost Sharing mechanism* proposed from 2014.

Lord Hutton's 2010 review which is likely to produce potentially the most radical changes to public sector pensions for many years has identified a number of potential ways forward to achieve this - later Normal Retirement Ages, increased member contributions and a dilution of future benefit accrual are some of the proposals put forward. Specific recommendations on the direction of travel are expected in March 2011 in time for the government's spring budget.

Changes to Normal Retirement Ages and an increase to member contributions could be introduced quite quickly; however, fundamental changes to the LGPS benefit structure would require primary legislation and would take some years to achieve. Therefore, although these changes are unlikely to be brought in for a few years, the Service needs be prepared for the changes which may introduce an additional scheme at worst and at best another tier/type of benefits to administer. This will bring additional complexity which will add to the administration burden, require more resource and add to ongoing costs

An additional factor is that the government is introducing Personal Accounts through *NEST* from 2014 to encourage everyone to save for a pension. This may result in a reduction in membership of the Fund as some employers may choose to offer this to existing members of the Fund and new employees, particularly lower paid / part time staff to reduce their costs.

If there are future changes to the Scheme structure, there will be a need for concise and effective communication with employers, payroll providers and members, prior to any changes being introduced. Also the administration would become significantly more complex if there are two separate schemes / benefit structures going forward and this would require additional resource. As the impact of any changes and their implementation dates are unknown at present, no allowance has been made in the Service Plan budget for additional resource. As soon as definitive changes are known the position will be reviewed and adequate allowance to fund the change will be made in future budgets.

(b) INVESTMENTS

The main objective of the investment strategy is to safeguard the value of the Fund's assets, generate the investment return required to meet future liabilities and minimise volatility of contribution rates as much as possible. As the Fund can not determine the direction of markets, investment risk can be minimised through ensuring the Fund adopts an appropriate, well diversified, investment strategy and by closely monitoring the managers' performance.

Investment policy – In 2010-11 the Fund implemented changes to the investment structure that were a result of the 2009-10 review of the strategic policy. The Committee is reviewing the hedge fund portfolio and will review the Fund's approach to Social, Ethical and Environmental investing. Following the triennial valuation, and the initial outcome of the Hutton Commission, further work may be undertaken in 2012 to review whether financial and investment risks can be managed differently in order to reduce volatility in the contribution rate over the longer term.

Scheme employer risks - The Fund is aware of the impact the reduction (and changes) in public sector funding may have on all scheme employers. In particular some of the third sector organisations may be particularly vulnerable to reductions in funding and other sectors, such as education, are seeing significant structural changes in terms of the introduction of academies for example. Therefore, the Fund's focus is to continuously monitor the financial and operational risks arising from scheme employers in order to protect the Fund to the extent possible under the regulations. Operational, legal and actuarial risks arise from outsourcings or the change in an organisation's legal status or funding stream and all these risks need to be managed appropriately. In order to achieve this, the outsourcing process and procedures guide has been revised to clearly set out scheme employers and the Fund's obligations during such exercises. The Fund will be reviewing its investment staffing structure in view of the workload issues identified during 2011/12 and will bring forward proposals at a later date.

(c) GOVERNANCE

Member & Officer Training – the Fund will develop its training policy for members and the investment/finance officers during 2011-12, which will also reflect the need for training of elected members appointed to the Committee following the May 2011 elections. The training programme will also reflect the planned work programme of the Committee.

6 KEY MEDIUM-TERM CHANGES (PROPOSALS FOR DEVELOPMENT IN 2011-12)

These are listed in **Appendix 3** and include those targets from the 2010-13 Service Plan which are ongoing or were not completed by 31.03.2010.

The **key drivers** for Pensions were identified last year and have now been **updated** to reflect the work completed since then and new challenges that have arisen. They are:

- **Efficiency savings** are expected of the Pensions Section over the 3 year period in line with all other local authority departments
- **Improvement** to how we deliver the services needed to make these savings and to be responsive to changes within the industry whilst maintaining competitive performance
- A **changing employer landscape** including a reduction in employers' resources with associated staffing implications; extension of private and 3rd party service provision; regulatory enablement resulting in the creation of academies
- **New Pensions Administration Strategy** will provide a robust operational framework and a blueprint for service efficiency including enhancement to the service by greater use of modern technologies in streamlining processes by the use of electronic data interfaces and electronic delivery of information to members
- **Higher than normal workload** over the next 2-3 years as employers shed staff in an enforced downsizing exercise.
- Changes to LGPS benefit structure following recommendations in the **Hutton** Report are expected in the medium to long term and the Fund needs to be prepared for this.
- To ensure the **Fund's assets are invested to maximum benefit** commensurate with the level of investment risk in order to meet its long term pension liabilities

7. IMPROVING CUSTOMER & STAKEHOLDER SATISFACTION

In accordance with Council Policy and the specific requirement to achieve improvements in a range of stakeholder areas, the Fund has developed a range of ongoing activities and actions to improve customer satisfaction, ensure equality, enhance staff skills and form closer alliances with key stakeholders.

The Plan has already discussed a range of areas aimed at improving overall service to customers and will continue to seek improved performance through its local performance indicators and Committee scrutiny. The Fund continues to take a highly pro-active role in driving issues forward nationally by the Pensions Manager chairing the **South-West** regional funds meeting ("SWAPOG") whose views and suggestions are taken forward by participation in the ***National Technical Group*** of the Local Government Employers Organisation which meets with representatives of the Department for Communities and Local Government.

The Avon Pension Fund through its Chairmanship of the regular SWAPOG meetings is leading on an investigation into the feasibility of *shared service working* with the other south west regional funds in areas of administration including standardising communication details and training.

8 BUDGET FOR 2011-14

A three-year budget commencing 1 April 2011 is included as **Appendix 4** to the Service Plan. This identifies variations in the budget over this period, including the expected developments shown in this Service Plan.

The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

The budget previously approved in March 2010 as part of the three year budget for expenditure on the administration of the Fund for 2011/12 was £2,183,000. In the proposed budget for 2011/12 this has been reduced to £2,073,000 a saving of £110,000 or 5.03%. The savings have been made by:-

- Reducing expenditure on investment accounting by £14,000 through discontinuing the use of the Open Air system for monitoring investment transactions and income. The collection of income by the custodian will continue to be monitored internally.
- Reducing expenditure on AVC monitoring following a recommendation from the Actuary that AVC investment performance is reviewed every two years. As the AVC investment fund options are currently under review, the next performance review will be in 2012/13 and not 2011/12 as previously expected.
- Reducing Communication costs by reducing the budget for Guides, Leaflets and Web site maintenance. The budget is forecast to be partly restored in 2012/13 to meet expected demand for information on changes in the Regulations following the Hutton review.
- A reduction in Central Administration charges from the level budgeted for 2011/12 in the 2010/11 three year budget as central department's savings are expected to offset the need for an increase in line with inflation.
- The above savings have been partly offset by an increase in the cost of salaries. Although the budget includes a zero per cent pay award for 2011/12 some staff remain entitled to increments in their pay rate.
- The increase in the cost of Information Systems reflects the introduction of the Altair pension software which includes the facility for Member Self Service and Employer Access. Member Self Service was previously provided via Gandlake which has been discontinued. Over the three years of this Service Plan the savings from terminating Gandlake will finance the set up and ongoing costs of Altair Member Self Service and Employer Access and thereafter will generate annual savings of around £30,000 from 2013/14 onwards.

These savings will be made through greater efficiency and without any reduction in the level of service provided.

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APPENDIX 1

SCOPE OF THE AVON PENSION FUND

As at 31st March	2008	2009	2010
Staff Establishment			
Investment & accounting	6	6.6	7.8
Benefits administration	33	32.2	31.0
Total staff	39	38.8	38.8
Avon Pension Fund Membership			
▪ Active	36,037	35,264*	34,,800*
▪ Deferred	20,416	22,579	24,544
▪ Pensioners	19,498	20,361	21,313
Total membership	75,951	78,204	80,657
**Fell after data cleansing exercises in 2009 and 2010*			
No. of Participating Employers	79	94	102 *(111 at 28/2/11)*
Employers common contribution rate *(% of employees pensionable pay)*	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)
Fund Assets	£2.18bn	£1.82bn	2..46bn *(£2.66bn at 28/2/11)*
Funding Level	70%	60%	80%
2. **Fire -fighters Pension Schemes** Total Membership			
▪ Active	625	743	744
▪ Deferred	49	50	65
▪ Pensioners	680	748	744
Total	1,354	1,541*	1,554*
*(*inc New Scheme set up in 2006)*			
3. **Teachers Compensatory Added Years** – number of pensions in payment	2,961	2,919	2,877

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Appendix 2 to Service Plan 2011/2014 — Performance Indicators (Scorecard) for 2010 Calendar Year

