Bath & North East Somerset Council

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: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish and Katie Hall

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

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 24th June, 2011

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 24th June, 2011** at **2.00 pm** in the **Gloucester Room, Ground Floor, Hilton Bath City Hotel - Walcot Street 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.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

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

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

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

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

   Appendices to reports are available for inspection as follows:-

   Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

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

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

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

6. **Emergency Evacuation Procedure**

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

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

Avon Pension Fund Committee - Friday, 24th June, 2011

at 2.00 pm in the Hilton Bath City Hotel - Walcot Street Bath

A G E N D A

PRELIMINARY MATTERS

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. ELECTION OF VICE-CHAIR

   The Committee is invited to elect a voting member as Vice-Chair of the Committee for the Council Year.

4. DECLARATIONS OF INTEREST

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

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

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

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

7. 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.

8. MINUTES: 18 MARCH 2011 (Pages 7 - 14)

STRATEGIC REPORTS

9. ROLES AND RESPONSIBILITIES OF THE COMMITTEE *(15 MINUTES)* (Pages 15 - 24)

10. PRESENTATION BY MERCERS ON THE FAIR DEAL CONSULTATION *(30*

MINUTES INCLUDING Q&A)

The actuary has been invited to explain the potential impact on the LGPS funds if the Fair Deal is abolished. The Government has consulted on this, but the consultation period ended before this committee was convened.

11. PRESENTATION BY SCHRODERS ASSET MANAGEMENT ON THE ECONOMIC/MARKET OUTLOOK *(30 MINUTES INCLUDING Q&A)*

    One of the Fund's managers will provide a brief overview of the economic environment and market outlook.

12. REVIEW OF INVESTMENT PERFORMANCE FOR YEAR AND QUARTER ENDING 31 MARCH 2011 *(25 MINUTES)* (Pages 25 - 78)

ROUTINE REPORTS

13. APPOINTMENT OF MANAGER TO HEDGE CURRENCY EXPOSURE *(10 MINUTES)* (Pages 79 - 88)

14. ADMISSION OF COMMUNITY HEALTH AND SOCIAL CARE TO THE FUND *(5 MINUTES)* (Pages 89 - 96)

15. PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2010/11 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 30 APRIL 2011 *(15 MINUTES)* (Pages 97 - 120)

16. DRAFT STATEMENT OF ACCOUNTS 2010/11 *(10 MINUTES)* (Pages 121 - 144)

17. COMMITTEE'S ANNUAL REPORT TO COUNCIL *(5 MINUTES)* (Pages 145 - 156)

18. WORKPLANS *(5 MINUTES)* (Pages 157 - 170)

19. DATES OF FUTURE MEETINGS

    Future meetings are scheduled at follows:

    23 September 2011, Keynsham Town Hall
    9 December 2011, Kaposvar Room, Guildhall, Bath
    16 March 2012, Keynsham Town Hall.

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 18th March, 2011, 2.00 pm

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

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

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

Advisors: Tony Earnshaw (Independent Advisor) and Dave Lyons

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

36 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Paul Shiner.

38 DECLARATIONS OF INTEREST

There were none.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Councillor Bellotti observed that as the Chair was stepping down from the Council in May, this would be the last meeting of the Avon Pension Fund Committee that he would attend, and proposed a vote of thanks to him for his outstanding leadership. This was carried unanimously.

The Chair said that he had thoroughly enjoyed his eight years on the Committee and expressed his thanks to the officers and advisers for their excellent support.

The Director of Resources and Support Services praised the Chair for his excellent working relationship with officers and for his hard work to improve the way the Committee worked.

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

There were none.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 10 DECEMBER 2010

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

43 2010/11 AUDIT OPINION PLAN - PRESENTATION BY AUDITOR

Mr Hackett presented the draft Audit Opinion Plan 2010/11, which set out the audit work programme and timescale. The audit fee for 2010/11 was unchanged from 2009/10 at £47,000.

RESOLVED to note the Audit Opinion Plan for 2010/11.

44 ACTUARIAL VALUATION - PRESENTATION BY ACTUARY

Paul Middleman of Mercers presented to the Committee. A summary of his presentation had been circulated with the agenda as Appendix 1 to the report. He said that the 2010 actuarial valuation for the Avon Pension Fund and other LGPS funds had been one of the most challenging that he had undertaken mainly because of the squeeze on public sector finances. A crucial issue for the future was affordability. Significant factors for the Fund’s valuation had been longevity, inflation and projected investment returns. The level of future benefits had been reduced as a result of linking increases to CPI instead of RPI introduced by the Government in its June 2010 budget. A judgment had to be made about the balance between the affordability of contributions and the level of contributions needed to ensure the solvency of the Fund. The graph on page 4 of the presentation showed that the life expectancy of Fund members was very high. The table on page 7 showed that the deficit had increased from £459 million at 31 March 2007 to £552 million at 31 March 2010.

In response to a question from a Member, he said that at present Mercers use models based on evidence to assess the long term trend in life expectancy. These currently show that life expectancy is still increasing, though it could be expected to level off at some time in the future and the longevity assumption in the valuation reflects this.

A Member observed that longevity varied in different parts of the Avon Pension Fund area. Life expectancy in Bristol was quite different from that in Bath, for example, and it was agreed that this would be explored prior to the 2013 valuation.to ascertain whether it should be factored into the 2013 valuation. Another Member added that there was also a difference in life expectancy between occupations.

It was agreed that the Actuary would present the initial results of the next valuation to the Committee prior to distribution to employers.

RESOLVED to note the Actuary's presentation.

45 VERBAL UPDATE ON HUTTON REPORT

The Technical and Development Manager and Paul Middleman, the Fund Actuary, updated the Committee on the report of the Independent Public Services Pensions Commission, chaired by Lord Hutton (http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm). It was explained that Hutton had emphasised the importance of all the stakeholders in public sector pension schemes working together and maintaining dialogue to build a consensus on the way forward. The impact of the report on the next actuarial valuation was not clear. It was felt that the Local Government Pension Scheme had moved further to address future challenges than other public sector pension schemes.

A Member observed that the level of contributions could affect the viability of the scheme if they were a disincentive for people to become or remain members and expressed surprise that the Hutton report had not dealt with this. Mr Middleton replied that the level of contributions had not been in Hutton's remit, though there was a great deal of discussion in the Treasury about it. In the Local Government Pension Scheme there was flexibility to increase contributions or reduce benefits, which was not the case in the unfunded schemes. He agreed that the level of contributions would be a bone of contention.

The Director of Resources and Support Services advised that there was information about the Hutton report on the Avon Pension Fund website. A Member suggested that the onus should be on employers to inform their staff of the implications of the report.

RESOLVED to note the update on the Hutton report.

46 REVIEW OF HEDGE FUND PORTFOLIO

The Investments Manager presented the report, which summarised the outcomes of the Committee workshop held on 2 March 2011. Members had agreed at the workshop that that the allocation to hedge funds should remain at 10% of the total Fund, but that the allocations between individual hedge fund managers should be changed. A Member noted that the costs of switching between hedge funds could be considerable, and sought assurance that the benefits would outweigh the costs. The Investments Manager replied that officers would ascertain the costs. Councillor Bellotti (Vice-Chair and Chair of the Investment Panel) said that the workshop had carried out a very comprehensive review. He drew attention to the comments made about Gottex in paragraph 5.5 of the report and said that the workshop had been very concerned about leverage and wanted to minimise the risks arising from hedge funds using borrowed money. The Investments Manager said that officers would be working closely with Gottex to get a better understanding of how they could improve transparency and monitor the level of borrowing and would report to the Committee, initially via the Investment Panel.

RESOLVED that the Committee agrees the following recommendations following the review of the Fund's hedge fund investments:

(i) The allocations between the Fund of Hedge Fund (FoHF) managers should be amended as follows:

(a) Reduce Man's share of the portfolio from 45% to 30%
(b) Reduce Lyster Watson's share of the portfolio from 5% to zero.
(c) Increase Signet's share of the portfolio from 20% to 30%,
(d) Increase Stenham's share of the portfolio from 5% to 15%.

(Note that the allocation Gottex remains unchanged.)

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

47 REVISED STATEMENT OF INVESTMENT PRINCIPLES AND MYNERS ACTION PLAN

The Investments Manager presented the report. She reminded Members that the Fund was legally required to produce a Statement of Investment Principles which incorporated a statement of compliance with the Myners Principles. The results of the Members' self-assessment exercise on decision making were summarised in Appendix 7 and a suggested training framework outlined in Appendix 9.

A Member suggested that training sessions could be linked with Committee meetings and held on the same day. Another Member said that training should not aim at producing Members with a uniform mentality. The Investments Manager agreed, and said that attendance at conferences gave Members an opportunity to hear presentations expressing diverse viewpoints.

RESOLVED

1. To approve the revised Statement of Investment Principles.

2. To note the actions identified by the self-assessment of the decision making process.

3. To approve the Committee's training programme.

48 INVESTMENT PANEL MINUTES

The Investments Manager presented this item.

Councillor Bellotti (Vice Chair and Chair of the Investment Panel) drew attention to his comment in Minute 40 about rescheduling the Committee workshop on SRI to July. This was important because many Councillors might be leaving the Council after the May elections.

RESOLVED to note the draft minutes of the Investment Panel meeting held on 12 January 2011.

49 RECOMMENDATIONS FROM THE INVESTMENT PANEL

The Investments Manager presented the report.

RESOLVED to agree the brief for the SRI review set out in section 4.2 of the report as recommended by the Panel at its meeting on 12 January 2011.

50 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2010

The Assistant Investments Manager presented the report and commented on the key figures set out in paragraph 4.3.

Mr Lyons commented on the JLT performance monitoring report attached as Appendix 2. Equity markets had continued their positive run. There had been a strong recovery in oil stocks. All managers had produced positive absolute returns apart from RLAM. The graph on page 18 demonstrated that while the Fund of Hedge Funds had delivered lower returns this had been accompanied by lower volatility. The underperformance of Jupiter, partly a function of its SRI constraints, should be noted. There were no significant concerns about any of the fund managers. Once again the Fund's diversification strategy had demonstrated its worth.

A Member questioned Mr Lyons on the market fallout from the popular uprisings in the Middle East and the Japanese tsunami. He replied that the price of oil had increased significantly due to the unrest, but this was not because there had been a decrease in supply or an increase in demand, but reflected a concern that the unrest would spread further. The impact of the Japanese tsunami was difficult to assess at present. In the short term a decrease in Japanese growth of ½ to ¾ % was anticipated. There had been an impact on equity markets, but they had recovered. Many Japanese homes were without electricity and some nuclear power stations were likely to be decommissioned. The Bank of Japan was taking steps to ease the appreciation of the Yen and had intervened in the bond markets. It had injected $184bn into money markets. In the longer term, the disaster could have a positive effect on Japanese growth by stimulating demand after more than a decade of deflation. Neither the situation in the Middle East nor that in Japan gave rise to specific concern in relation to any of the Fund's portfolios. A Member commented that the strategy to diversify across asset classes would be beneficial to the Fund in such times of heightened uncertainty.

RESOLVED to note the information as set out in the report.

51 COMMUNITY ADMISSION BODIES FOR APPROVAL

The Pensions Manager presented the report. He said that the three community admission bodies seeking entry into the Fund were small organisations and that their admission would have minimal impact on the Fund, as each of them were guaranteed by scheme employers.

A Member said that she understood that only public sector bodies were eligible for admission to the Fund. Another Member pointed out that they were not private sector bodies, but not-for-profit charities. He added that as a result of the policies of the present Government all sorts of functions could be transferred to similar bodies and that the staff working in them needed pension provision, so it could be foreseen that the number of applications for admission by such bodies would increase. The Director of Resources and Support Services agreed that these were relevant issues for the future and that it would become more difficult to draw a hard and fast boundary between the public from private sectors. However, the current policy is that community admission bodies are only admitted to the Fund if they have a guarantee from an existing scheme employer.

RESOLVED that

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

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

52 BUDGET & SERVICE PLAN 2011-14

The Pensions Manager presented the report. He said that the plan set out the Fund's objectives for the next three years and the budget that would support them. Of course the objectives needed to be achieved at the lowest possible cost. This would be facilitated by, among other things, more integrated use of IT and the roll out of the administration strategy. The budget for the period would be reduced by 5% with no reduction in service levels.

RESOLVED to approve the 3-year Service Plan and Budget 2011-14 for the Avon Pension Fund.

53 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR 10 MONTHS AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 JANUARY 2011

The Finance and Systems Manager (Pensions) presented the expenditure report. There was a forecast underspend of £29,500, of which £22,700 was forecast to occur within the directly controlled Administration budget. At the same time the full one-off costs of implementing the Altair Member Self Service system and the Heywood's Employer Self Service system would be charged to the current financial year, which would to some extent relieve the pressure for savings in the 2011/12 budget.

The Pensions Manager presented the performance report. There had been major events in the period which had affected Administration performance. These included teething problems following the switchover from AXIS to Altair in late October 2010 and unavailability of the internet due to power failures. There had been good feedback about the pensions clinics in the period. The Heywood Employer Self Service facility was being tested and when fully implemented should reduce the burden on the Fund's Administration staff.

A Member enquired whether there were adequate resources to deal with enquiries from schools looking to become academies. The Pensions Manager replied that the Employers Liaison team had been created to deal with such issues.

RESOLVED to note the expenditure for administration and management expenses incurred for the ten months ending 31st January 2011 and performance indicators for the three months ending 31st January 2011.

54 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.16 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2011**	**AGENDA ITEM NUMBER**
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Codes of Governance for LGPS Funds: Training Appendix 2 – Fund Governance Framework		

1 THE ISSUE

1.1 This report sets out the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole. The report covers the information provided at the Committee Induction Session on 14 June 2011.

1.2 In addition the report invites non-B&NES members to nominate themselves to the Investment Panel (see paragraph 5). The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.

2 RECOMMENDATION

That the Committee:

2.1 Notes the roles and responsibilities of the members, advisors and officers.

2.2 Agrees the non-B&NES members to be on the Investment Panel; and

2.3 Notes the B&NES Members nominated to the Councillor places on the Investment Panel.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 ROLES & RESPONSIBLITIES

4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

4.2 **The Committee:** The role of the Committee is set out in the terms of reference as agreed by Council:

"To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of investment policy objectives, making arrangements for management of the Fund's investments and monitoring investment performance; commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations; considering requests from organisations wishing to join the Fund as admitted bodies; making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and all aspects of benefit administration. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund."

4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Avon Pension Fund Committee) which explores the issues in greater detail before making recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.

4.4 **The Investment Panel:** The Investment Panel's role is set out in its terms of reference also agreed by Council:

"The role of the Avon Pension Fund Committee (APFC) Investment Panel shall be to consider, in greater detail than the APFC is able, matters relating to the management and investment of the assets of the Avon Pension Fund and to advise the APFC on such matters.

Among other things, the Panel shall:

- recommend strategic investment objectives, policy and strategic asset allocation
- regularly review in detail and assess the performance of the investment managers, investment advisors, custodian and actuary
- recommend appointment and termination of investment managers and professional service providers as required
- review the Statement of Investment Principles and submit to APFC for approval
- make recommendations to the APFC on matters relating to investment strategy and management as the Panel considers appropriate. This will include issues of a more urgent nature, where the view of the Panel would be taken into consideration. (The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted the Chair of the Panel).
- review any legislative changes which have implications for investment governance and make recommendations to the APFC as appropriate

The Panel has no delegated powers, but can only make recommendations to the APFC."

4.5 Membership of the Investment Panel is drawn from the voting members of the committee.

4.6 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.

4.7 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.

4.8 Members are encouraged to undertake training to ensure they can discharge their responsibilities. This principle is enshrined in a number of codes of governance for local government pension funds, which are set out in Appendix 1.

4.9 **Fund Advisors:** The LGPS (Management and Investment of Funds) Regulations 2009, regulation 11(5) states "the (administering) authority must obtain proper advice at reasonable intervals about its investments" and regulation (6) states "the authority must consider such advice in taking any steps in relation to its investments." The Myners' report on effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG). Myners' Principle 1: Effective decision-making - requires that "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 those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive…".

4.10 The Fund has appointed an Investment Consultant (JLT) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee's agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund's investment strategy and the managers' performance.

4.11 In addition the Fund has an Independent Investment Advisor. The advisor is independent of the officers and investment consultant, their role being to ensure the members get all the appropriate advice and that the advice is adequately challenged.

4.12 **Fund Officers:** The officers' role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition the officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.

4.13 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

4.14 **Risk Management Framework:** The Committee and Officers are responsible for ensuring that the Fund's framework for managing risk is adequate and the risk controls are effective. Appendix 2 sets out the risk management framework, showing the various inputs to the overall risk management process.

5 NOMINATIONS TO INVESTMENT PANEL

5.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.

5.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 19 May 2011.

5.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting.

6 RISK MANAGEMENT

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

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 Are contained in the report.

10 ADVICE SOUGHT

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

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

Appendix 1

Codes of Governance for LGPS Funds: Training

1. CIPFA/SOLACE* Framework

The CIPFA/SOLACE framework illustrates best practice for developing and maintaining a local code of governance that local authorities comply with when discharging their duties. The framework asserts that good governance means:

Principle 5:
Developing the capacity and capability of members and officers to be effective by:

- Making sure members and officers have the skills, knowledge, experience and resources they need to perform well in their roles
- Developing the capability of people with governance responsibilities and evaluating their performance
- Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

* Society of Local Authority Executives and Senior Managers

2. Myners Principles for Effective Decision Making in pension funds

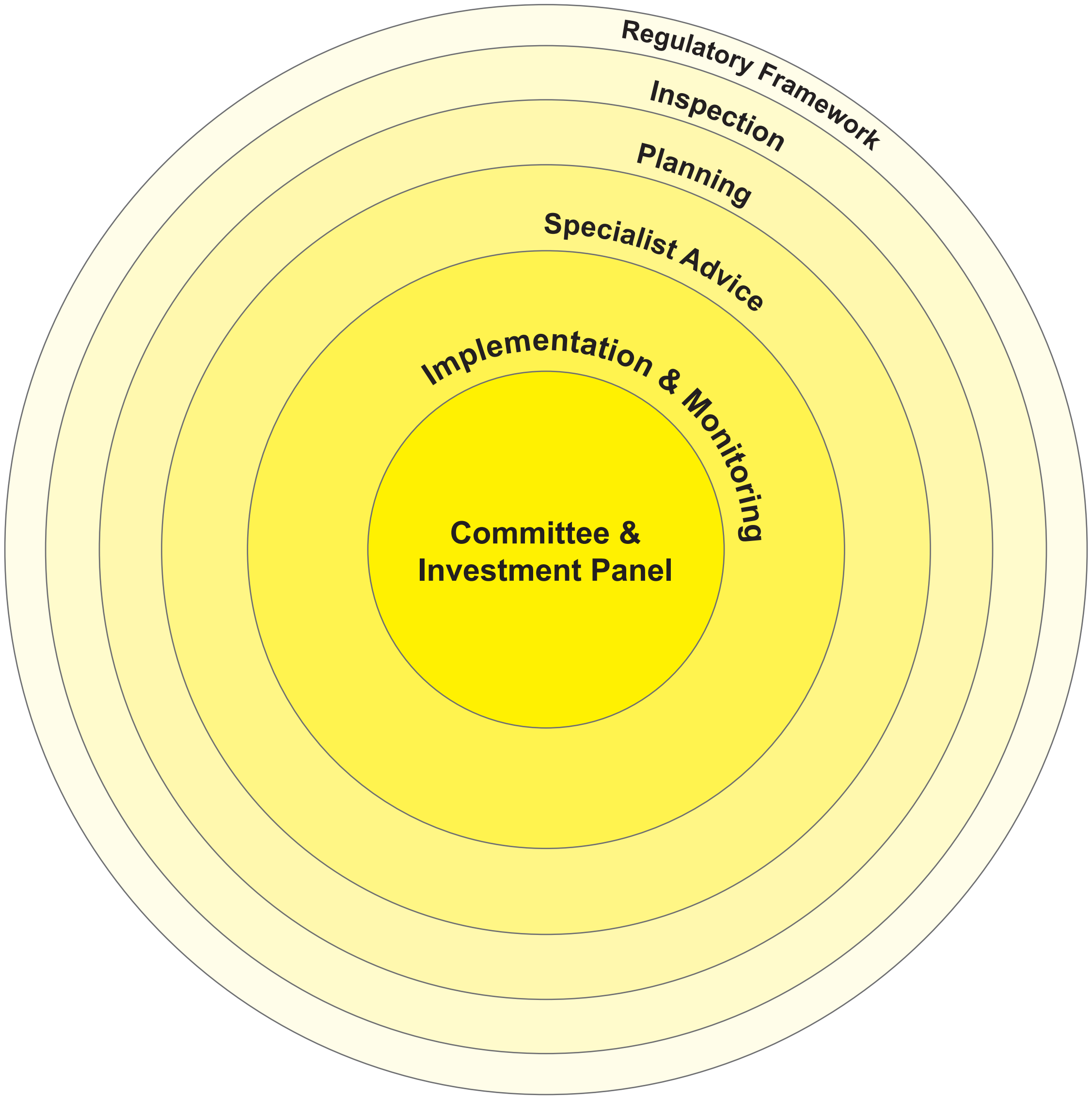
The Myners Principles are a set of best practice principles for decision making bodies of pension funds. Each LGPS fund must state how it complies with the principles as part of its Statement of Investment Principles. With regard to training:

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
- Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

The Avon Pension Fund Risk Management Framework



Regulatory Framework

- LGPS Regulations
- Statutory Documents
- Codes of Practice

Inspection

- Internal / External Audit
- S151 Officer
- Monitoring Officer

Planning

- Risk Register
- Service Plan
- Training

Specialist Advice

- Officers
- Specialist Advisors
- Independent Investment Advisor

Implementation & Monitoring

- Officers
- Specialist Advisors

Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**24 June 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 31 March 2011**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report		

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic areas concerning the Fund's investments.

1.2 This report contains performance statistics for periods ending 31 March 2011.

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

Section 4. Investment Performance: A - Fund, B - Investment Managers.

Section 5. Investment Strategy

Section 6. Funding Level Update

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Socially Responsible Investment (SRI) Update

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

4 INVESTMENT PERFORMANCE

4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 15 to 20), the investment managers (pages 21 to 42) and a commentary on investment markets (pages 5 to 11). In the section on the Fund (page 15), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

4.2 The Fund's assets rose in value by £204m (+7.8%) over the previous 12 months and £32m (+0.9%) in the quarter, giving a value for the investment Fund of £2,658m at 31 March 2011. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance, periods to March 31 2011**

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	0.9%	7.8%	*6.3%*
Strategic benchmark *(Fund relative to benchmark)*	1.4% *(-0.5%)*	8.2% ***(-0.4%)***	5.2% *(+1.1%)*
Customised benchmark *(Fund relative to benchmark)*	1.2% *(-0.3%)*	7.8% ***(=)***	7.0% *(-0.7%)*
Local Authority Average Fund *(Fund relative to benchmark)*	1.3% *(-0.4%)*	8.2% ***(-0.4%)***	5.4% *(+1.3%)*

4.4 **Avon Pension Fund**: Quarterly return driven mainly by the growth in equity markets (except Japanese equities) offsetting the small negative returns of bonds over the period. Annual return driven by positive returns across all asset classes especially equities and property.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds)**: Annual relative underperformance driven by Fund holding a little cash over the period and being slightly underweight equities and overweight bonds (versus the benchmark) in the 3rd Quarter of 2010 when equities performed well and bonds did not achieve their benchmark return.

4.6 **Versus Customised Benchmark (which reflects the individual benchmarks of each manager and as such, measures the relative performance of the managers as a whole)**: Annual performance matched the benchmark, with outperformance of Jupiter, Royal London, and Partners offset by underperformance of TT, Lyster Watson and Stenham. The other managers performing broadly in line with their benchmarks.

4.7 **Versus Local Authority Average Fund**: Annual relative underperformance driven by Fund's lower than average allocation to equities which performed positively over the year, and higher than average allocation to hedge funds which did not match the returns made by equities.

4.8 The initial estimate for the Fund's return in April is 1.4%.

B – Investment Manager Performance

4.9 A detailed report on the performance of each investment manager has been produced by JLT – see pages 21 to 42 of Appendix 2. Their report does not identify any performance issues with the managers.

4.10 Implementation of the decisions taken following the review of the Fund's investments in hedge funds will take place in the coming quarter and involve a reallocation between the Fund's hedge fund managers and the full redemption from Lyster Watson.

4.11 The Committee agreed in December 2010 to appoint Schroder to manage the Fund's active global equity mandate. Following a managed transition process, the assets were transferred to Schroder on 20 April 2011.

5 INVESTMENT STRATEGY

5.1 JLT's report notes the changes to the strategic allocation that were implemented this quarter following a decision by the Committee to increase the allocation to overseas equities and reduce the allocation to UK equities within the equity portfolio. This implementation was completed with the transition of assets to Schroder described above.

5.2 The appointment of an active currency hedging service for the Fund is the subject of a paper elsewhere in the agenda. The decision to implement an active currency hedge was an action that came out of the conclusions following the strategic investment review in 2009.

6 FUNDING LEVEL UPDATE

6.1 As at 31 March 2011 the Actuary has estimated that the funding level has marginally increased to 83% from 82% at 31 March 2010.

6.2 Over the year the value of the assets rose by c.8% and liabilities increased by 6% (to £3,193m). The liabilities have increased as the discount rate has been unwound by one year (i.e. one year of interest has been added to the liabilities since 31 March 2010). This revised funding level takes into account benefit payments and contributions received during the period.

6.3 Table 2 shows the change in financial assumptions (real yields were unchanged):

Table 2: **Change in Financial Assumptions**

	31 March 2010	31 March 2011
UK Gilt yield	4.50%	4.40%
Real yield	0.70%	0.70%
Implied RPI inflation p.a.	3.80%	3.70%
Inflation adjustment p.a.	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.90%

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 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.

7.2 There was no rebalancing undertaken this quarter. As at 31 March 2011 the Equity:Bond allocation was estimated at 76:24.

Cash Management

7.3 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.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies 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.

8 CORPORATE GOVERNANCE AND SRI UPDATE

8.1 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.

8.2 LAPFF's current activity includes:

(1) **Pay and Non-Monetary Reward**
LAPFF has co-signed a letter to the SEC urging regulation to require companies to disclose median employee compensation. Such disclosure would encourage moderation of American CEO pay by providing a more accurate picture of worldwide compensation practices. This is in addition to LAPFF current project on identifying ways in which non-monetary rewards can be used by companies.

(2) **Engagement on Carbon Disclosure Project (CDP)**
LAPFF is collaborating with other investors in a UNPRI engagement initiative to improve the quality of climate change reporting by companies to investors. The CDP enables investors to better understand companies' greenhouse gas emissions, preparedness for climate change and strategy to respond to global climate change.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors 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.

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (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 MARCH 2011													
	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	413.4	15.2	131.0	103.3								662.9	24.9%
North America	126.7	8.8										135.5	5.1%
Europe	129.6	6.2					32.9					168.7	6.4%
Japan	35.3						28.0					63.3	2.4%
Pacific Rim	49.5						30.5					80.0	3.0%
Emerging Markets					147.1							147.1	5.5%
Global ex-UK						169.7						169.7	6.4%
Global inc-UK	238.5											238.5	9.0%
Total Overseas	***579.6***	***15.0***			***147.1***	***169.7***	***91.4***					***1002.8***	***37.8%***
Total Equities	**993.0**	**30.2**	**131.0**	**103.3**	**147.1**	**169.7**	**91.4**					**1665.7**	**62.7%**
BONDS													
Index Linked Gilts	158.6											158.6	6.0%
Conventional Gilts	156.3	35.2										191.2	7.2%
Sterling Corporate	6.1							132.0				138.1	5.2%
Overseas Bonds	74.0											74.0	2.7%
Total Bonds	**395.0**	**35.2**						**132.0**				562.2	**21.1%**
Hedge Funds									222.4			222.4	8.4%
Property										172.1		172.1	6.5%
Cash	2.1	14.4	1.1	6.0					0.7	1.5	10.4	36.2	1.3%
TOTAL	**1390.1**	**79.8**	**132.1**	**109.3**	**147.1**	**169.7**	**91.4**	**132.0**	**223.1**	**173.6**	**10.4**	**2658.6**	**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

Review for period to 31 March 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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

Dave Lyons, BA (Hons), IMC
Divisional Director

May 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 £32m over the first quarter of 2011, to £2,659m as at the end of March 2011.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 0.9%, underperforming the customised benchmark by 0.3%. Over the last year, the Fund produced a return of 7.9%, which marginally outperformed the customised benchmark return by 0.1%. Over 3 years, the Fund has produced a return of 6.3% p.a., underperforming the customised benchmark by 0.7% p.a.
- Over the quarter, the returns from property funds were the primary drivers of positive returns, followed by overseas equities and fund of hedge funds, with most managers delivering a positive return.
- Over the one year period, absolute performance remains positive due to strong positive returns in the third and fourth quarters of 2010 more than offsetting negative returns in the second quarter of 2010.
- The relative underperformance over the quarter resulted from the underperformance of a number of managers, namely, TT International, Invesco, Genesis, Lyster Watson, Man and Stenham. The strongest relative returns were generated from Gottex and RLAM .
- There were changes to the Fund's asset allocation during the quarter besides those driven by market movements. The decision by the Committee to increase the allocation to overseas equities within the equity portfolio, was partially implemented by rebalancing the BlackRock multi asset passive portfolio in line with this decision. The remainder of the move to the new target allocation will be completed with the vesting of the global equity portfolio in April 2011. Further funding of the property portfolios took place over the quarter.
- In May it was announced that one of the two Directors of Research in Invesco's Global Quantitative Equity (GQE) team, Anthony Shufflebotham is to leave the organisation on 1st August 2011. Invesco have also announced that Andy Waisburd will be replacing Anthony as Director of Research and will be reporting to Karl Bayer, Head of Research. We have no immediate concerns regarding these changes within the team, given the nature of the mandate which is reliant on quantitative models developed by the team, however this will be monitored closely.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. There were changes made to the strategic asset allocation, and some of these changes implemented over the quarter via the investment made into BlackRock's multi asset passive portfolio. Further changes are due to be implemented as the Fund has now completed the appointment of Schroders to manage a global equity portfolio, following the search that took place over the latter half of 2010. We have identified no causes for concern with this strategy outside of the areas that have been discussed and progressed by the Investment Panel. We also note the Fund's search for an active hedging currency manager is drawing to a conclusion.
- Manager Performance: We have identified no areas of significant concern regarding the managers.
- The largest negative return over the quarter came from SSgA Pacific, which was driven by market returns as the manager broadly performed in line with their benchmark. The largest positive return over the quarter came from SSgA Europe, again driven by the broader market return.
- The Fund's review of the Fund of Hedge Fund allocation is now complete and the recommended changes will be implemented in July and August 2011.