PENSIONS SECTION ADMINISTRATION

	INDICATOR	Green Red Amber	Reporting Dept	2009/10 Actual	Target for 2010/11	Actual - 2010	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	99%	11 clinics held during period. Excellent member feedback on the service from Pensions Service.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	97.90%	Very good from responses from recently retireed members	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
3	Level of Equalities Standard for Local Government	G	Admin	100%	100%	100%	Level 2 Accredtation yachieved by B&NES Council in 2010. Pensions carried out 2 Equalities Impact Assessment in 2010 and is not required to carry out any further Assessnments.	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	89%	90%	88.40%	72 of 82 tasks were completed within target.	
	Retirements [15 days]	G	Admin	70%	90%	71.74%	1254 of 1748 tasks were completed within target.	
	Leavers (Deferreds) [20 days]	G	Admin	82%	75%	82.00%	2963 of 3614 tasks were completed within target.	
	Refunds [5 days]	G	Admin	62%	60%	82.04%	201 of 245 tasks were completed within target.Target for refunds will be increased to 75% for 2011 onwards	
	Transfer Ins [20 days]	A	Admin	65%	75%	59.42%	347 of 584 tasks were completed within target. Unable to process for several months due to unavailability of transfer factors fro GAD following change in revluation basis from RPI to CPI.	
	Transfer Outs [15 days]	A	Admin	50%	75%	61.41%	226 of 368 tasks were completed within target. nable to process for several months due to unavailability of transfer factors fro GAD following change in revluation basis from RPI to CPI	
	Estimates [10 days]	G	Admin	91%	90%	92.80%	2977 of 3208 tasks were completed within target.	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%	Should always be 100%	
5	Number of complaints	G	Admin	22	0	0	No complaints received in the period	
6	Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
7	Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	n/a	100%	100%	Should always be 100%	
8	Number of hits per period on APF website	G	Admin	44743	36000p/a 3000p/q	52024	4335 per calendar month for reporting period	Graph 2
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	100%	Should always be 100%	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%	Should always be 100%	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	100%	All sent by year end	

B People Perspective

1	Health & Safety Compliance	G	All	100%	100%	100%	Should always be 100%	
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	Obtained re-accredition of IIP when reassessed in Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%	No leavers in the year	
4	% of staff with up to date Performance Reviews	G	All	97%	100%	n/a	None due in this period	
5	% Sickness Absence a) Short Term b) Long Term	G	All	2.50%	a) 3% b) 3%	a)1.48% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
6	% 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.	

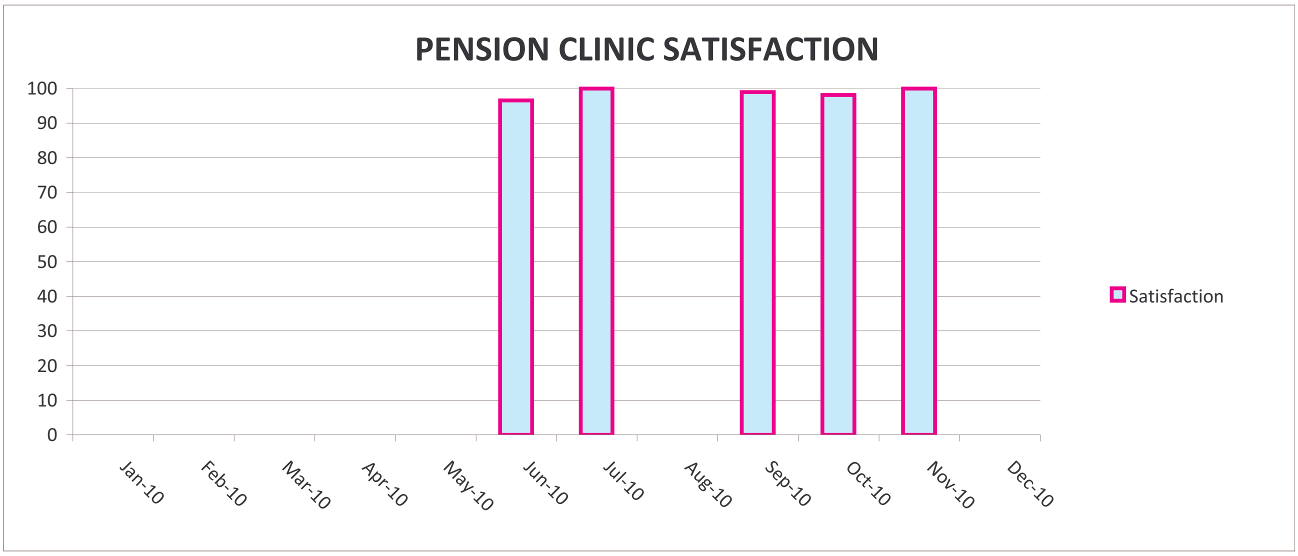
C Process Perspective

1	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. Gandlake initiative means that over 1500 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
2	% Telephone answered within 20 seconds	G	Admin	99%	98%	98.97%	34948 calls, 34588 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	G	Admin	100%	100%	100%	Should never be less than 100%	
4	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%	5.65%	18179 Created, 17152 cleared (94.35.% leaving 5.65% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions (% of total employer contributions paid to the Fund in the period)	G	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 2.4% b) 0.05%	29 instances of late payment occured in the period of which only 6 were repeated offenders Average delay of late payers 6 days. However2 employers were over 20 days on one occasion due to exceptional circumstances. Removing these reduces the average to 4 days **Employers are reminded regularl**y 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.	
7	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.	
8	No. of customer errors (due to incomplete data)	G	Admin	2%	3%	2%	Acceptable error level	

D Resource Perspective

1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	93.82%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	G	All	0.40%	3%	3.52%	Slightly over target - due to .temporary staff from June to September 2010 - reduced to 2.7% in February 2011
3	% of IT plan achieved against target	A	Tech & Dev	24%	100% (25% p/q)	20%	EDI progressing slow. However, the new Admin Strategy requires all employers to provide information electronically by 2012.
4	% of Training Plan achieved against target	G	Tech & Dev	100%	100%	100%	Staff training requirements for all staff identified from 2010 annual performance reviews. An extensive programme of courses (internal & external) are being put in place for 2011 to meet these needs.

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



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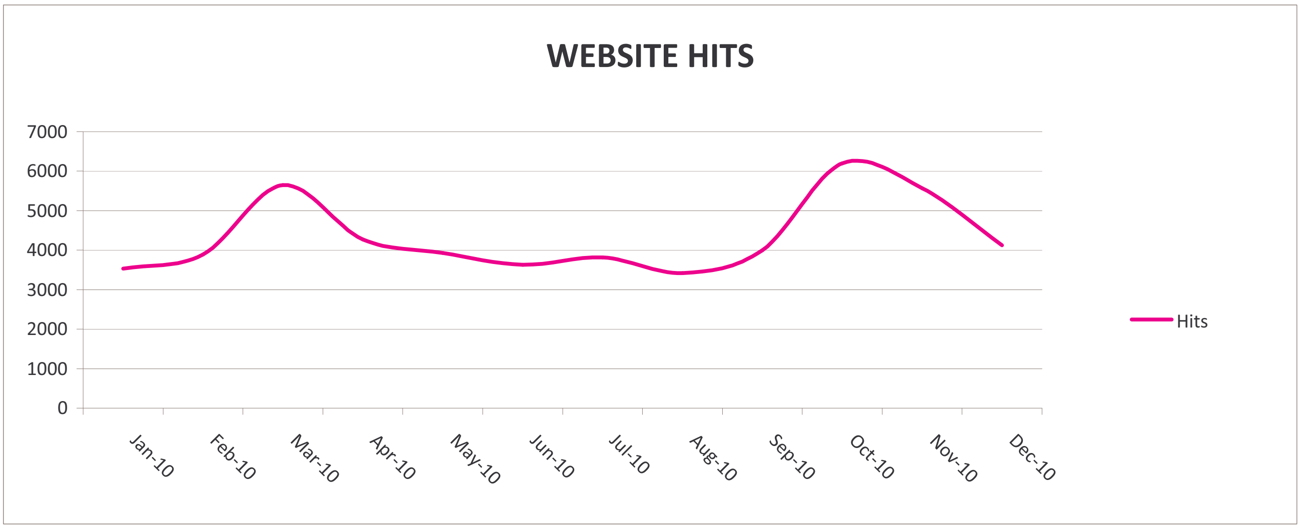