Section Two – Market Background

- The table below summarises the various market returns to 31st March 2011, 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	1.0	8.7
Overseas Equities	2.1	8.5
USA	3.3	9.2
Europe	6.0	8.2
Japan	-6.9	-4.0
Asia Pacific (ex Japan)	-0.5	13.1
Emerging Markets	-1.2	11.9
Property	2.3	10.7
Hedge Funds	2.3	10.3
Commodities	9.0	16.1
High Yield	2.4	8.1
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-1.5	6.9
Index-Linked Gilts (>5 yrs)	-0.2	6.7
Corporate Bonds (>15 yrs AA)	0.0	6.0
Non-Gilts (>15 yrs)	0.2	6.1
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	1.8	5.3
Consumer Price Index (CPI)	1.1	4.0
Earnings Inflation *	0.6	2.1

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.4	5.7
Against Euro	-3.2	0.8
Against Yen	4.6	-6.3
Yields as at 31 Mar 2011	**% p.a.**	
UK Equities	2.96	
UK Gilts (>15 yrs)	4.30	
Real Yield (>5 yrs ILG)	0.63	
Corporate Bonds (>15 yrs AA)	5.53	
Non-Gilts (>15 yrs)	5.52	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	0.2	-0.2
Index-Linked Gilts (>5 yrs)	0.1	0.0
Corporate Bonds (>15 yrs AA)	0.1	0.0
Non-Gilts (>15 yrs)	0.1	0.0

* is subject to 1 month lag

Statistical highlights

- During the quarter, the rate of CPI inflation increased from 3.7% to 4.4% in February, a 28 month high. However, there was a surprise fall in inflation over March to 4.0%, mainly due to the record monthly fall in the price of food and non-alcoholic drinks, which fell 1.4%.

- The minutes of the latest Monetary Policy Committee ("MPC") meeting stated that there was a "significant risk" that inflation could exceed 5% in the coming months. The MPC kept interest rates on hold at 0.5% and unveiled no new quantitative easing measures although three members of the Committee voted in favour of raising rates and another member voted in favour of extending the policy of quantitative easing. Interest rates were last changed in March 2009 when they were reduced from 1.0%.
- The Governor of the Bank of England has warned that January's rise in VAT and other inflationary pressures mean that prices are likely to outstrip pay again this year, leaving real wages no higher than they were six years ago. The latest figures for the retail sector have been disappointing with retail sales suffering their worst fall since records began in 1996. Next, the retailer, has warned of very challenging times ahead for retailers and consumers.
- Sterling appreciated by 2.4% and 4.6% respectively against the US Dollar and Japanese Yen over the quarter but depreciated by 3.2% against the Euro despite the ongoing concerns about sovereign debt problems within the peripheral Eurozone countries.
- Japanese equities fell by almost 7.0% over the quarter although, at one stage, the market had fallen by 12% in the aftermath of the earthquake.
- Equities had a mixed quarter with Japanese, Asia ex Japan and Emerging Markets all producing negative returns in sterling terms and the US, UK and Europe ex UK producing positive returns. In Sterling terms, the best performing equity market over the quarter was Europe ex UK which achieved a return of +6.0%, with the US and UK markets producing sterling returns of +3.3% and +1.0%, respectively.
- Over 15 Year Gilts produced a return of -1.5% over the quarter and underperformed long dated corporate bonds, which produced a zero return over the period.

UK market events – Q1 2011

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **Government Debt:** As at 21 April 2011 UK national debt stood at £903.4 billion or 59.9% of GDP as compared to £760.3 billion (52.8% of GDP) at the end of March 2010.
- **Unemployment:** The number of people unemployed in the UK decreased by 36,000 over the quarter to reach 2.46 million. The unemployment rate for the three months to March 2011 was 7.7%, down 0.2 on the quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 700 between February 2011 and March 2011 to 1.45 million according to the Office for National Statistics.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell to a seasonally adjusted figure of 54.6 in April after declining to 56.7 in March, which itself was downwardly revised from 57.1 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 4% in March 2011, down from 4.4% in February 2011. RPI annual inflation was 5.3%, down from 5.5% in February 2011. RPIX inflation, which excludes mortgage interest payments was 5.4% in March, down from 5.5% in February 2011. The equivalent annualised EU CPI figure for March was 2.7%. The largest downward pressures to the change in CPI inflation came from recreation and culture, principally from

games, toys and hobbies (particularly computer games), recording media and data processing equipment, and air transport, where fares rose by less than a year ago, particularly on European routes. The largest upward pressure came from housing and household services: prices which, overall, rose by 0.4% between February and March this year compared with 0.1% between the same two months a year ago, and the purchase of vehicles, where prices rose this year but fell a year ago, particularly for second-hand cars.

- **Gross Domestic Product (GDP):** In the first quarter of 2011, GDP increased by 0.5%. The effect of the abnormal weather conditions in December 2010 is estimated to have subtracted 0.5% from growth in the fourth quarter. GDP is estimated now to have returned to the level reduced in the third quarter of 2010. Total services output increased by 0.9% in the first quarter compared with a decrease of 0.6% in the previous quarter. The largest contribution to the growth in the latest quarter was from business services and finance.
- **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 case since March 2009. The Bank has faced 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 – Q1 2011

- **European sovereign debt crisis:** Portugal’s decision to follow Greece and Ireland in seeking a European Union-led bailout may mark a watershed in the region’s debt crisis. Instead of creating a 'domino effect' that threatens to topple countries higher up the credit-quality ladder, the latest aid request will likely speed up the debt restructuring of the three countries now in Europe’s intensive-care unit. With help coming from the European Central Bank, Portugal will now access emergency funds from other governmental sources to meet its debt obligations and to reduce the probability of a banking crisis. While Portugal is the third Eurozone country to go down this road in less than a year, the next phase will likely play out differently. Portugal is negotiating a bailout in the run-up to its June elections. As such, it will find it hard to provide the policy commitments deemed critical for the type of EU and International Monetary Fund support keeping Greece and Ireland afloat.
- **Ireland:** Ireland has more than halved its growth forecasts for this year following weaker than expected output in the first quarter. This update was contained in a revised stability programme, which Ireland submits to the European Commission as a member of the Eurozone. The country, which in November had to seek an €85 billion bail-out by the European Union and International Monetary Fund, cut its forecast for GDP from 1.75% at the time of the budget in December to 0.9% for 2011 and from 3.25% to 2.2% for 2012.
- **Greece:** Standard and Poor's has cut Greece's credit rating by two notches, warning that any voluntary debt restructuring by Athens would amount to default. The downgrade to B, six notches into junk territory, comes after European politicians acknowledged publicly that Greece's €110 billion rescue package was insufficient and more help would be needed. S&P’s move came as analysts estimated the impact of any forced Greek restructuring, which would force losses onto bondholders, banks and the ECB. Greek banks, the largest holders with about a fifth of Greece’s €330 billion in outstanding debt, would see losses of about €25 billion if a so-called “haircut” of 50% were applied, according to JPMorgan. Delaying a restructuring for two years would halve the loss, it said.

- **Germany:** German GDP rose 1.5% in the first quarter of this year. After severe weather hit growth in late 2010, the pick-up highlights the country's role as Continental Europe's growth motor – and could help ease the Eurozone's recovery from its continuing debt crisis. German GDP is now above its previous peak at the start of 2008. Germany was among the industrialised countries worst hit by the collapse of Lehman Brothers investment bank in September 2008, which led to a collapse in demand for its exports. However, the recovery was far swifter than expected.
- **Unemployment:** The EU27 seasonally adjusted unemployment rate was at 9.9% in March 2011, unchanged compared to February 2011. The unemployment rate was 10.1% in March 2010. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.2%), Luxembourg (4.5%) and Austria (4.3%), and the highest in Spain (20.7%) and Ireland (14.7%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI registered 57.8 in April 2011 up from 57.6 in March 2011. Manufacturing again led the upturn, with output growth accelerating to a slightly greater extent than indicated by the flash estimate. The services sector saw a weaker rate of increase in March (and below the flash estimate), but saw activity rise at a marginally faster rate than the strong pace seen on average in the first quarter.
- **Inflation:** The inflation rate in Euro Area was reported at 2.8% in April 2011.
- **GDP:** GDP increased by 0.8% in the Euro area during the first quarter of 2011.
- **Interest Rate:** The European Central Bank has increased its base rate by 0.25% in early April for the first time since May 2009. Base rate now stands at 1.25%.

US market events – Q1 2011

- **Unemployment:** The rate of unemployment in the US increased from 8.8% in March 2011 to 9% in April 2011. However, the unemployment rate decreased from 9.4% in December 2010 to 8.8% in March 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.8% in March 2011 after having risen 0.1% in February 2011. For the first quarter as a whole, industrial production increased at an annual rate of 6.0%. In the manufacturing sector, output moved up 0.7% in March, the fourth consecutive month of strong expansion.
- **Inflation:** US CPI rate increased from 1.5% in December 2010 to 2.7% in March 2011. The inflation rate further increased to 3.2% in April 2011, the highest figure since October 2008.
- **GDP:** US real GDP increased by 1.8% over the first quarter of 2011, against a (revised upward) 3.1% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q1 2011

- China may limit interest-rate increases over the rest of the year, focusing on other tools for combating inflation as the government seeks to cool prices without choking off growth. The central bank in the month of May raised banks' reserve requirements for the fifth time this year. The half-point increase takes effect May 18 and will boost levels for the nation's biggest lenders to a record 21%.

- Sharp falls in investment and soaring capital outflows are undermining the Russian economic recovery and offsetting the benefits of high oil prices. According to prominent economists, political risk in the run-up to next year's elections is behind sharp falls in investment and sizeable capital outflows.
- India's finance minister warned that unsustainably high fuel costs could slow India's GDP growth to 8% this year. New Delhi was predicting GDP to grow by between 8.75% and 9.25% in the current financial year – but that forecast would come under threat if the cost of importing energy to fuel India's booming economy remained high, or indeed continued to rise.

Market events – Global summary – 1 year

- The Chancellor of the Exchequer's budget contained few surprises and was broadly neutral in terms of public spending. The surprise announcement was the 1 penny per litre cut in the duty on petrol, which was to be paid for by increasing the supplementary charge on North Sea oil and gas exploration. This will raise an extra £2 billion and sent shockwaves through the North Sea oil and gas companies.
- The rate of CPI inflation rose from 3.7% to 4.4% in February, a 28 month high. But there was a surprise fall in inflation in March to 4.0%, mainly due to the record monthly falls in the price of food and non-alcoholic drinks, which fell 1.4%. The rising cost of petrol, energy and clothes has continued to drive up the cost of living. Despite the fall in inflation in March, many Analysts believe that the Bank of England will raise interest rates this year with some even expecting a rise early in the second half of 2011.
- The Bank of England's Monetary Policy Committee 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%). The hawks amongst the Committee, Spencer Dale, Martin Weale and Andrew Sentence were unable to win other members over to their side. The minutes from the March meeting stated that there is a "significant risk" that inflation could exceed 5% over the coming months. Adam Posen was again the lone voice calling for an additional £50 billion of quantitative easing.
- The Office for National Statistics ("ONS") once again revised the figure for GDP growth in the UK economy over the fourth quarter of 2010. The initial estimate of -0.5% had been revised down to -0.6% but it has now been further revised back to -0.5%. The UK trade balance with the rest of the world, was in deficit by almost £27 billion in the final quarter of 2010. The £10.5 billion deficit in physical goods produced was the largest since records began in 1955.
- In March, the US unemployment rate fell to its lowest level in two years, pushing down unemployment to 8.8% which, perhaps, suggests a sustainable recovery in the US economy. Record exports and an improvement in business and consumer confidence have prompted companies such as Chrysler and Kohl's to increase employment.
- The earthquake disaster in Japan has caused supply chain problems for some of Japan's leading multinationals, which has led to a widespread disruption in production. Given the 'just in time' nature of many manufacturing operations, supply shortages are becoming evident. For example, Toyota halting overtime at its Derby factory, Sony Ericsson stating that it may be

unable to source parts for its mobile phones and a rise in the price of memory chips and display panels for computers.

- The high price of oil is beginning to effect demand for energy, according to the International Energy Agency ("IEA"), which is seeing signs of the growth in world oil demand slowing. The IEA remains concerned about supply shortages, particularly as global oil output fell by around 700,000 barrels per day in March due to the problems in Libya. The uncertainty in the Middle East and North Africa remains unresolved. This is likely to lead to uncertainty for global markets and ongoing volatility in oil prices.
- Portugal has gone to the European Union with a formal request for a bailout. EU finance ministers have been discussing the details of the proposed rescue and during the meeting Spain's finance minister stressed that it was out of the question for Spain to receive a financial rescue. The Chancellor, George Osborne, has seized on Lisbon's debt crisis to warn that those opposed to the British government's deficit reduction plans were playing "Russian Roulette" with UK sovereignty.
- Economic growth in the Emerging Markets was clouded with uncertainty as inflation is in danger of becoming an entrenched problem whilst the rapid pace of growth has lost momentum.