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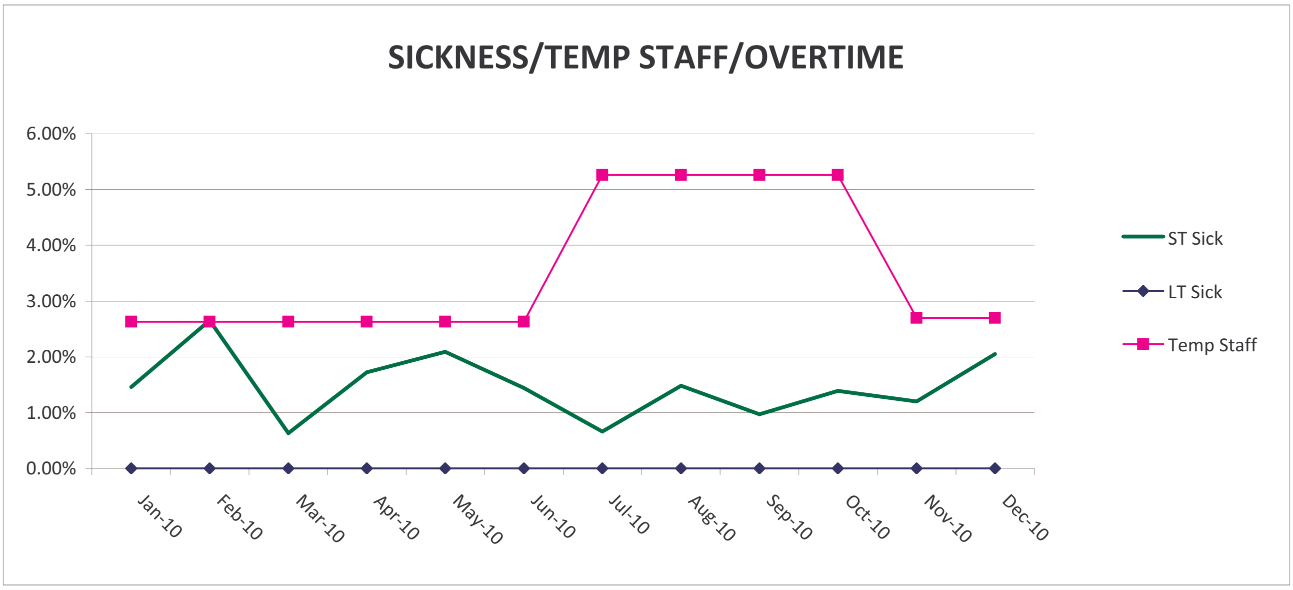

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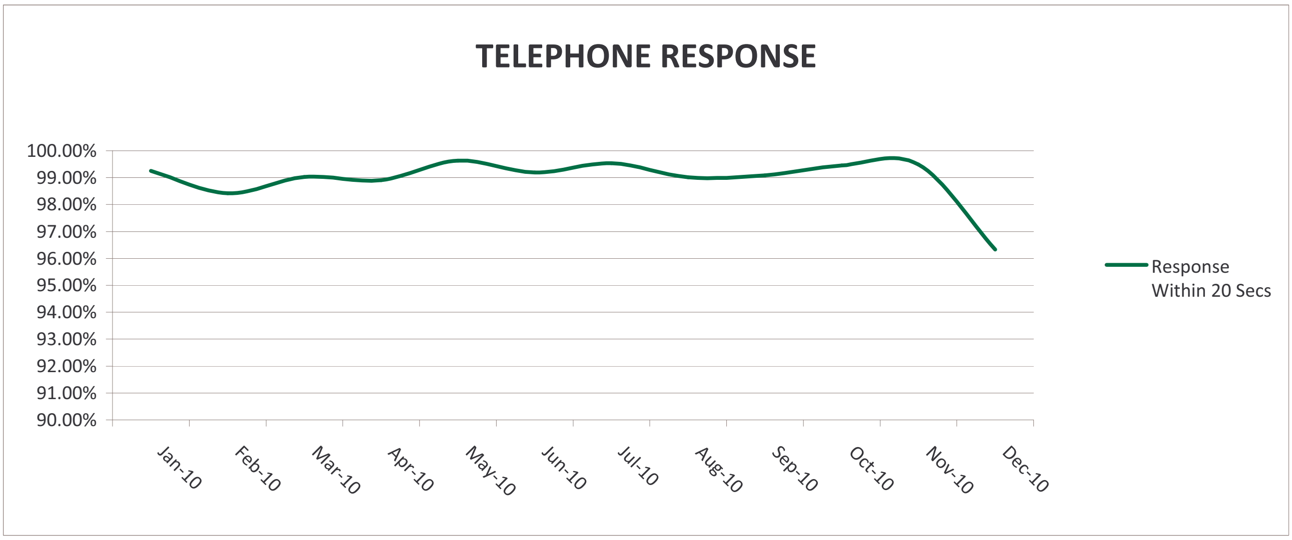
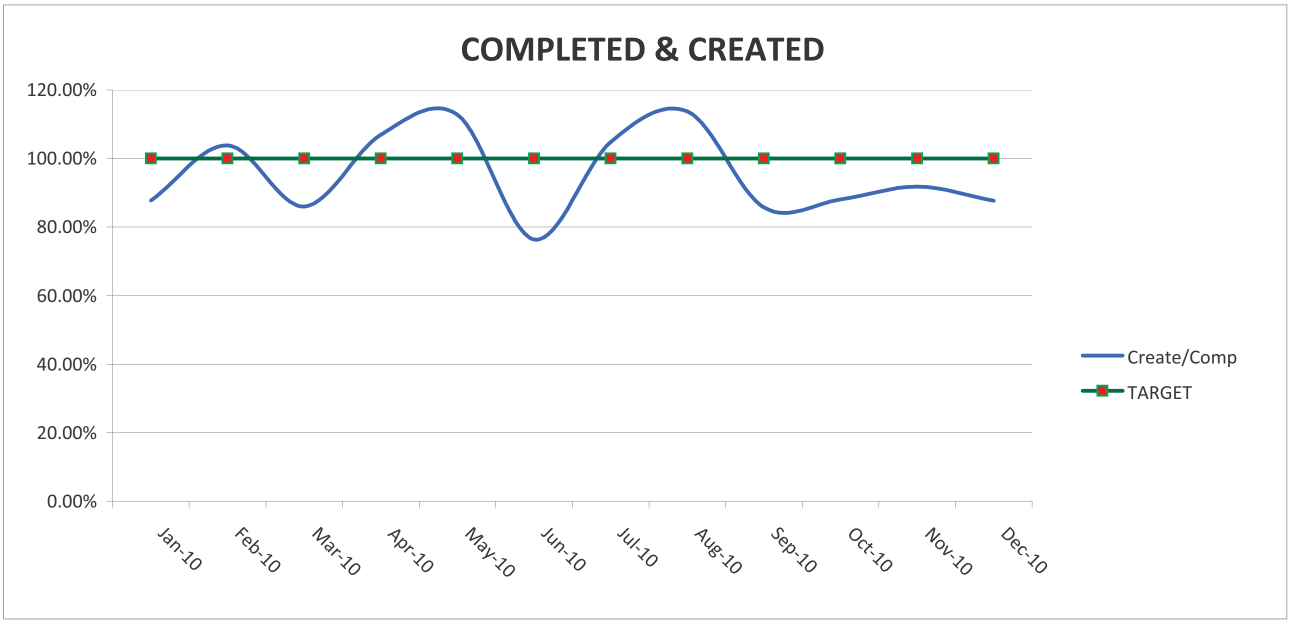
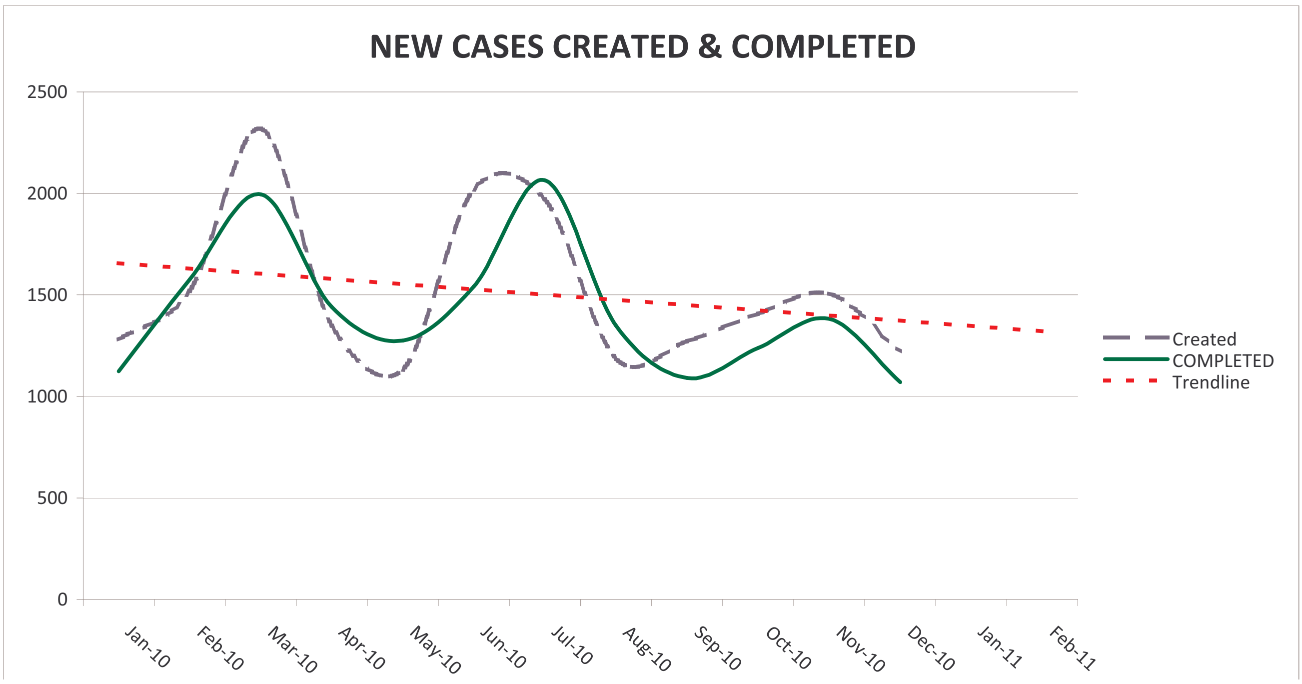

TELEPHONE RESPONSE
100.00%
99.00%
98.00%
97.00%
96.00%
95.00%
94.00%
93.00%
92.00%
91.00%
90.00%
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Response Within 20 Secs

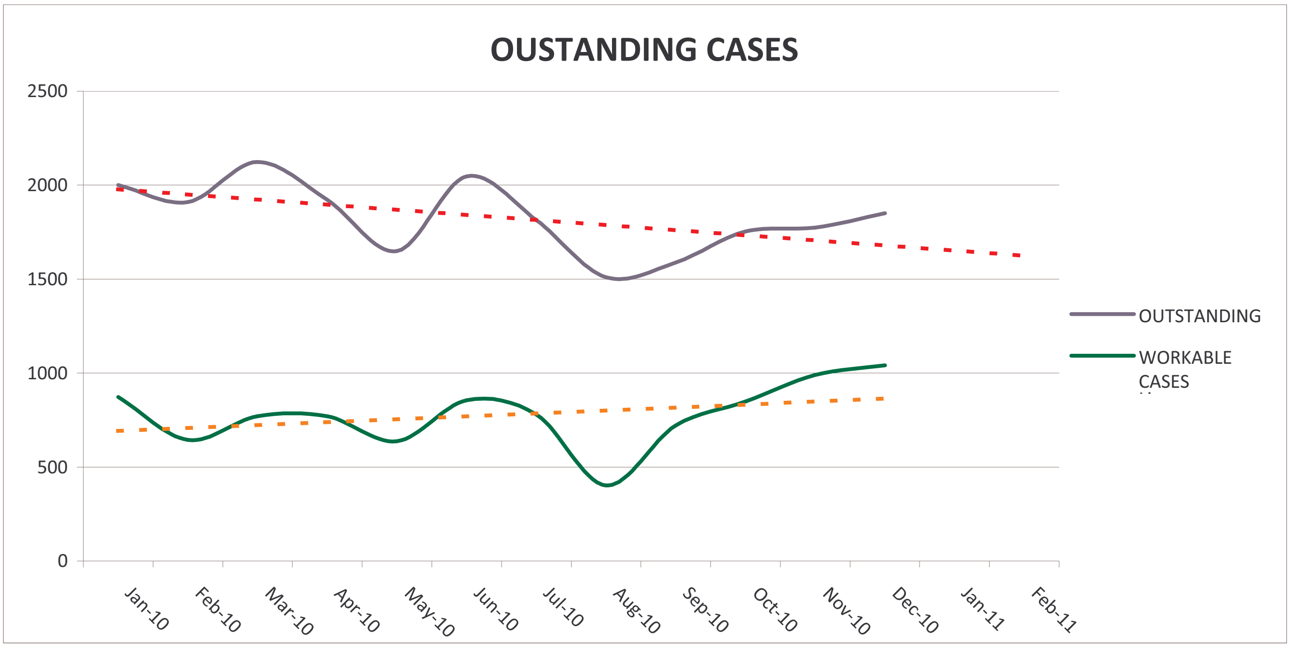
5


COMPLETED & CREATED
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Create/Comp
TARGET

6


NEW CASES CREATED & COMPLETED
2500
2000
1500
1000
500
0
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Created
COMPLETED
Trendline

7



OUSTANDING CASES
2500
2000
1500
1000
500
0
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
OUTSTANDING
WORKABLE CASES

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Performance for the Calendar Year 2010

	Statutory limit	Target working days to complete	Target for 2010	2010	*2009*
1 ACTIVES					
New Starters	2 months	10	n/a	96.7%	*89.5%*
Divorce Quotes	varies*	10	n/a	68.3%	*61.5%*
Transfer In	3 months	20	75%	59.4%	*55.9%*
2 LEAVERS					
Refunds	2 months	5	60%	82.0%	*76.9%*
Deferred Benefits	2 months	20	75%	71.9%	*84.1%*
Retirements					
Estimates	N/A	10	90%	92.8%	*96.2%*
Actuals	15 days	15	90%	88.2%	*82.5%*
Transfer Out	2 months	15	75%	61.4%	*54.5%*
Deaths	2 months	12	90%	89.4%	*75.0%*
Total Tasks (Active/Deferreds)				**75.6%**	***73.7%***
3 PENSIONERS					
New Starters	2 months	5	100%	100%	*100%*
Changes to personal details	2 months	5	100%	100%	*100%*
Tax code change/Enquiries	none stated	5	100%	100%	*100%*
Enquiries	2 months	5	100%	100%	*100%*
Death bens/payments	2 months	2 to 3	100%	100%	*100%*
Dependant Pension Calcs	1 month	5	100%	100%	*100%*
4 Complaints	2 months(IDRP)	5		0	100%

Note:
* The time limits to provide **divorce** information will vary dependant on the need of the member for dates of court cases. The measure used for this report is 10m days which about average

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No.	Target 2010-11	Progress G = green A= Amber	Progress in 2010-11and Targets for 2011-14
BENEFITS (1 - 8)			
1	**Training and Development (APF and Employer staff)**	**G – c/f**	**Pensions' Staff:** Training is ongoing within APF with a number of staff undertaking professional training and a variety of in-house courses available and regular coaching undertaken. This is now an integral part of the Administration Strategy and will also include Employer training **Employers' Staff:** It is important that with the fast growing number of new employers joining the Fund (mainly due to the growing trend to outsource services) employers' hands-on Payroll and HR staff that provide the service to the Fund are adequately trained. An on-line questionnaire has been sent to all Employers to identify the areas where training is needed. Following analysis employer training sessions will be put in place for 2011 and beyond. **Resource impact** - 2011/12 budget has allowed for the cost
2	**New Pensions Administration Strategy**	**G – c/f**	2008 LGPS Regulations enabled Administration Authorities to introduce a Pensions Administration Strategy to improve overall performance and particularly the relationship between the administering authority and Employers to provide a better service to members. The strategy includes the facility for the Fund to pass on additional costs for continual poor performing employers to reflect the disproportionate administration work needed to be done by the Fund. This was consulted on with Employers during September/October 2010 and the finalised Strategy was approved by the Avon Pension Fund Committee coming into effect on 1st April 2011. **Resource impact** - 2011/12 budget has allowed for the cost
3	**CHANGES (TECHNOLOGICAL ENHANCEMENTS)**	**G – complete**	Website face-lift/redesign completed in 2010. Further development opportunities for EDI and member self service were reviewed in 2010 with both Gandlake, Heywood and other providers

4	**Member Access & Employer Access**	**G – c/f**	**<u>Change to Member/Employer Access provider</u>** Decision to move from Gandlake to Heywood for provision of member and employer electronic access (different times): ❖ Member Access – change effected seamlessly for members in October 2010 ❖ Employer Access – removed in October 2010 and new facility for access is being rolled out to employers in March/April 2011. ❖ Previous secure portal which was a facility of *Gandlake* product to allow employers to send information to APF was replaced by *Globalscape* a product purchased by B&NES and available at lower cost than *Gandlake.*
5	**Electronic Delivery of Information to members**	**New**	Investigate areas where electronic delivery of information to members is feasible including Annual Benefit Statements, subject to sufficient security arrangements for personal information
6	**Electronic Delivery of Information from employers to APF on data changes**	**A**	Bristol Council (40% of active membership) continues to work well but little progress in 2010 with other Employers. The engagement and development process was reviewed in 2010 and **included within the overarching Administration Strategy for APF** which was agreed with employers and approved by Avon Pension Fund Committee to be effective from April 2011. Deadlines agreed with Employers for full electronic delivery of all member data changes by April 2012 (medium/larger employers) and October 2012 for smaller employers **Resource impact –** 2011/12 budget has allowed for the cost
7	**Website – Employers Own**	**New**	Develop a stand-alone employers own website **Resource impact** - 2011/12 budget has allowed for the all costs where appropriate
8	**Altair – Major Software Upgrade**	**G- complete**	AXIS (previous facility) is not being upgraded for future enhancement/benefit calc changes and

			therefore agreed in 2009 to move to new Altair upgraded software. Went live in October 2011 without any major problems. Change was seamless from members' perspective and did not interrupt administration service although there was some initial downtime on the system which for a month or so resulted in worse than expected performance figures. **Resource impact** - 2011/12 budget has allowed for the cost
9	**Data Cleansing Project 2010** ***(for Actuarial Valuation)***	**G - complete**	Cleansing is an ongoing process but significant additional effort was made leading up to the valuation. A specific data cleansing team established in 2009 cleared the majority of data errors for the Actuarial Valuation in 2010. **Resource impact –** Contained within existing resources.
10	**Equalities**	**G - complete**	Following Equalities review in 2009, Council achieved *level 2 accreditation.* The Council has now decided to take a service based approach and in 2010 the Fund will not need to produce service impact assessments. **No impact on resources**
11	**Partnership Working** **A. Actuarial and Investment Advice framework agreement** **B. Communication Materials**	 **G – complete** **G – c/f**	 Framework agreement for actuarial and investment advice in progress through SW regional group. Collaboration with other SW local authority funds took place in 2010 considering the production of generic pamphlets / guides. It was agreed this was not advisable at this time and action would not be taken until new guides etc., post Hutton changes, were required. **Resource impact –** any cost savings from 1 will only materialise once current contracts expire.