Equities

- Equities had a mixed quarter with Japan Asia ex Japan and Emerging Markets all producing negative returns in sterling terms and the US, UK and Europe ex-UK markets producing positive returns. Although the fallout from the Japanese earthquake mainly affected the Japanese market, all the major markets were unsettled by the problems in the Middle East and North Africa and an increase in inflationary pressure resulting from a rise in food prices and the sharp increase in the price of oil.
- Japanese equities fell by almost 7.0% over the quarter although, at one stage, the market had fallen by 12% in the aftermath of the earthquake disaster. The destruction of transport links and the disruption to power supplies is leading to supply shortages.

Bonds & credit

- The European debt crisis remained at the fore throughout the quarter as Greece denied that it needed to restructure further its debt and Portugal sought a European bailout. Irish banks credit ratings have been cut to junk status and European leaders appealed for calm as the yield on Irish, Greek, Portuguese and Spanish government bonds all increased.
- Over 15 Year Gilts produced a return of -1.5% over the quarter whilst long dated corporate bonds remained relatively unchanged.
- Index-linked fixed interest assets produced a slight negative return over the quarter with the return on Over 5 Year Index-Linked Gilts being -0.2%. Concerns about inflation remain, despite the unexpected fall in inflation in March.

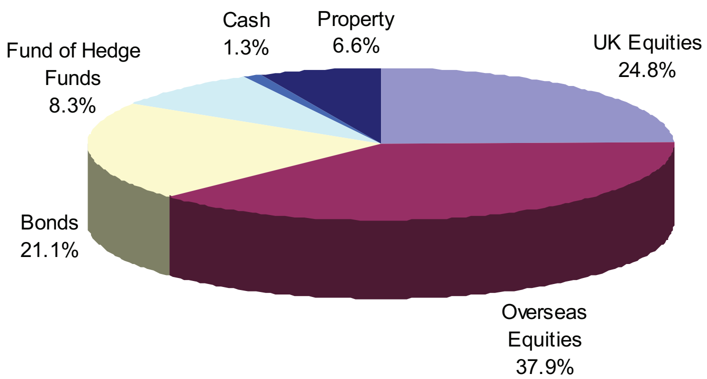
Alternative asset classes

- Commodities were the best performing assets over Q1 2011, as increasing political unrest in the Middle East and North Africa, notably in Libya, contributed to a rise in the price of oil and has reminded investors of the importance of oil to the global economy. Against this backdrop many investors are switching into commodities for diversification benefits.
- The price of gold continued to rise amidst concerns about the Japanese economy following the earthquake disaster, with investors continuing to move to a perceived safe haven asset class.
- Commercial property continued to produce positive returns despite the ongoing concerns of retailers in the high street.
- Hedge funds produced a positive return over the quarter, but lagged equity returns from the US and Europe ex-UK.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 31 March 2011, 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 March 2011



Asset Class	31 March 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	659,595	24.8	21.0
Overseas Equities	1,008,813	37.9	39.0
Bonds	562,418	21.2	20.0
Fund of Hedge Funds	222,293	8.3	10.0
Cash	34,938	1.3	-
Property	174,637	6.6	10.0
Reconciling differences and rounding	-4,077	-0.1	-
TOTAL FUND VALUE	**2,658,617**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £32m over the first quarter of 2011 to £2,659m, as a result of positive absolute investment performance from most funds. Property produced the highest absolute returns over the quarter at 2.3%. Overseas Equities were key contributors to the absolute return, producing returns of 1.2%. Equities comprise approximately 63% of the Fund's investments.
- In terms of asset allocation, there were several changes to note over the quarter:
  - Changes were made at the strategic level to the proportion of the Fund held in UK and overseas equities. The allocation was reduced for UK equities from 27% to 21%, and increased for overseas equities from 33% to 39%.

- This new strategic benchmark was implemented by changes within the BlackRock portfolio, with the manager increasing their exposure to overseas equities and reducing exposure to UK equities in a cost effective way.
- The appointment of Schroders, the Fund's new global equity manager, will complete the changes to the strategic asset allocation. The funding of this new manager is due to begin in Q2 2011.
- 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	31 December 2010 Value £'000	31 December 2010 Proportion of Total %	Net New Money £'000	31 March 2011 Value £'000	31 March 2011 Proportion of Total %
Jupiter	UK Equities	107,692	4.1	-	109,260	4.1
TT International	UK Equities	132,581	5.0	-	132,073	5.0
Invesco	Global ex-UK Equities	166,525	6.3	-	169,742	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	91,189	3.5	-	91,405	3.4
Genesis	Emerging Market Equities	149,537	5.7	-	147,096	5.5
Lyster Watson	Fund of Hedge Funds	9,752	0.4	-	9,582	0.4
MAN	Fund of Hedge Funds	99,699	3.8	-	100,418	3.8
Signet	Fund of Hedge Funds	46,867	1.8	-	47,225	1.8
Stenham	Fund of Hedge Funds	11,689	0.4	-	11,665	0.4
Gottex	Fund of Hedge Funds	52,232	2.0	-	53,490	2.0
BlackRock	Passive Multi-asset	1,362,979	51.9	12,350	1,390,146	52.3
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	93,157	3.5	-13,710	79,793	3.0
RLAM	Bonds	128,979	4.9	-	131,992	5.0
Schroder	UK Property	115,988	4.4	2,156	120,487	4.5
Partners*	Property	41,786	1.6	10,013	53,129	2.0
Internal Cash*	Cash	15,491	0.6	-10,809	11,115	0.4
Rounding		1	0.1	-	-1	0.0
TOTAL		**2,626,144**	**100.0**	**-**	**2,658,617**	**100.0**

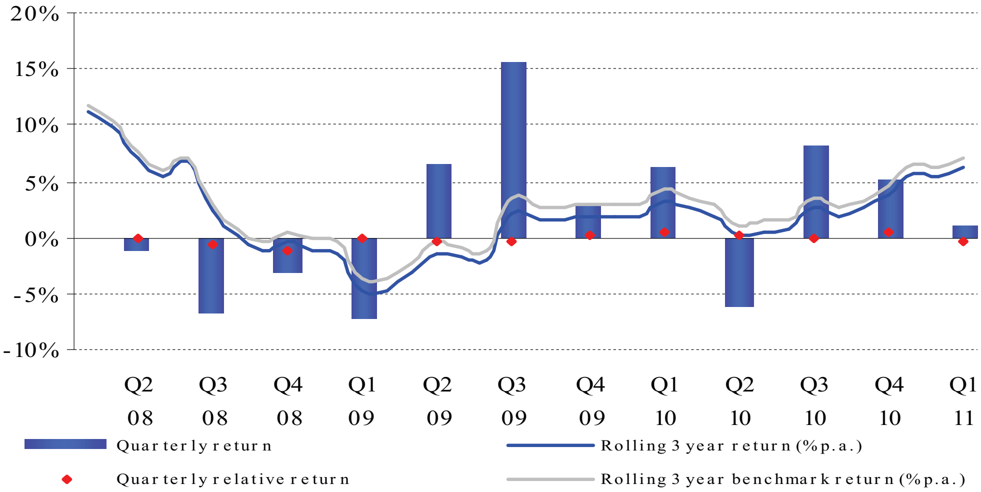
Source: Data provided by WM Performance Services
* Cashflows includes one transaction which has been converted to GBP

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

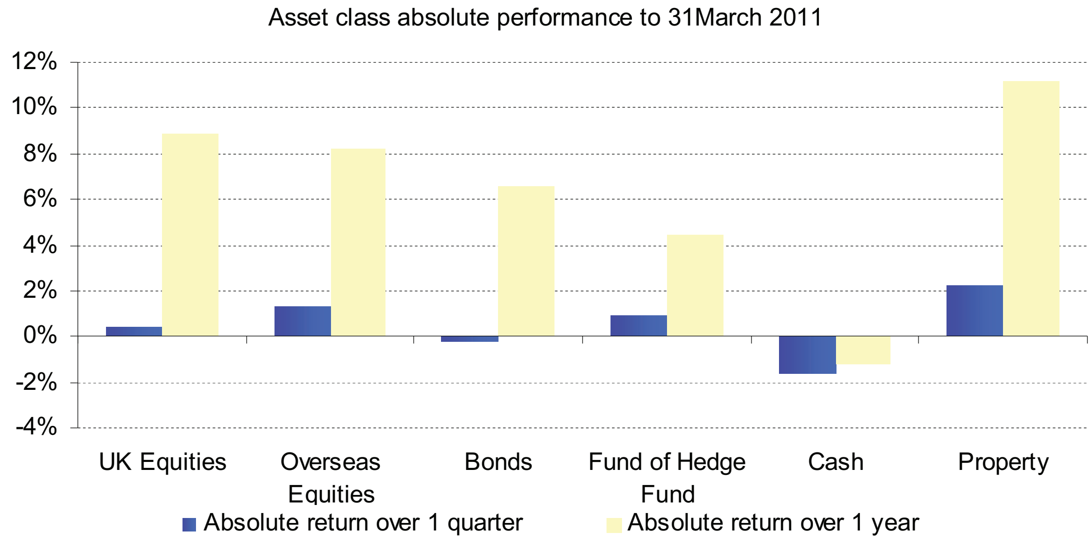


Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 0.9%, underperforming the customised benchmark by 0.3%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 7.9%, marginally outperforming the customised benchmark.
- Over the last 3 years (blue versus grey line), the total Fund's assets produced a positive return of 6.3% 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 most of the Fund's managers.
- The slight relative underperformance over the quarter arose from negative relative returns from a number of managers, most notably Genesis, Lyster Watson, Invesco, TT International, Stenham and Man. Both BlackRock funds and the SSgA Europe Fund performed broadly in line with their benchmarks. The strongest outperformance, over the quarter, came from Gottex and RLAM of 1.5% and 1.4% respectively.

Asset classes' performance

- The chart below and the table on the following page show the absolute performance of the Fund's assets by asset class over the quarter and year to 31 March 2011. 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 first quarter of 2011, all asset classes produced positive absolute returns except bonds and cash.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 0.4% and 1.4% respectively.
- Sterling depreciated against the Euro over the quarter, meaning a higher return on the Euro denominated overseas equities in sterling terms. Sterling appreciated against the Dollar and Yen, meaning a lower return on the Dollar and Yen denominated overseas equities in sterling terms. Most of the major markets produced positive returns for the quarter in local currency terms. The highest local currency return came from the Europe (ex UK) region and the lowest from the Japan region.
- Bonds produced negative absolute returns of 0.2% over the quarter, primarily due to negative returns from UK Index linked and Overseas bonds, which was partially negated by 0.1% return on UK Bonds.
- The fund of hedge fund portfolio produced a positive return of 0.9% over the quarter.
- Property generated the highest absolute return, of 2.3%, over the quarter.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 31 March 2011.

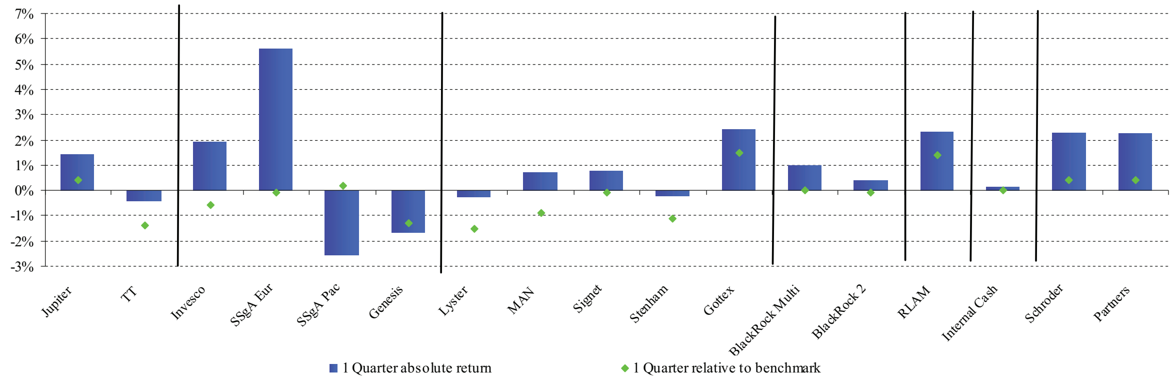
Asset Class	Weight in Strategic Benchmark	Q1 2011 (index returns)	1 year (index returns)
UK Equities	27%	1.0%	8.7%
Overseas Equities	33%	2.1%	8.5%
Index Linked Bonds *	6%	0.0%	6.5%
Gov Bonds – Fixed *	14%	-0.8%	5.2%
Corporate Bonds *		1.5%	5.5%
Hedge Funds	10%	2.3%	10.3%
Property	10%	2.3%	10.7%
Total 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.

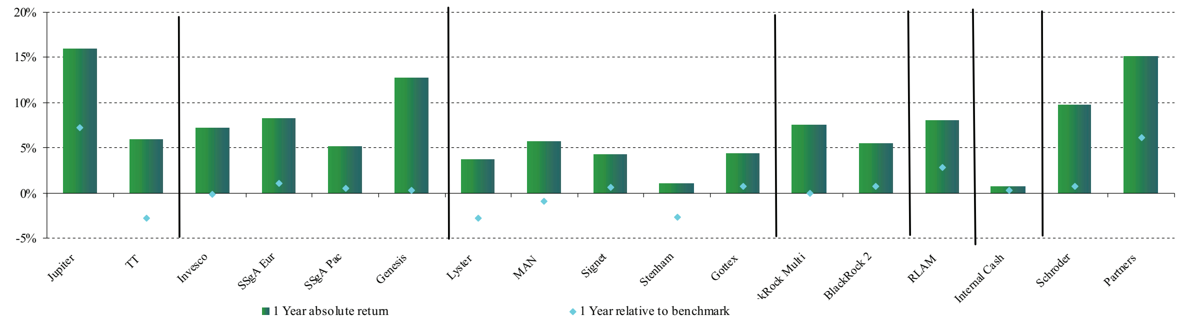
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of March 2011. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 March 2011



Absolute and relative performance - year to 31 March 2011

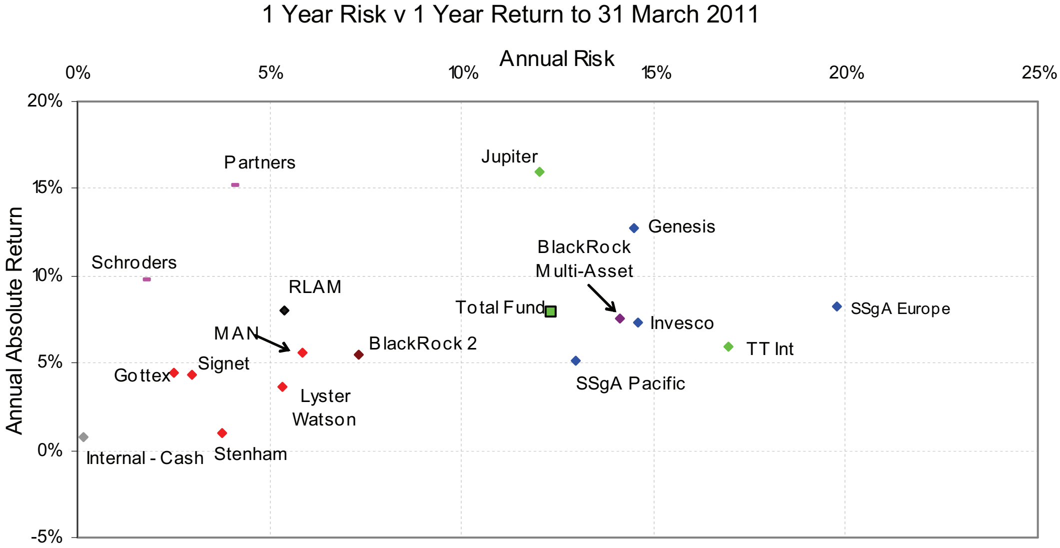


Source: Data provided by WM Performance Services

- Most of the Fund's Investment managers produced positive absolute returns.
- Over the quarter, the strongest absolute performance came from SSgA Europe. In relative terms, Gottex performed the best over the quarter, outperforming their benchmark by 1.5%, whilst the worst relative performance came from TT International, Lyster Watson and Genesis who each underperformed their respective benchmarks by 1.4%.
- Over the year, all absolute returns were positive. In both absolute and relative terms, Jupiter performed better than any other manager producing an absolute return of 15.9%, outperforming their benchmark by 7.2%.