INVESTMENTS (12 – 17)			
12	**Renew Custody Contract**	**G – c/f**	Custody contract to be tendered in 2011/12 as financial sector now more stable and changes to investment structure have been agreed. **Resource impact** – tender costs included in 2011/12 budget
13	**Review of Investment Strategy**	**G –c/f**	Final projects of 2009/10 strategic review in implementation stage with currency hedging mandate to be completed in 2011. There may be projects arising from the review of the hedge fund portfolio currently underway in 1Q11. **Resource impact** - 2011/12 budget has allowed for the cost of implementation and further hedge fund projects
14	**Actuarial valuation**	**G – completed**	Actuarial valuation as at 31 March 2010 will be finalised by 31 March 2011. **Resource impact** - actuarial costs for the 2010 valuation has been allowed for in the budget
15	**Review Corporate Governance policy**	**G – completed**	Manifest, a 3rd party voting agent, has been appointed to monitor the investment managers' voting activity and report periodically to Committee **Resource impact** – the ongoing cost of this service is provided for in the 2011-14 budgets
16	**Members Training**	**G – c/f**	Develop training policy for members based on the CIPFA Knowledge and Skills Framework. **Resource impact** – estimated costs included in 2011/12 budget.
17	**Review management of financial and investment risks**	**A – c/f**	Following triennial valuation consider review of management of financial and investment risks (e.g. interest rate, inflation and longevity hedging, employer specific liabilities). This will be delayed until CLG advise as to the potential impact on LGPS structure of the Hutton Commission. **Resource impact** – investment advice included in 3 year service plan budget

18	**Establish framework for self assessment of Committee's decision making process**	**G - completed**	Self assessment of the Fund's decision making process carried out in 2010 and areas for improvement identified and action plan agreed. Commitment by Fund to periodically undertake such assessment. **Resource impact –** none
19	**Review of Socially Responsible Investing (SRI) policy**	**New**	The Fund's current approach to SRI was agreed in 2001. Since then responsible investing has evolved significantly driven by legislation and investor demands. The Fund aspires to be a signatory of the UN PRI. The policy will be reviewed in 2011/12 to ensure the Fund's SRI policy is consistent with this objective. **Resource impact –** estimated costs included in 2011/12 budget.
20	**Monitoring of Scheme Employer Risks**	**New - ongoing**	The Employer Liaison team to ensure scheme employers understand their pension obligations in outsourcings/restructurings and they comply with the Fund's process for implementing an outsourcing. Investments/finance team to monitor financial position of scheme employers and legal structure following any restructuring / outsourcings and ensure bonds/guarantees in place where possible to manage any potential risk to the Fund. **Resource impact –** expect to deliver out of existing resources

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Avon Pension Fund **Appendix 4**

Budget 2011/12

	Forcast 2010/11 £	Budget for 2011/12 per 2010/11 3yr budget £	**Year 1 Budget 2011/12 £**	Change from 2011/12 per 2010/11 3yr budget	Year 2 Budget 2012/13 £	Year 3 Budget 2013/14 £
Investment Expenses	111,000	115,300	**101,000**	-14,300	104,100	107,200
Administration Costs	96,400	91,800	**78,300**	-13,500	83,300	82,300
Communication Costs	244,700	257,900	**168,100**	-89,800	198,100	175,900
Information Systems	158,700	161,900	**167,000**	5,100	164,200	168,700
Salaries	1,265,500	1,290,800	**1,303,400**	12,600	1,301,600	1,321,400
Central Allocated Costs	394,400	402,600	**394,400**	-8,200	394,400	394,400
Miscellaneous Recoveries/Income	-134,700	-137,400	**-139,200**	-1,800	-142,700	-146,300
Total Administration	2,136,000	2,182,900	**2,073,000**	-109,900	2,103,000	2,103,600
Investment Governance & Member Training	228,500	271,500	**291,200**	19,700	193,400	198,300
Members' Allowances	46,200	47,100	**40,400**	-6,700	41,700	42,900
Independent Members' Costs	18,800	19,100	**18,800**	-300	19,300	19,900
Compliance Costs	229,500	216,700	**269,600**	52,900	276,900	284,400
Compliance Costs recharged	-52,000	-53,000	**-52,000**	1,000	-53,600	-55,200
Governance & Compliance	471,000	501,400	**568,000**	66,600	477,700	490,300
Global Custodian Fees	84,300	93,100	**143,000**	49,900	121,600	125,200
Investment Manager Fees (ad valorem)	7,021,600	7,128,100	**8,248,800**	1,120,700	8,743,700	9,268,400
Investment Manager Performance fees	126,900	405,000	**298,100**	-106,900	316,000	335,000
Investment Fees	7,232,800	7,626,200	**8,689,900**	1,063,700	9,181,300	9,728,600
NET TOTAL COSTS	9,839,800	10,310,500	**11,330,900**	1,020,400	11,762,000	12,322,500

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Bath & North East Somerset Council		
MEETING: AVON PENSION FUND COMMITTEE MEETING DATE: 18 MARCH 2011	AGENDA ITEM NUMBER	
TITLE: **PENSION FUND ADMINISTRATION - EXPENDITURE FOR 10 MONTHS TO 31st JANUARY 2011 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31st JANUARY 2011**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Summary Financial Account: current financial year to 31st January 2011
Appendix 2 Summary Budget Variances: current financial year to 31st January 2011
Appendix 3A Balanced Scorecard : 3 months to 31st January 2011 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31st January 2011 (narrative) *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31st January 2011 (narrative) *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 31st January 2011 (narrative) *(Pensions Clinics)*
Appendix 5 Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the current financial year to 31st January 2011. 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 31st January 2011.

2. RECOMMENDATION

2.1 That the Committee notes the expenditure for administration and management expenses incurred for the ten months ending 31st January 2011 and Performance Indicators for the 3 months to 31st January 2011.

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 2010 to 31st January 2011. This summary of expenditure to 31st January 2011 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 £29,500 under budget. Of this total under spend, £22,700 is forecast to occur within the directly controlled Administration budget. The under spend is expected to be achieved at the same time as the full one-off costs of implementing the Altair Member Self Service system and the Heywood's Employer Self Service system are charged to the current financial year. This will to some extent relieve the pressure for savings in the 2011/12 budget.

4.3 A detailed analysis of the 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 JANUARY 2011

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 During the period the **ADMINISTRATION PERFORMANCE** was temporarily marginally adversely affected by the unavailability of the pensions administration system due to some "teething" problems following the switchover from AXIS to Altair in late October 2010 and several instances of power failures/internet unavailability also resulted in the inability to log onto the system as it is now accessed through the internet being web-based. In addition *older* cases of leavers and deaths revealed by the Data Cleansing Project undertaken for the Actuarial Valuation took significantly longer to deal with because of the time lapse.

5.3 The unavailability from "GAD" (Government Actuaries Department) of certain factors following the government's move in June 2010 to raise future pensions by the increase in the *CPI* instead of the *RPI* meant that quotations from members for pension benefits from "ARCs" (Additional Regular Contributions) had to be suspended. Members have been informed of the delays and the reasons for this. It is not known when GAD will issue these. Progress on this will be reported to Committee in due course.

5.4 The outstanding backlog of transfers in and out which build due to the above factors being unavailable has now been cleared.

5.5 **COMPLAINTS:** There were **no** complaints received in the period

5.6 **2010 ANNUAL BENEFIT STATEMENTS ("ABSs") FOR MEMBERS** – Statements for Councillors and deferred members were sent by the autumn of 2010 but statements for actives were redesigned and the content, appearance and quality has been improved; however, due to the switch over to Altair, the project was significantly more complex than at first thought and the expected timescale for issue had to be put back; nevertheless, all actives ABSs will be sent *out (with the latest Avon Pensions Newsletter to obtain significant postage cost savings)* by the end of March. For the first time one major Fund employer has distributed these to its members electronically (by in-house e-mail) producing further cost savings for the Fund.

6. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31ST JANUARY 2011

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on **55** questionnaires returned from **active** members retiring. On average 65% received their lump sum and 84% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on a small sample of **22** questionnaires returned from *former* active members retiring from ***deferred*** status. 91% received their lump sum and 100% 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 89% (See chart Item 5 on both graphs). A few Scheme members suggested some changes to aid the retirement administration process and these are being considered.