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 March 2011 of each of the funds, along with the total Fund.

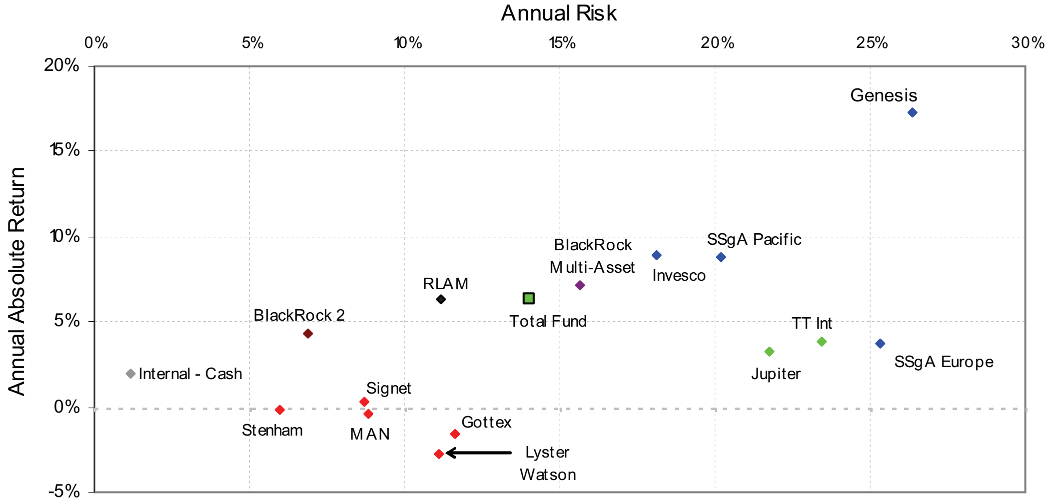


Source: Data provided by WM Performance Services

- 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
  - Pink: Property
  - Green Square: total Fund

- The volatility of returns over the year has remained broadly in line with the previous quarter.
- 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 considerably lower volatility (to the extreme left).
- Most notable risk-adjusted returns came from Partners and Jupiter over the past one year. This space had been dominated by Genesis over the last few quarters, but a weak Q1 2011 and the rolling out of a strong Q1 2010 performance means that the annual absolute return has decreased, while the annual risk has remained broadly consistent.
- 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 March 2011



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.

- A notable change has been the improvement in the 3 year annual absolute return for Jupiter, whilst the risk has remained at a similar level. Compared to negative 3-year returns in the previous quarter, the Fund's absolute returns increased this quarter whilst the risk also marginally reduced, resulting in them achieving a better 3-year risk adjusted return.

- 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

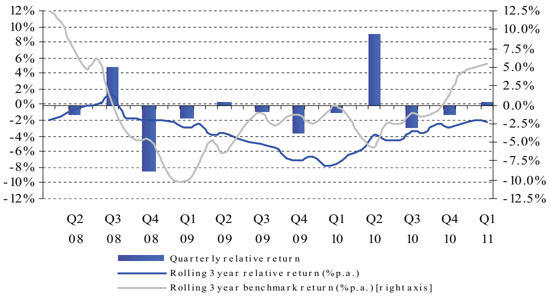
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. The review of the fund of hedge fund allocation is now complete, as is the appointment of a global unconstrained equity manager, and the changes to these parts of the portfolio will be seen in future reports. We note that the review of SRI remains ongoing by Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter outperformed their benchmark over the quarter by 0.5%. The Fund produced strong risk-adjusted returns for the year ended 31 March 2011. Turnover of the Fund increased significantly to 7.2% for the quarter compared to 3.2% for the previous quarter, but remains relatively low.
  - TT International underperformed its benchmark over the quarter as well as for the year ended 31 March 2011. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions in Financials.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to their respective benchmarks over the quarter. Invesco, however, produced negative 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 underperformed their benchmark over the quarter and produced a negative absolute return.
- Fund of Hedge Funds:
  - Lyster Watson produced negative absolute and relative returns. As noted earlier in the report, as a result of the review of the Fund's allocation to fund of hedge funds, Lyster Watson will be removed from this part or the portfolio in the future.
  - Man produced a negative relative return of 0.9%, producing an absolute return of 0.7%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 0.1%. In absolute terms, Signet produced a return of 0.8%.
  - Stenham Asset Management produced a negative relative return for the quarter, 1.1% behind their benchmark, with an absolute return of -0.2%.

- Gottex outperformed their benchmark over the quarter by 1.5%, producing an absolute return of 2.4%.
- Hedge funds continued to underperform equities, now for three consecutive calendar quarters, as compared to Q2 2010 when hedge funds outperformed equities, although this is not unexpected.
- Over the year to 31 March 2011, only Gottex and Signet were ahead of their benchmarks.

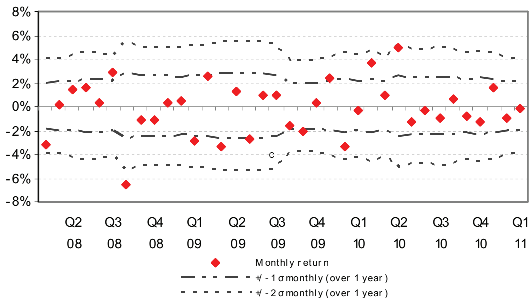
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their Fund.
- Property: Performance of the property funds over the quarter was positive in both absolute and relative terms. Due to the short period since investment in the property funds commenced, 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)

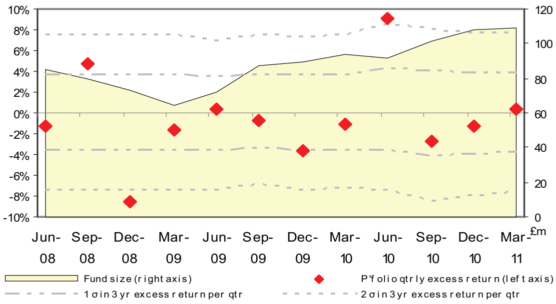
Relative returns [#1]



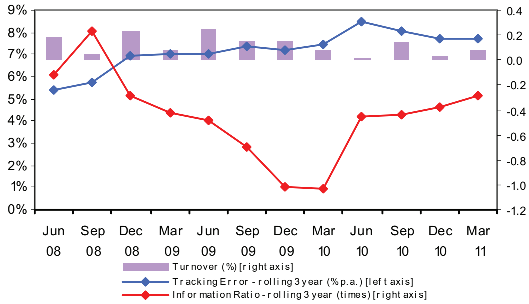
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



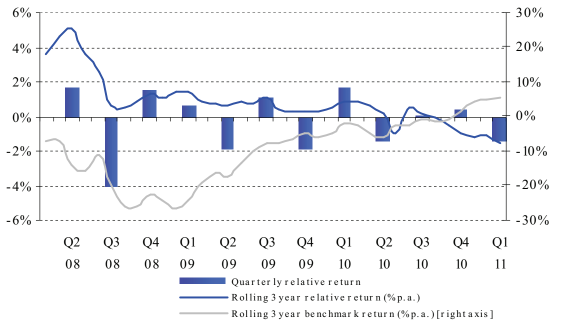
Source: Data provided by WM Performance Services, and Jupiter

Comments:

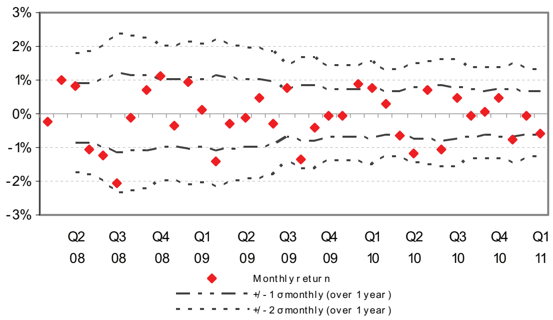
- Over the last quarter, the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.5%.
- Over the last year, the Fund outperformed the benchmark by 7.2%, producing an absolute return of 15.9%. Over the last 3 years, the Fund underperformed the benchmark by 2.2% p.a., producing an absolute return of 3.2% p.a.
- For the first time in six quarters has the Fund's allocation to Cash (5.5%) reduced compared to the preceding quarter (6.6%).
- 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 Q1 2011, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer Goods and Financials, with significantly overweight positions in Industrial, Consumer Services and Utilities. These relative allocations were also consistent with most recent historical quarters.

TT International – UK Equities (Unconstrained)

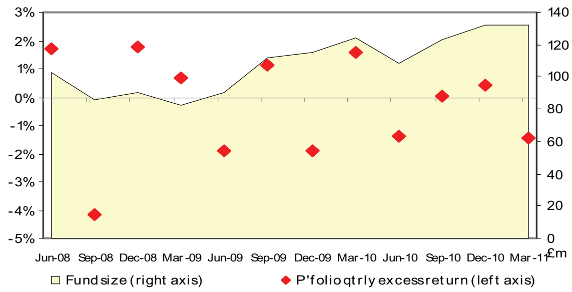
Relative returns #1



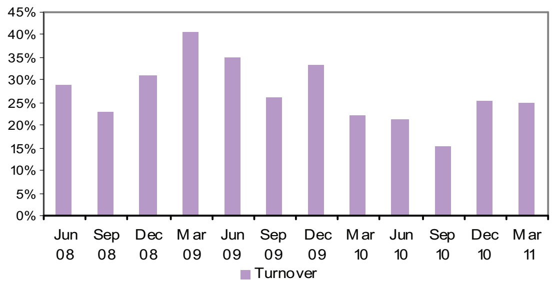
Monthly relative returns #2



Performance v fund size #3



Turnover #4



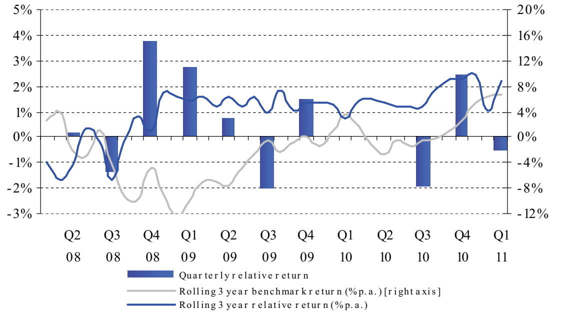
Source: Data provided by WM Performance Services, and TT International

Comments:

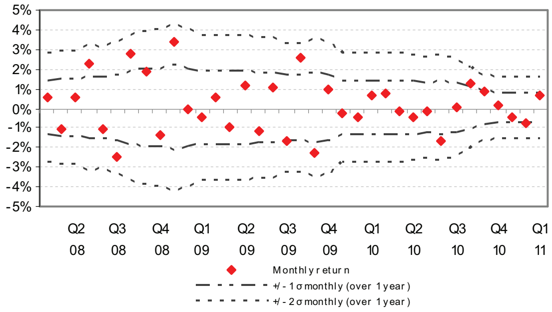
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.4%.
- Over the last year, the Fund underperformed the benchmark by 2.8%, producing an absolute return of 5.9%. Over the last three years, the Fund underperformed the benchmark by 1.5% p.a., producing an absolute return of 3.9% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials by 5.8% and 5.6% respectively, and is underweight to Financials and Health Care by 6.9% and 4.5% respectively, which also represents a continued increase in underweight position compared to the preceding quarter.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 25.1% has remained in line compared to the previous quarter turnover of 25.3%.
- 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 Indexation)

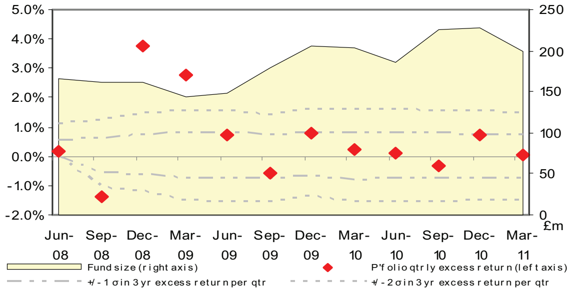
Relative returns #1



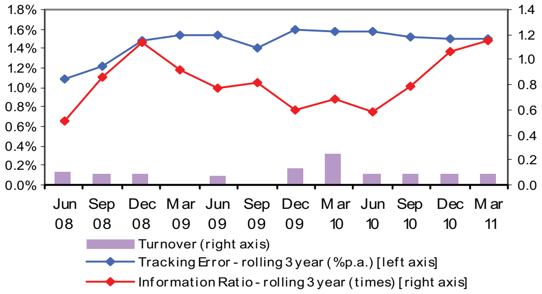
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



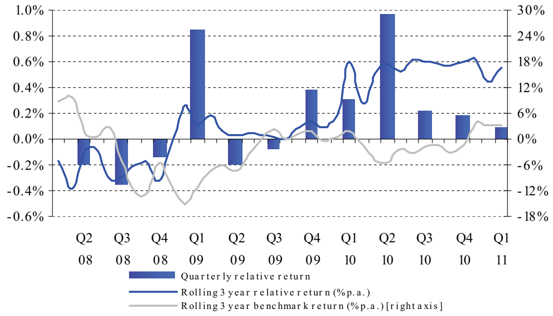
Source: Data provided by WM Performance Services, and Invesco

Comments:

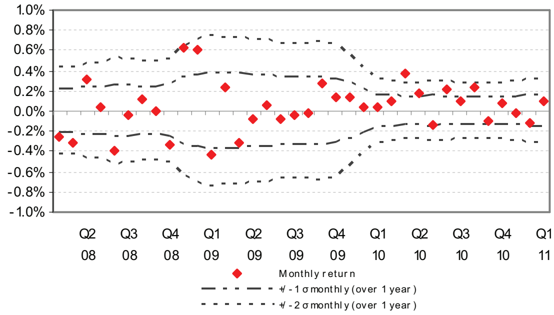
- Over the last quarter the Fund underperformed its benchmark by 0.6%, producing an absolute return of 1.9%.
- Over the last year, the Fund tracked its benchmark, producing an absolute return of 7.3%. Over three years, the Fund outperformed, by 1.5% p.a., producing an absolute return of 8.9% p.a.
- Over the last quarter, stock selection was the only positive contributor to relative returns. Country, Industry and style selection negatively affected contribution to excess returns. 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.
- The turnover of 9.0% remained constant as compared to the previous quarter, and remained low, as expected for this mandate. The number of stocks, however reduced to 417 as compared to 495, at the end of 4Q 2010.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were inside +/- 1% of benchmark weightings as expected from this mandate.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

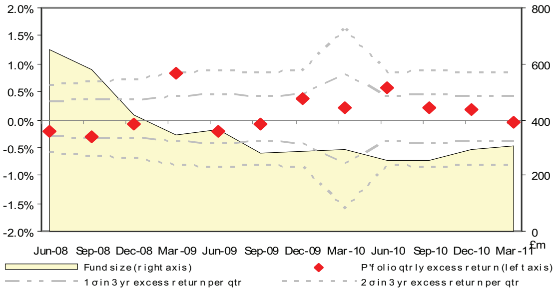
Relative returns [#1]



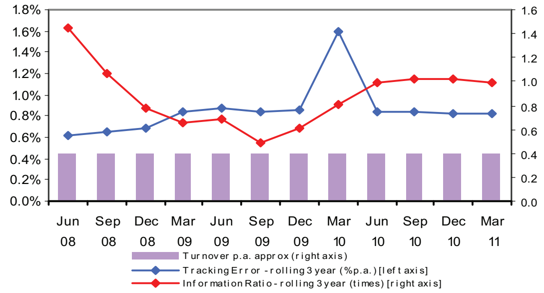
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



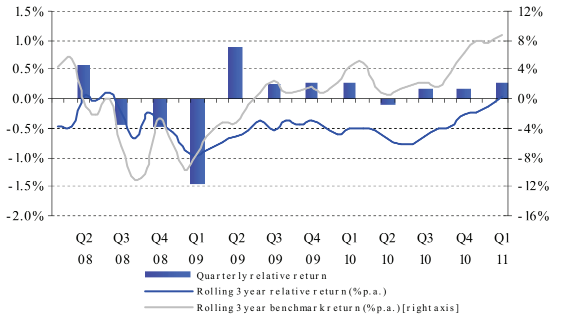
Source: Data provided by WM Performance Services, and SSgA

Comments:

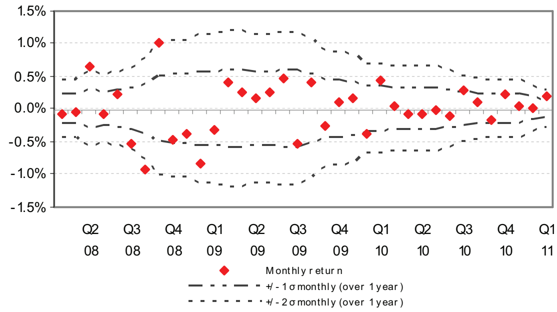
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 5.6%.
- Over the last year, the Fund outperformed the benchmark by 1.8%, producing an absolute return of 8.3%. Over the last 3 years, the Fund outperformed the benchmark by 1.3% p.a., producing an absolute return of 3.7% p.a.
- Stock selection continued to be the primary driver of relative performance, accounting 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 increasing very slightly over the quarter. The tracking error has remained constant over the last four quarters.
- Given its reasonable return and low risk, this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities, subject to the strategic benchmark constraints.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

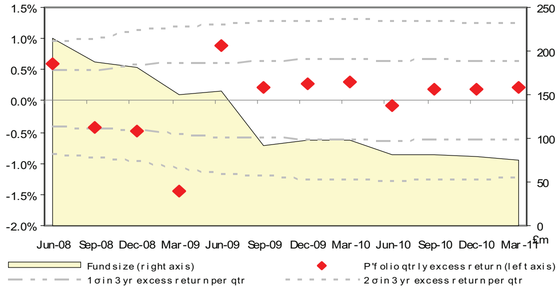
Relative returns [#1]



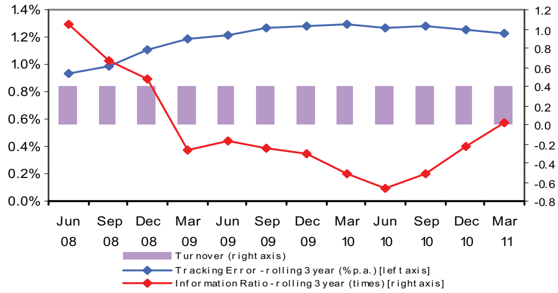
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



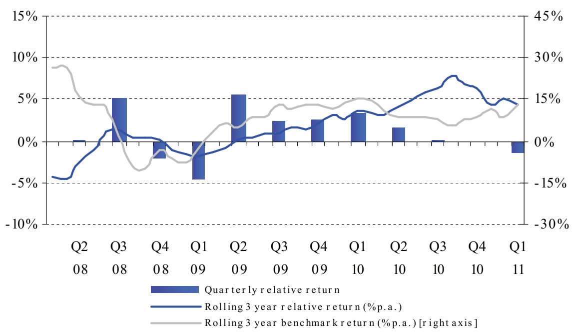
Source: Data provided by WM Performance Services, and SSgA

Comments:

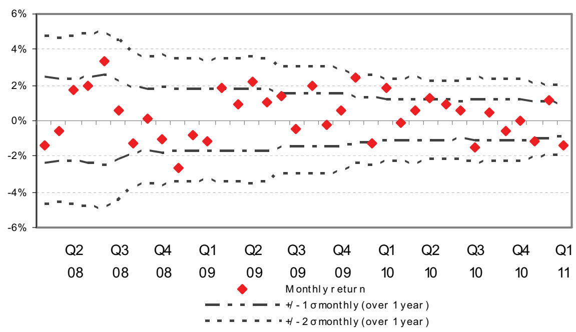
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of -2.6%.
- Over the last year, the Fund outperformed the benchmark by 0.9%, producing an absolute return of 5.4%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.9% 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

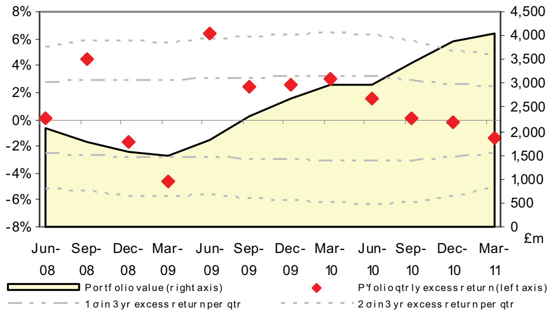
Relative returns #1



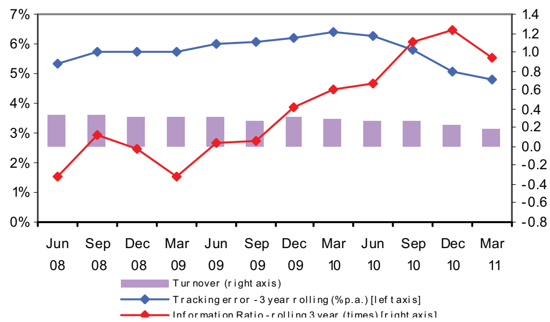
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



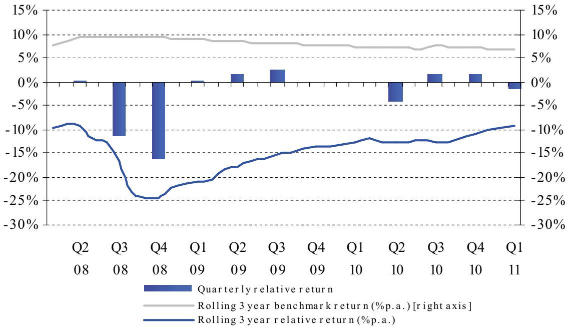
Source: Data provided by WM Performance Services, and Genesis

Comments:

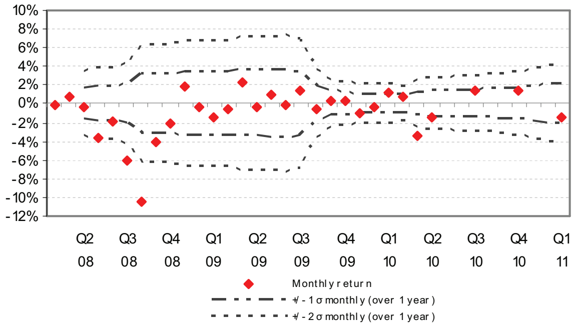
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -1.6%.
- Over the last year, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 12.7%. Over the last 3 years, the Fund outperformed the benchmark by 4.8% p.a., producing an absolute return of 17.2% p.a.
- The Fund remains overweight to South Africa and India, and underweight China and South Korea. 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 underweight's 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), fell to 0.9% in the most recent quarter from 1.2% in the previous quarter.
- On an industry basis, the Fund continued to be significantly overweight in Consumer Staples (+8.3%) and underweight Energy (-5.4%), Consumer Discretionary (-3.9%) and Industrials (-2.0%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns #1

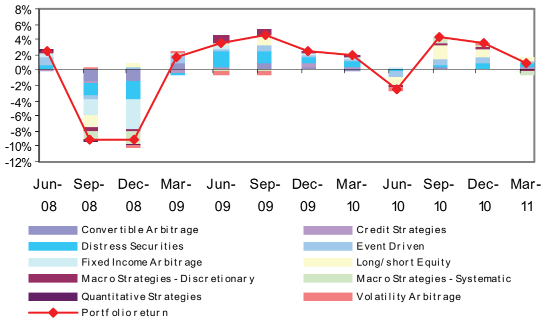


Monthly / Quarterly relative returns #2

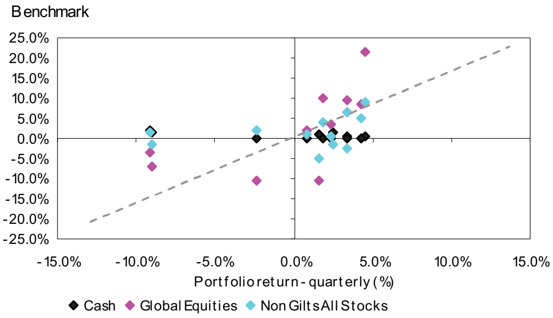


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return #6



Correlation with indices #7



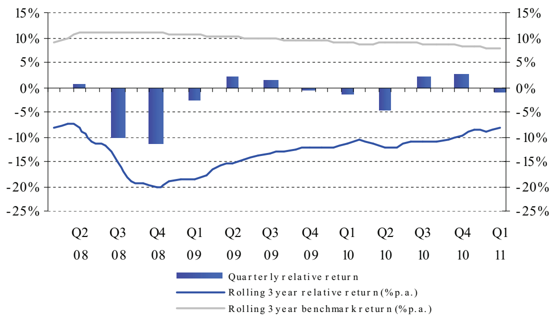
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

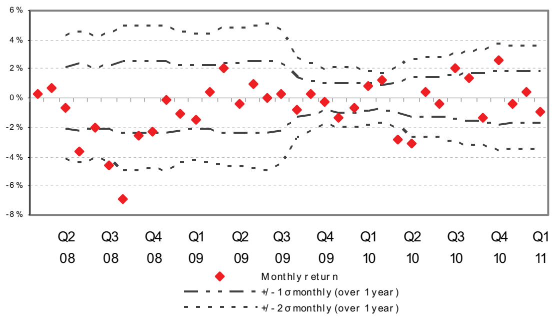
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.3%.
- Over the last year, the Fund underperformed the benchmark by 1.5%, producing an absolute return of 3.2%. Over the three year period, the Fund underperformed the benchmark by 8.8% p.a., producing an absolute return of -2.7% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation (now 42.8%) to Distressed Securities and Long / Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds.
- The allocation to Lyster Watson is to be removed from this part of the portfolio in due course. Updates will be provided in future reports.

MAN – Fund of Hedge Funds

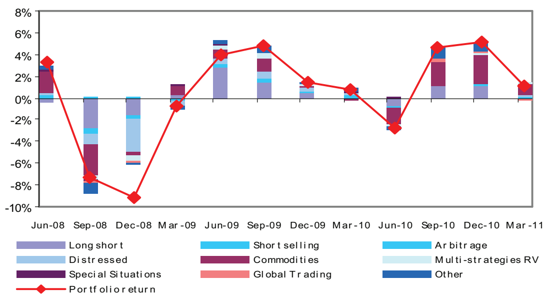
Relative returns [1]



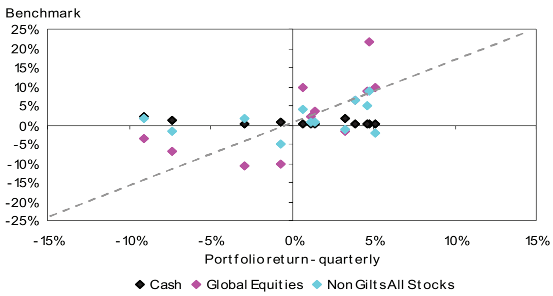
Monthly relative returns [2]



Hedge fund strategies and source of return [6]



Correlation with indices [7]



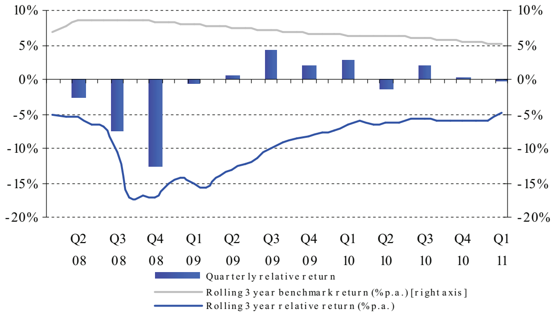
Source: Data provided by WM Performance Services, and MAN

Comments:

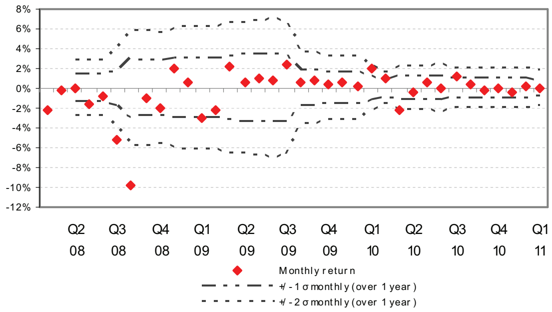
- Over the last quarter, the Fund underperformed the benchmark by 0.9%, producing an absolute return of 0.7%.
- Over the last year, the Fund underperformed the benchmark by 0.8%, producing an absolute return of 5.7%. Over the last 3 years, the Fund underperformed the benchmark by 8.2% p.a., producing an absolute return of -0.4% 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 APAC and Europe strategies, which produced, negative returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, although 63.6% 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.
- As part of the recent review of Fund of Hedge Funds, it was decided that the allocation to Man should be reduced. Updates will be provided in future reports.

Signet – Fund of Hedge Funds

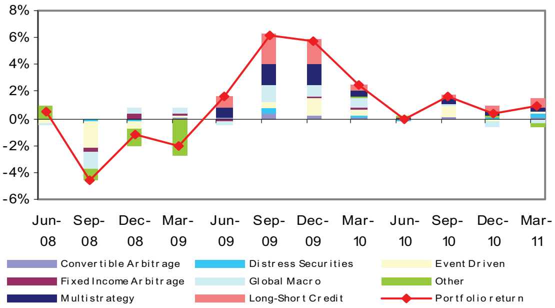
Relative returns [#1]



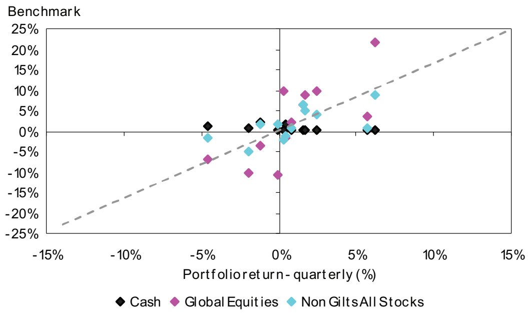
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



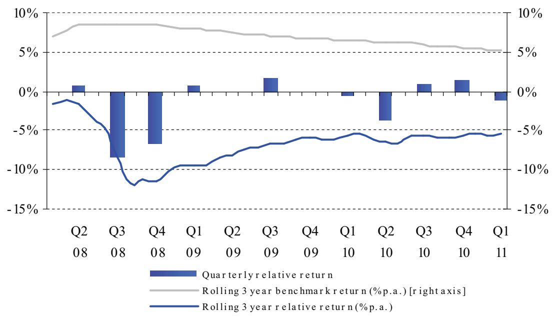
Source: Data provided by WM Performance Services, and Signet

Comments:

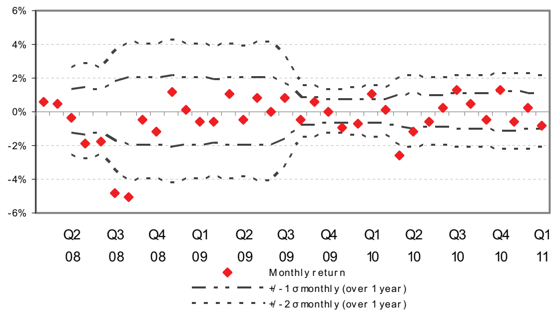
- Over the last quarter, the Fund underperformed the benchmark by 0.1%, producing an absolute return of 0.8%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 4.3%. Over the 3 year period, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of 0.3% 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

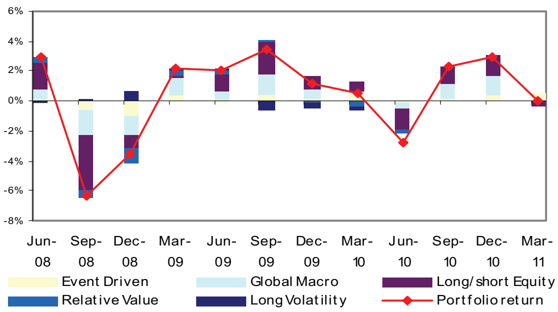
Relative returns #1



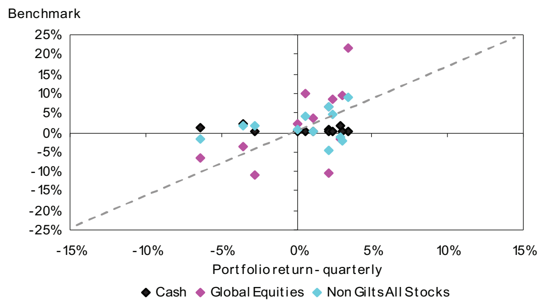
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



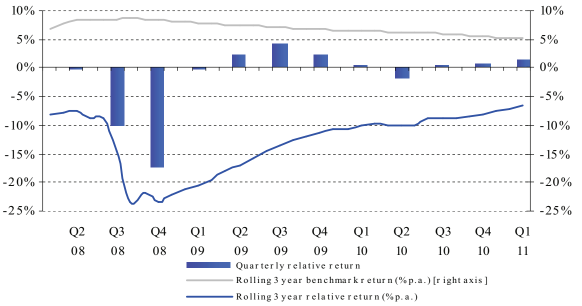
Source: Data provided by WM Performance Services, and Stenham

Comments:

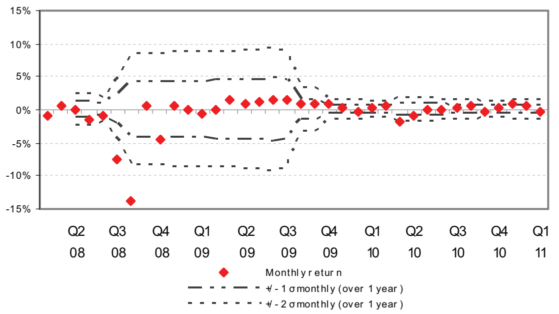
- Over the last quarter, the Fund underperformed the benchmark by 1.1%, producing an absolute return of -0.2%.
- Over the last year, the Fund underperformed the benchmark by 2.6%, producing an absolute return of 1.1%. Over the last 3 years, the Fund underperformed the benchmark by 5.3% p.a., producing an absolute return of -0.2% p.a.
- Event driven strategy was the main contributor to absolute returns while both Long/Short Equity and Global Macro strategies produced negative absolute returns for the first time since Q4 2008.
- The allocation to the Global Macro and Long / Short Equity strategies made up 67.5% of the total Fund allocation. The allocation to Event Driven strategies marginally rose from 16.5% to 17.0% 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

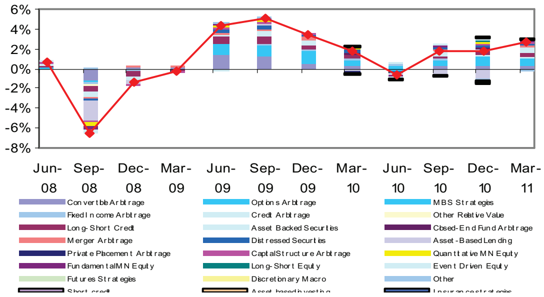
Relative returns [#1]



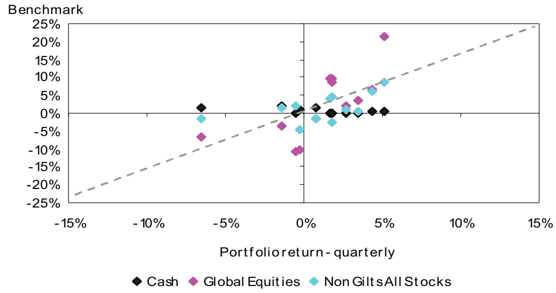
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



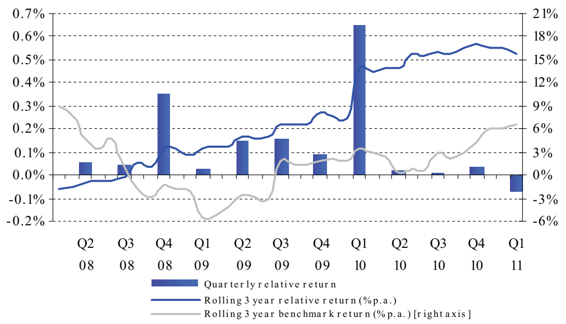
Source: Data provided by WM Performance Services, and Gottex

Comments:

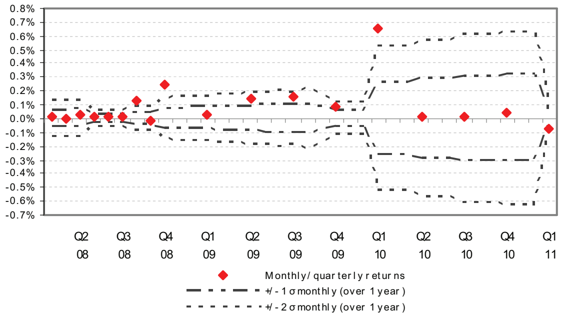
- Over the last quarter, the Fund outperformed the benchmark by 1.5%, producing an absolute return of 2.4%.
- Over the last year, the Fund outperformed the benchmark by 0.8%, producing an absolute return of 4.5%. Over the last 3 years, the Fund underperformed the benchmark by 6.6% p.a., producing an absolute return of -1.5% p.a.
- The key drivers of performance were MBS strategies, Asset-backed securities, Long / Short credit and Distressed Securities. Performance for the quarter was negatively impacted by Other strategies, Insurance strategies and Short credit.
- The Fund has a diverse range of strategy exposures, with the major exposures to ABS, MBS, Fundamental MN Equity, Long-Short Credit and Convertible Arbitrage Strategies. Allocations to Asset-Backed Securities increased further, continuing the gradual increase seen over the past seven 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]

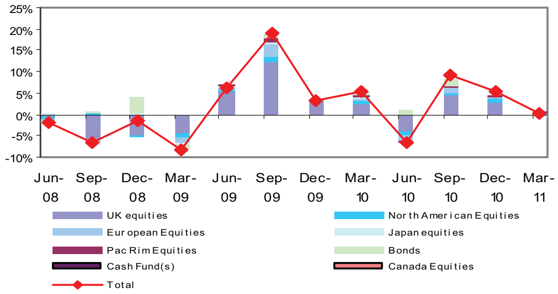


Monthly/Quarterly relative returns [#2]

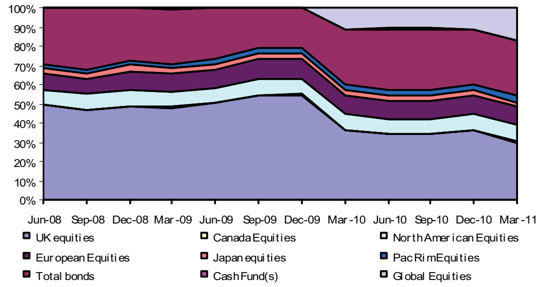


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return [#6]



Asset Allocation [#5]



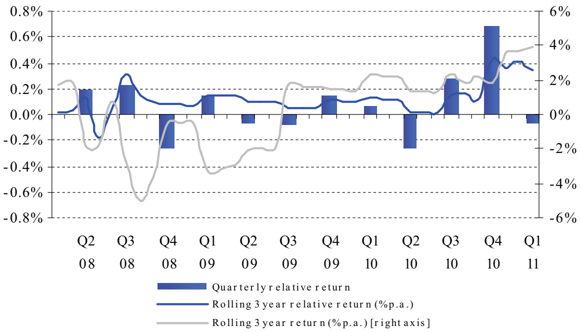
Source: Data provided by WM Performance Services, and BlackRock

Comments:

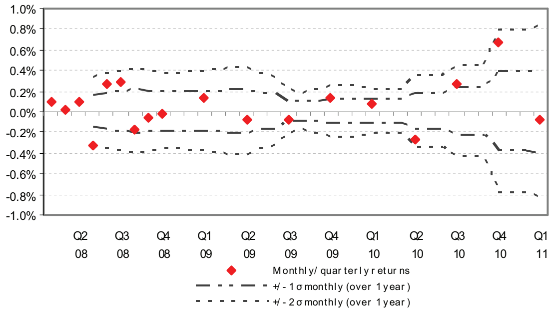
- Over the last quarter, the Fund has marginally underperformed its benchmark by 0.1%, producing an absolute return of 1.0%.
- Over the last year, the Fund tracked its benchmark, producing an absolute return of 7.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 7.1% 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.
- For the first time in 13 quarters the portfolio has marginally underperformed its benchmark as opposed to marginally outperforming. Being a passive Fund, the underperformance was marginal.
- The magnitude of the relative volatility in the portfolio is very small.
- Allocations to UK equities have reduced by 6.2%, whereas allocation to Global Equities has increased by 6.1%, compared to Q4 2010. These changes are in line with the changes made to the total Fund strategic asset allocation.

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

Relative returns #1



Monthly relative returns #2



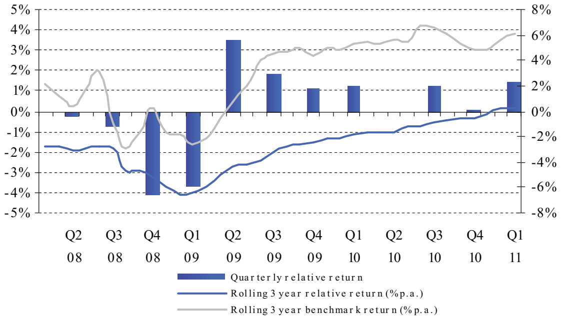
Note that returns after Q4 2008 above are quarterly returns.

Source: Data provided by WM Performance Services, and BlackRock

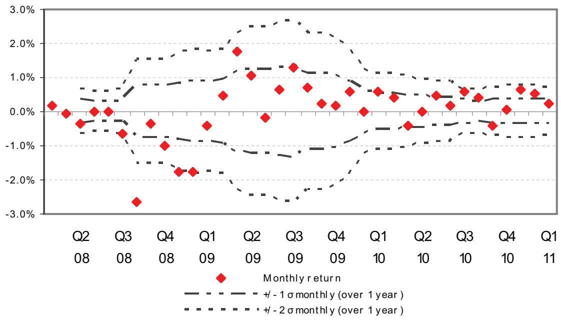
Comments:

- Over the last quarter, the Fund marginally underperformed the benchmark by 0.1%, producing an absolute return of 0.4%.
- Over the last year, the Fund produced a return of 5.5%, outperforming the benchmark by 0.5%. Over a rolling 3 year period, the Fund produced an absolute return of 4.3% p.a., outperforming the benchmark return by 0.2% p.a.
- Over the quarter the Fund's holding in cash declined by 12.0%, representing investments made into the Fund's property managers.
- Over the quarter, US Equities and European Equities contributed positively to the absolute performance, while UK Gilts were negative contributors.