6.2 **C*linics*** In this period 2 clinics were held for members at South Gloucs Council in Yate and at Learning Partnership West. 41 members gave feedback with a good/excellent rating of 98% for the service provided by APF staff. The venue and location scored slightly less well but was nevertheless still high. (See **Appendix 4C)**

7. MAJOR EVENTS DURING THE PERIOD

7.1 **PENSIONS ADMINISTRATION STRATEGY** This initiative which was approved at the Avon Pension Fund Committee Meeting last December has been rolled out to employers and will come into effect from 1st April 2011. All employers will be expected to sign a new or replacement Service Level Agreement ("SLA") which will incorporate mutual stretch performance targets. Key elements of the new Strategy are training (employers and APF Staff) and deadlines in 2012 for all employers to submit all information to APF electronically on line.

7.2 A very successful **EMPLOYERS ANNUAL CONFERENCE** was held at a Bristol hotel in February which included three excellent external speakers. There were more than 50 attendees from employers covering over 90% of the membership; four Members were also present. Very positive feedback was received form attendees.

7.3 **SWITCH FROM GANDLAKE TO HEYWOOD:** The Heywood self-service facility for Scheme employers is currently in test and will be available to employers from April 2011. This contains the hitherto unavailable facilities for employers to do their own ***on-line member calculations and obtain estimates for "Strain on the Fund"***

costs. It will also be the vehicle for smaller employers to submit member data changes under EDI.

8. RISK REGISTER (Appendix 5)

8.1 A Risk Register is a Council corporate requirement for all services and is in a standard format designed by the Council's Audit Risk and Information Service. Avon Pension Fund has its own Register which contains all identified risks specific to the Fund and includes generic risks common to all council departments, their potential impacts (financial, reputational, regulatory etc.) and steps that are already in place or planned to mitigate these risks. The Register is in the corporate format which includes a final *RAG report* style column to indicate whether an item is on target.

8.2 It has been previously agreed that the Committee will review the *Risk Register* on a regular basis. No new risks have needed to be added to the Register since the last review in December 2009.

8.3 The Committee is asked to note that the Risk Register has been updated and will be reviewed again in approximately 12 months time or earlier if this is felt necessary by the Officers.

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.

10. EQUALITIES

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

11. CONSULTATION

11.1 None appropriate.

12. ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 This report is for noting only.

13. ADVICE SOUGHT

13.1 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	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

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : TEN MONTHS ENDING 31 JANUARY 2011

	TEN MONTHS TO JANUARY 2011			FULL YEAR 2010/2011		
	ACTUAL £	BUDGET £	VARIANCE £	FORECAST £	BUDGET £	VARIANCE £
Investment Expenses	90,301	99,797	-9,496	111,141	113,016	-1,875
Administration Costs	57,566	75,625	-18,058	78,435	89,999	-11,565
Communication Costs	207,266	210,704	-3,438	249,121	252,844	-3,723
Information Systems	153,393	132,266	21,127	169,400	158,719	10,681
Salaries	1,032,983	1,054,577	-21,594	1,245,493	1,265,493	-20,000
Central Allocated Costs	291,283	328,932	-35,919	398,447	394,718	3,729
Miscellaneous Recoveries/Income	-99,326	-112,250	12,924	-134,700	-134,700	0
Total Administration	**1,733,466**	**1,789,650**	**-54,454**	**2,117,337**	**2,140,090**	**-22,753**
Global Custodian Fees	62,969	73,200	-10,231	84,274	87,840	-3,566
Investment Manager Fees	5,466,463	5,922,278	-455,814	7,148,577	7,106,733	41,844
Governance Costs	147,358	221,827	-74,469	228,470	266,192	-37,722
Members' Allowances	36,474	38,508	-2,035	42,000	46,210	-4,210
Independent Members' Costs	16,626	15,632	994	18,758	18,758	0
Compliance Costs	168,781	177,000	-24,886	226,300	212,400	13,900
Compliance Costs recharged	-62,457	-43,333	-19,124	-69,000	-52,000	-17,000
Investment Governance & Compliance	**5,836,214**	**6,405,111**	**-585,563**	**7,679,379**	**7,686,133**	**-6,754**
NET TOTAL COSTS	**7,569,681**	**8,194,761**	**-640,018**	**9,796,716**	**9,826,223**	**-29,507**

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Summary of Major Budget Variances: Forecast for year, as at 31st January 2011 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	(11,000)	Savings on administration have been achieved in the purchase of equipment, subscriptions, training and tracing. 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	(4,000)	Reduced expenditure on guides and leaflets and postage in the current year will be partly off set by some of the initial one off costs of the Heywood's Member Self Services system.
Information Systems	11,000	The increased expenditure on Information Systems relates to the implementation of the Heywood's Member Self Services system and the Heywood's Employer system. This increased expenditure will be offset by savings elsewhere in the budget. It is planned that the savings generated by this system will recoup its cost over the next two years.
Salaries	(20,000)	The saving in the cost of salaries is mainly as a result of there being no pay award. There has also been a small reduction in hours.
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	An 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.

Governance Costs	(42,000)	The forecast reduction in spending on Governance Costs mainly relates to lower Investment Consultancy costs due to a number of projects which were planned for 2010/11, being delayed until 2011/12. These include the review of SRI policy and the custody tender. The costs of these will be included in the 2011/12 budget.
Compliance Costs	14,000	The increased expenditure in compliance costs is due to increased use of the Actuary in particular in relation to 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

PENSIONS SECTION ADMINISTRATION

APPENDIX 3A to Budget Monitoring Report at 31st Jan 2011

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2009/10 Actual	Target for 2010/11	Actual - 3 months to 31/01/2011	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	100%	Only 1 clinics held during period. Excellent feedback received	**Graph 1**
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	100%	Good response from retirees. See separate appendix	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
3	Level of Equalities Standard for Local Government	G	Admin	100%	100%	n/a	Equalities audit for pensions completed 2005. Equalities Impact Assessments (EIAs) required identified and 2 of the 6 carried out. No further EIAs are required as Council have changed their approach .	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	89%	90%	88.00%	22 of 25 tasks were completed within target.	
	Retirements [15 days]	G	Admin	70%	90%	86.99%	381 of 438 tasks were completed within target.	
	Leavers (Deferreds) [20 days]	G	Admin	82%	75%	79.96%	718 of 898 tasks were completed within target.	
	Refunds [5 days]	G	Admin	62%	60%	81.25%	39 of 48 tasks were completed within target. 2011target will be increased to 75%	
	Transfer Ins [20 days]	G	Admin	65%	75%	73.44%	94 of 128 tasks were completed within target.	
	Transfer Outs [15 days]	G	Admin	50%	75%	83.64%	92 of 110 tasks were completed within target.	
	Estimates [10 days]	G	Admin	91%	90%	89.24%	771 of 864 tasks were completed within target.	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%	Should always be 100%	
5	Number of complaints	G	Admin	22	0	0	No complaints received in the period	
6	Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
7	Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	n/a	100%	100%	Should always be 100%	
8	Number of hits per period on APF website	G	Admin	44743	36000p/a 3000p/q	14346	4782 per calendar month for reporting period	**Graph 2**
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	100%	Should always be 100%	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%	Should always be 100%	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	100%	All sent by year end	

B People Perspective

1	Health & Safety Compliance	G	All	100%	100%	100%	Should always be 100%	
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	n/a - reassessment due in Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%	Well within target	
4	% of staff with up to date Performance Reviews	G	All	97%	100%	n/a	None due in this period	
5	% Sickness Absence a) Short Term b) Long Term	G	All	2.50%	a) 3% b) 3%	a) 2.12% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
6	% 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 2010/11. Training needs identified at performance reviews.	

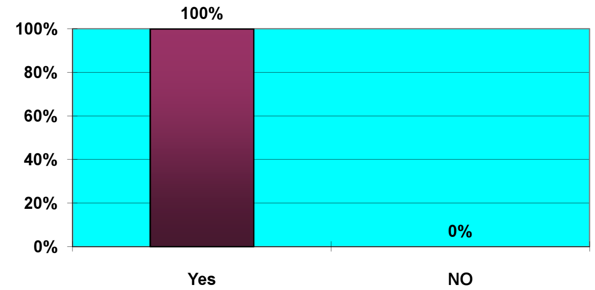
C Process Perspective

1	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. Gandlake initiative means that over 1500 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
2	% Telephone answered within 20 seconds	G	Admin	99%	98%	99.48%	8105 calls, 7996 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	G	Admin	100%	100%	100%	Should never be less than 100%	
4	Letters answered within corporate standard	G	Admin	95%	95%	100%	Ahead of target	
5	Maintain work in progress/outstanding at **below 10%**	G	Admin	10.59%	10%	4.59%	3946 Created, 3765 cleared (95.41.% leaving 4.59% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
6	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) 0.03%	3 out of 106 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.	
7	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.	
8	No. of customer errors (due to incomplete data)	G	Admin	2%	3%	2%	Acceptable error level	

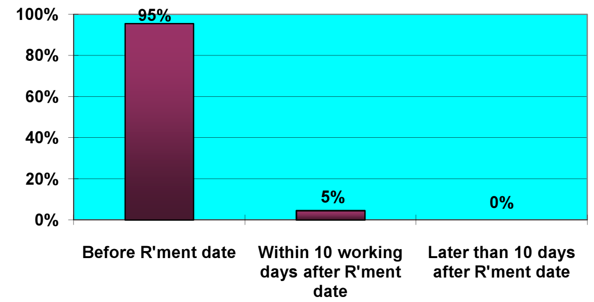
D Resource Perspective

1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	93.17%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	G	All	0.40%	3%	2.56%	Below target.
3	% of IT plan achieved against target	A	Tech & Dev	24%	100% (25% p/q)	20%	EDI progress is slow. The new Pensions Administration Strategy has set out deadlines in **2012** for all employers to provide information **electronically.**
4	% of Training Plan achieved against target	G	Tech & Dev	100%	100%	100%	Pensions Staff training requirements for all staff identified from 2010 annual performance reviews. An extensive program for 2011 is in place to meet these needs.

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



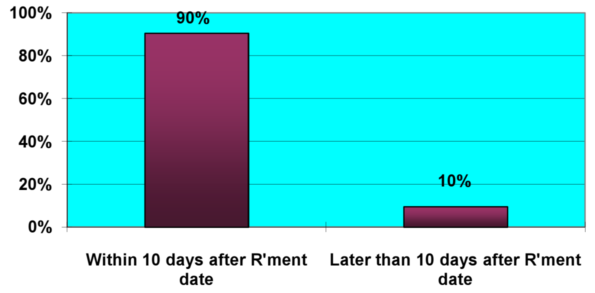
2. Did you receive your LGPS Retirement Benefits Option Form...?



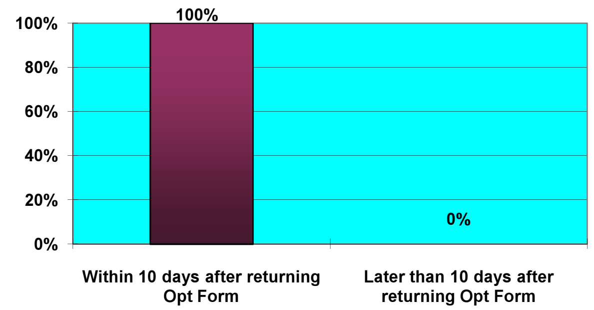
From Question 2 above (column 1)

From Question 2 above (column 2 & 3))

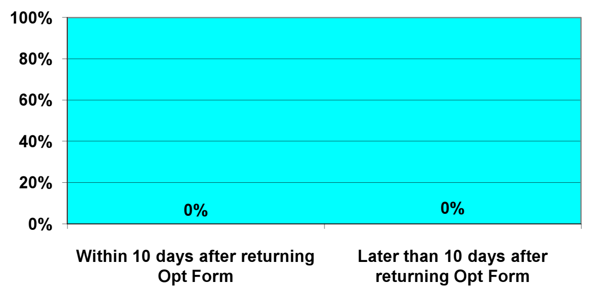
3A. Did you receive your Lump Sum Payment...?



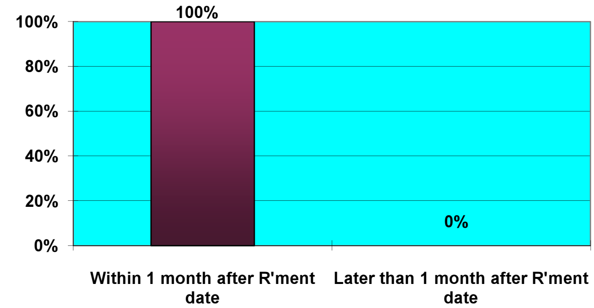
3B. Did you receive your Lump Sum Payment...?



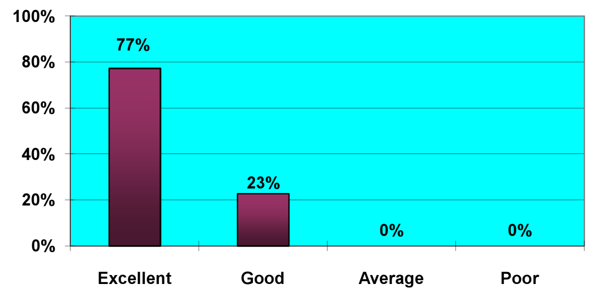
3C. Did you receive your Lump Sum Payment....? None to report



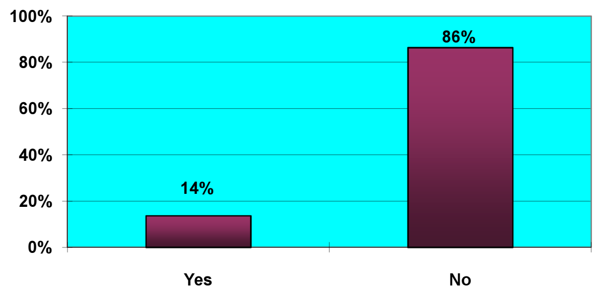
4. Did you receive your First Pension Payment...?



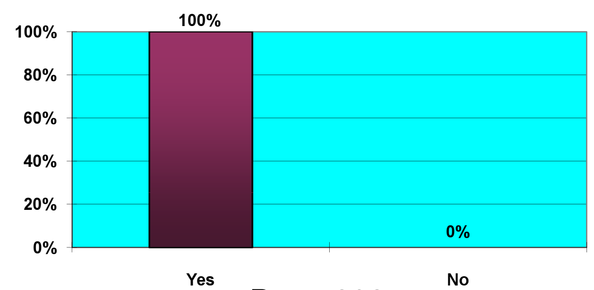
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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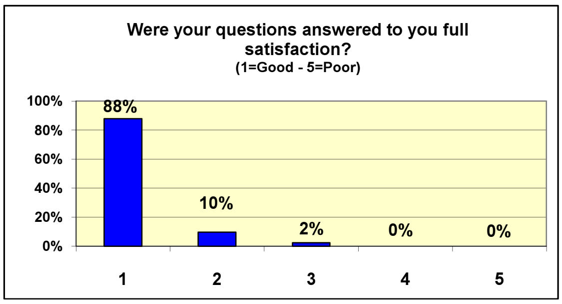
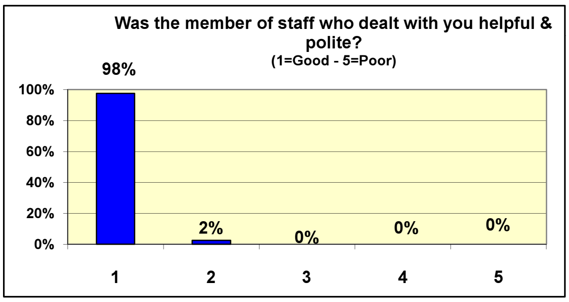
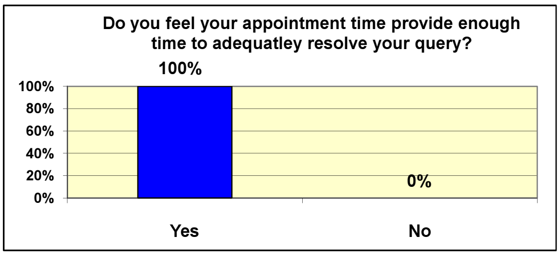
CLINIC Feedback Results from members: 1 November 2010 - 31 January 2011

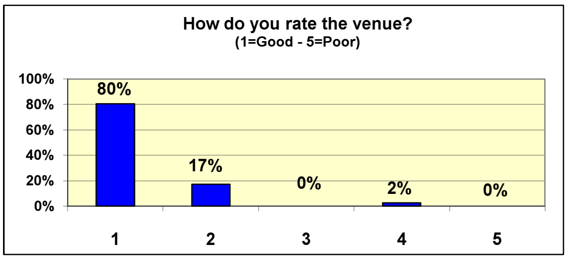
Clinics held for i) LPW (Connexions) 9-11-10 ii) South Glos (Yate) 24-11-10

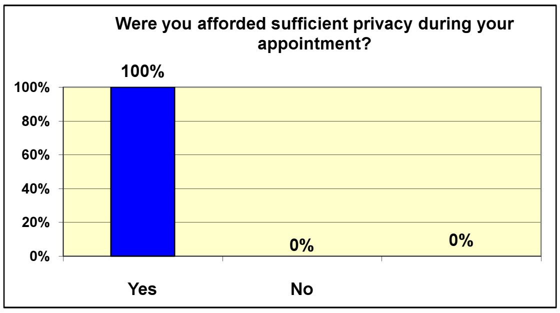
		No.	%
Number of questionnaires		41	
Were your questions answered to your full satisfaction?	5	36	88%
	4	4	10%
	3	1	2%
	2	0	0%
	1	0	0%
Was the member of staff who dealt with you helpful and polite?	5	40	98%
	4	1	2%
	3	0	0%
	2	0	0%
	1	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	41	100%
	No	0	0%
How do you rate the venue?	5	33	80%
	4	7	17%
	3	0	0%
	2	1	2%
	1	0	0%
Were you afforded sufficient privacy during your appointment?	Yes	41	100%
	No	0	0%
	No response	0	0%
If you had further questions and we held a Clinic at this venue again would you attend?	Yes	40	98%
	No	1	2%
	No response	0	0%
Was this location convenient for you?	Yes	39	95%
	No	2	5%

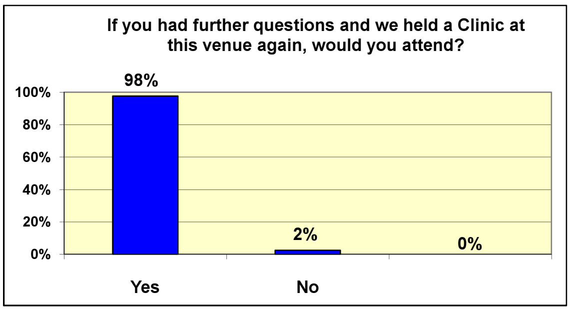


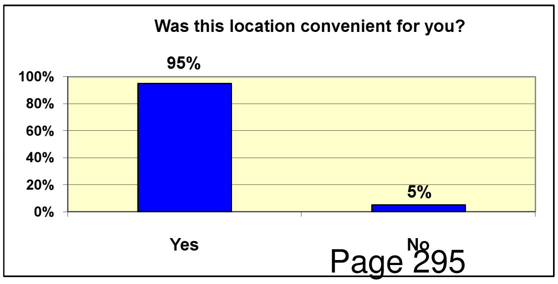












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RISK REGISTER ACTION PLAN AS AT 28TH FEBRUARY 2011

1. Top 5 risks

Risk	Risk and Implication	Mitigating actions	Current status of actions
1	The Avon Pension Fund fails to achieve investment returns sufficient to meet its liabilities, as set out in the Actuarial Valuation. This could negatively affect the contribution rates paid by the employing bodies.	1. The Fund periodically undertakes an asset liability study which determines the appropriate risk adjusted return investment strategy required to meet the liabilities. 2. Report investment performance of the Fund to the Committee (quarterly). This identifies any need to review the strategy or aspects within it between the periodic reviews. Any issues will be reviewed by the investment panel prior to being considered by the committee (ongoing). 3. Obtain from the Actuary a quarterly report detailing the estimated funding level to monitor the impact of the investment return on the funding level and provide report to Committee.(ongoing) 4. Report to Investment Panel on the Projects stemming from the Asset Liability Study (Ongoing). 5. Report any potential legislation changes that may affect the investment strategy to the Panel for discussion.	Complete On Target On Target On Target On Target
2	Information Security: Virus Attack damaging data causing serious retrieval problems and Service failure issues.	1. B&NES maintain solid systems of control - robust virus checkers and firewall in place (constantly monitored). 2. Removal of access to A drives by B&NES IT which would have enabled the use of floppy disks - a common source for viruses) for all but a few authorised senior staff.	On Target Complete
3	Offices and/or systems at Riverside are not accessible. Implications: Failure would cause disruption to benefit calculations and delay benefit payments plus a build up of backlog of cases and	1. Business continuity / disaster recovery policy and plans are documented. These consider the different scenarios of buildings, hardware and systems not being available. 2. Business Continuity Plans are accessible to a number of nominated officers at all times (physical hardcopy & electronic).	Complete Complete

	documents to be scanned.	3. Disseminate BCP through Team Leaders and Team Meetings 4. Provide all staff with 'Contact Listings' (Physical & Electronic) detailing all contact numbers for management hierarchy.	Complete Complete
4	Non compliance with Data Protection Act. Implications: Fines imposed; criminal / civil prosecutions; data processing suspended; adverse publicity.	1. Provide to all staff details of the Council's Data Protection Policy. Use Team meetings to disseminate source of info. 2. Nominate a Data Protection Link Officer. 3. Obtain assurance from B&NES Info Governance Team that the Council (& therefore Fund) is DP registered for the data processing carried out. 4. Obtain Confidentiality Agreement from the Fund Actuary (Mercer) and Nominated Tracing Bureau (Faraday & Comis & Tracesmart). 5. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud viz. National Fraud Initiative. (Ongoing) 6. All staff are informed that personal data to be shared with third parties is processed through the Government Gateway Secure Portal. (Ongoing) 7. All information sent to third parties is verified to ensure personal data is not released. (Ongoing)	Complete Complete Complete On Target On Target On Target On Target
5	The investment managers appointed by the Avon Pension Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve the investment returns required to meet its liabilities. This could negatively affect the contribution rates paid by the employing bodies.	1. Report to Committee quarterly on the performance of the investment managers. This will identify whether there are ongoing performance issues with any of the managers which need to be addressed.(ongoing) 2. Introduce guidelines which can be used to trigger the review of an underperforming active manager	On Target On Target

Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	18 March 2011	**AGENDA ITEM NUMBER**
TITLE:	**WORKPLANS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Investments Workplan to 31 March 2012

Appendix 2 – Pensions Benefits Workplan to 31 March 2012

Appendix 3 – Committee Workplan to 31 March 2012

Appendix 4 – Investments Panel Workplan to 31 March 2012

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 2012 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 2011/2014 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 2012 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.

4.2 Reviewing the future workplan provides the opportunity for the Committee to consider the process to be undertaken for each project, their level of involvement and whether any of the work should be delegated to the Investment Panel.

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 TO 31 MARCH 2012

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 manager performance	Officers to formally meet managers annually See IP workplan for Panel meetings	2011 dates arranged to be confirmed
Review Hedge Funds	Review performance once mandates in place for 3 years and then review strategy	March 2011
Budget and Service Plan 2011/14	Preparation of budget and service plan for 2011/14	March 2011
FX hedging	Tender mandate & appoint	June 2011
Annual Accounts	Draft accounts to be approved by Committee in June Final accounts to be approved by Committee in September before formal approval by Corporate Audit Committee in late September	June 2011-02-11 September 2011
Custody Contract	Re tender or Market test the custody contract	September 2011
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	December 2011
Statement of Investment Principles	Revise following any change in Fund strategy/policies. Publish within 6 months of any changes.	ongoing
Investments Forum	Organise forum meetings expected to be held in Spring & Autumn 2011	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for employing bodies	

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WORK PLAN AS 18 MARCH 2011 - APPENDIX 2

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2012

Project	Proposed Action	Report
Employer Access – change of provider to Heywood	Employer access is currently in test and is expected to be rolled out to employers by April 2011 and will allow Employers to do their own member estimates and Strain on the Fund costs calculations for redundancies and to advise the Fund on member data changes including leavers' details.	N/A
Administration Strategy/ Partnership (**SLA)** Agreements	Full consultation with employers on the Administration Strategy document took place in October 2010. The strategy was approved by the Avon Pensions Fund in December 2010. APF will be working with all employers to put SLAs in place during 2011. All employers have a deadline to submit employee changes **electronically** by 2012. Officers will work closely with employers to help them achieve this using the most appropriate method (which will depend on the level of activity) 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 111 diverse employers.	N/A
EDI - auto designer interface	EDI is included in the Administration Strategy. (see above) The Fund will work closely with Fund employers to meet the agreed target dates in 2012 for all employers to provide all member data changes electronically.	
Post Hutton Review changes	Following the Hutton Review draft legislation on revision to the benefit structure of the LGPS is expected in March 2011. Any major changes however are not expected to be put into effect for a couple of years. A full report will brought to Committee at the appropriate time on the detail and the changes required administering 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.	N/A
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 2012

June 2011
Review of Investment Performance for Quarter Ending 31 March 2011
Pension Fund Administration – Budget Outturn 2010/11, Performance Indicators for Quarter Ending 31 March 2011 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Appointment of Currency Hedging manager
Approve draft accounts 2010/11 prior to formal approval by Corporate Audit Committee
Approve Committee's Annual Report to Council
AVC Review 2011
Workplans
Planned Workshop – SRI Policy Review July 2011 Stage 1

September 2011
Review of Investment Performance for Quarter Ending 30 June 2011
Presentation by WM on Local Authority Universe - performance and asset allocation
Pension Fund Administration – Budget Monitoring 2011/12, Performance Indicators for Quarter Ending 30 June 2010 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Approve final accounts 2010/11, governance report and audit plan 2011/12 prior to formal approval by Corporate Audit committee
Review of SRI Policy – Stage 1 report
Custody Contract
Workplans
Planned Workshop – SRI Policy Review 4Q11 Stage 2

December 2011
Review of Investment Performance for Quarter Ending 30 September 2011
Pension Fund Administration – Budget Monitoring 2011/12, Performance Indicators for Quarter Ending 30 September 2011 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Review of SRI Policy – Stage 2 report
Annual review of internal control reports of external service providers
Workplans

March 2012
Review of Investment Performance for Quarter Ending 31 December 2011
Pension Fund Administration – Budget Monitoring 2011/12, Performance Indicators for Quarter Ending 31 December 2011 and Risk Register Action Plan
Budget and Service Plan 2012/15
Investment Panel Minutes
Review Investment Panel Recommendations
Workplans

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2012

Panel meeting	Proposed reports	Outcome
July 2011	• Review mangers performance to march 2011 • Meet the Managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee
3Q10	• Review mangers performance to June 2011 • Meet the Managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee
4Q10	• Review mangers performance to Sept 2011 • Meet the managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee
1Q11	• Review mangers performance to Dec 2011 • Meet the managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee

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