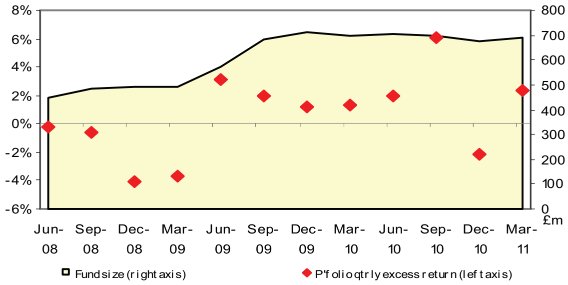
Relative returns [1]



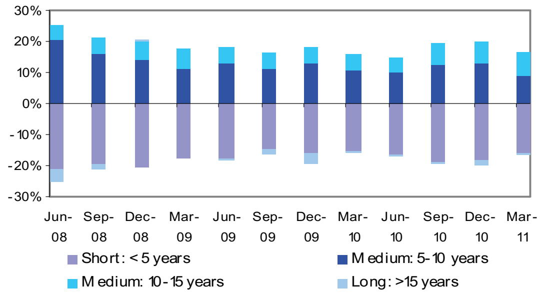
Monthly relative returns [2]



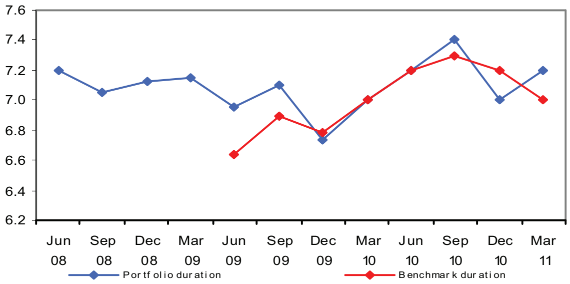
Performance v fund size [3]



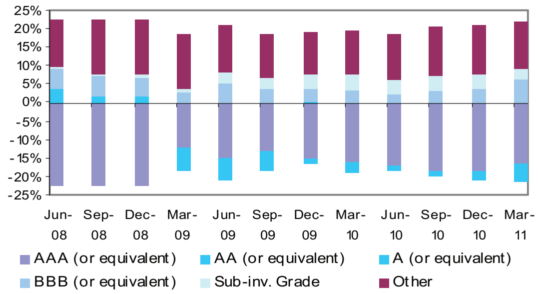
Relative Maturity exposure [8]



Duration [10]



Relative Ratings exposure [9]



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.3%.
- Over the last year, the Fund outperformed the benchmark by 2.8%, producing an absolute return of 8.0%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 6.4% p.a.
- The Fund 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.
- Once a 3 year track record is available for a meaningful proportion of the Fund's commitment, a fuller quantitative assessment of Schroder will be available. However, we provide here a qualitative update and assessment of the manager.

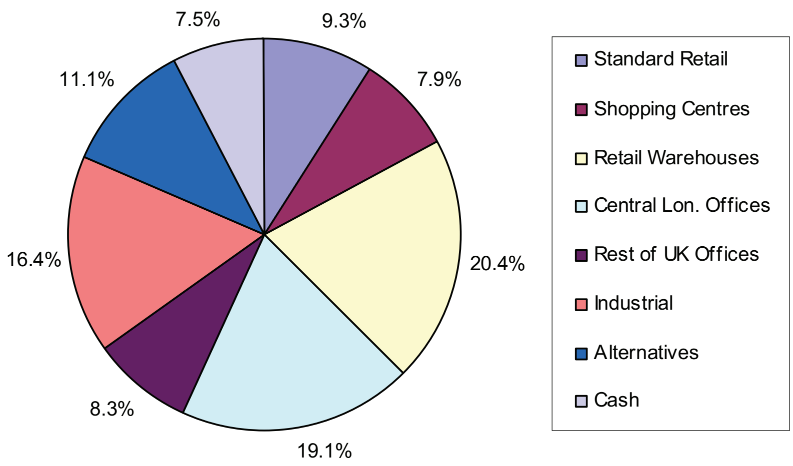
Portfolio update

As at 31 March 2011, approximately 98% 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 62% of the total portfolio) and 9 are "value add" investments (the remaining 38% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 31 March 2011, was split between sectors as shown in the following chart.

Portfolio split by sector



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

Schroder underweight position to the high street retail sector appears beneficial as retailers suffer from the effects of weakening consumer demand and structural change. Elsewhere, the performance of central London offices is benefiting from a relatively strong global economy coupled with a constrained supply of available space. These are themes that they have held for some while, and which they expect to maintain in the coming quarters.

Schroder believe that there is value in a number of sectors outside of the mainstream. They are currently considering several investments that are capable of providing returns, which are relatively uncorrelated to the broad property market. Here their focus is on an attractive initial yield with rental growth potential supported by underlying occupier demand.

Of the remaining equity, £1.7 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 increasing the portfolio's sector exposure to 'alternatives', in line with the themes.

Performance over Q1 2011

- Schroder produced a return of 2.2% net of fees over the three months to 31 March 2011, versus the benchmark return of 1.9%. The key drivers of the relative return over the period were:
  - The positive contribution from value added funds, which continue to dominate performance. In particular, central London offices and retail warehouse funds produced returns well ahead of benchmark. The West End of London Property Unit Trust (WELPUT), which specialises in central London offices, and the Hercules Unit Trust, which specialises in retail warehouse funds, were notable outperformers.
  - Of the core fund holdings, the BlackRock UK Property Fund and the newly acquired M&G Pooled Pensions Property Fund both outperformed the benchmark during the quarter. In aggregate however the core funds provided a small negative contribution as others marginally underperformed.
- Over the 12 months, performance is ahead of the benchmark, 9.6% (net of fees) versus 9.1%. Value added funds have outperformed the portfolio's benchmark over twelve months by 1.1%, despite purchase costs of 0.3%. WELPUT was again the greatest contributor, making a +1.0% contribution to relative returns. The core funds have provided a -0.4% contribution relative to the benchmark, however Schroder estimate that half of this negative contribution is attributable to purchase costs.
- Schroder estimates that transaction costs impacted quarterly results by 0.1% and 0.6%, over the year ended 31 March 2011. Now that the investment programme is substantially complete, Schroder expects the portfolio's relative returns to improve.

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 £52 million of the Fund's intended commitment of approximately £122 million. A total of £11.4 million was drawn down over the quarter. The draw downs commenced in September 2009.

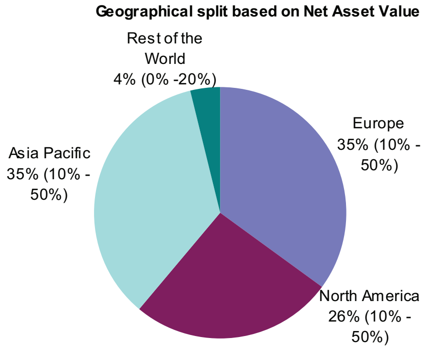
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

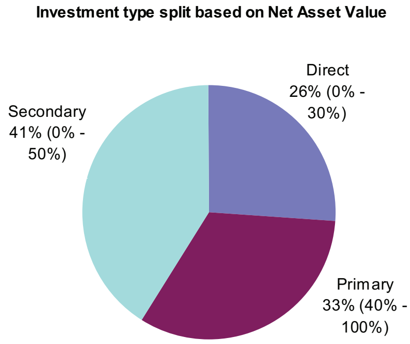
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.00	9.00
Distressed US Real Estate 2009	9.53	9.66
Global Real Estate 2008	23.56	24.12
Global Real Estate 2011	3.63	3.48
Real Estate Secondary 2009	5.78	5.99
Total	**51.50**	**52.25**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 31 March 2011, 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 has a broadly neutral view with respect to North America. Minimal changes have been made to the geographical allocation; however the changes are in line with this view. The exposure to North America and Rest of World has reduced slightly in favour of increases to the Asia Pacific and Europe.

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. Over the first quarter there has been no change to the allocation to primary investments, the allocation to direct holdings has marginally increased and the allocation to secondary investments has marginally decreased.

Changes with respect to the asset allocation investment guidelines were implemented in October 2010 (the new guidelines are reflected in the 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.

Performance over Q1 2011

Partners produced a return of 2.3% over the three months to 31 March 2011. The Fund outperformed its benchmark by 0.4% for the quarter. Over the 1 year to 31 March 2011, Partners produced a return of 15.2% versus the benchmark return of 9.1%.

Distributions over the quarter totalled £1.9m, nearly as much as all distributions from inception to the end of 2010.

Conclusion

Over the quarter Partners increased the amount drawn down by £11.4 million. This was allotted across all the investments that existed as at the end of 2010. The allocation was such that, along with investment performance, the allocation to Primary investments has stayed the same whilst the allocation to Direct investments has increased at the expense of the allocation to Secondary Investments. There has been no significant change to the geographical split of the Fund's investment.

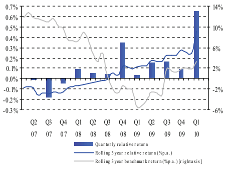
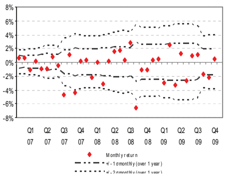
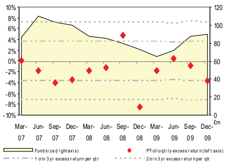
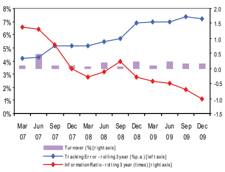
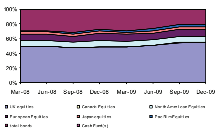
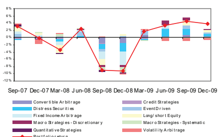
The net asset value for the Global Real Estate 2011 vintage is below the investment amount, likely due to transaction costs associated with the start up of these types of investments.

Over the quarter only modest changes to asset allocation have been made and Partners appear to be continuing to invest according to the views most recently expressed, that led to changes in the investment guidelines in October 2010.

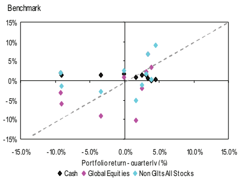
We have no concerns with Partners.

Appendix A – Glossary of Charts

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

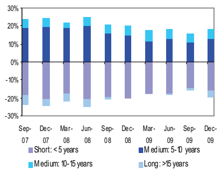
	Reference	***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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



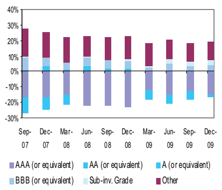
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



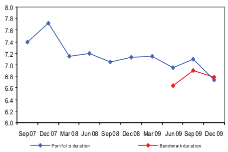
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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: Bekki_jones@jltgroup.com

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2011**	**AGENDA ITEM NUMBER**
TITLE:	**CURRENCY HEDGING - MANAGER APPOINTMENT**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary of Appointment		

1 THE ISSUE

1.1 On 25 June 2010 the Avon Pension Fund Committee resolved to appoint a specialist manager to implement an active currency hedging mandate covering US Dollar, Euro and Yen denominated equity assets (excluding those in emerging markets).

1.2 It was specified that the manager to be appointed adopts a non-discretionary quantitative approach to active currency hedging.

1.3 The appointment was delegated to Officers in consultation with the Chair of the Committee and Members of the Investment Panel. After consultation with the Chair of the Committee and Chair of the Investment Panel, Officers, the Fund's Investment Consultant and the Fund's Independent Advisor met on the 24 May 2011 to make the selection.

1.4 This report updates Members on the completion of the selection process and the decision to appoint Record Currency Management.

2 RECOMMENDATION

2.1 **That the Committee notes the appointment of Record Currency Management as active currency hedging manager.**

3 FINANCIAL IMPLICATIONS

3.1 The process generates positive and negative cash flows. Negative cash flows will be managed by Officers in conjunction with the manager, and met through the Fund's cash holdings.

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

4 BACKGROUND

4.1 As all investment values and returns are expressed in sterling (the Fund's base currency), foreign exchange movements generate additional volatility of returns. Following its review of the strategic investment policy in 2009/10 the Committee agreed to hedge the Fund's overseas equity assets to reduce the volatility of investment returns expressed in sterling terms.

4.2 Note that the Committee previously ***concluded that active currency management was not appropriate for the Fund***, given the lack of evidence for its success and that it increases investment risk. Active currency management describes the approach where managers take positions in currency markets based on their views on the direction of exchange rates globally, with the aim of making profits from currency market movements.

4.3 The Committee also ***rejected the option to passively hedge*** the assets. Passive hedging removes all the gains and losses that arise from movements in the exchange rates of the assets hedged. The Committee ruled out passive hedging because the net impact of currency movements over the long term are broadly neutral, yet in the short term can generate large cash flow movements when there are significant changes in foreign currency rates.

4.4 The Committee ***agreed that active currency hedging*** should be undertaken by the Fund. Active hedging aims to protect the sterling value of the portfolio from detrimental movements in exchange rates (i.e. when sterling is appreciating) whilst allowing the Fund to benefit from favourable movements (i.e. when sterling is weakening). In addition, the potential cash flows are minimised using this approach.

4.5 Under active hedging the proportion to be hedged will depend on the trend in the each underlying currency; therefore the hedge will be between 0% and 100% of the assets at any time. For example, when sterling is weak, the hedge ratio will be zero. It may be the case that sterling is weak against the dollar so there is no hedge and yet is strengthening against the euro so a hedge will be put on to protect the sterling returns from the euro denominated assets.

4.6 The Committee resolved that the Fund's US Dollar, Japanese Yen and Euro denominated equity assets (excluding emerging markets) should be hedged (at the time of going out to tender this was estimated to comprise c. £500m of the Fund's £850m overseas equity assets) and that the manager appointed should adopt a quantitative based, non-discretionary approach to hedging. **This means that the hedging process does not rely on the manager's view on currencies or "skill" in predicting currency trends.**

4.7 A non-discretionary manager will use a mechanistic/quantitative model based on the current and future foreign exchange rates in the market. The downside of this approach is that in periods of low volatility in foreign exchange rates higher transaction costs will be incurred.

5 THE SELECTION PROCESS

5.1 On 25 June 2010 the Committee resolved to delegate the appointment of the global equity manager to Officers in consultation in consultation with the Chair of the Committee and Members of the Investment Panel.

5.2 Due to the size of the mandate (hedging a portfolio of c. £500m) the fees exceed the Official Journal of the European Union (OJEU) limit and therefore a full OJEU procurement exercise was followed. A restricted procurement process was followed using the Council's online procurement portal. The online system generates an audit log of the whole process.

5.3 The Fund commissioned its investment consultant, JLT, to manage the tender process. The restricted tender was conducted and all investment managers that expressed an interest were required to complete a Pre Qualification Questionnaire (PQQ). After evaluating the PQQ submissions, 7 suppliers were invited to submit a bid.

5.4 The **selection process** was as follows:

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

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

(3) The Fund received 15 responses to the PQQ and invited 7 suppliers to tender. The tenders were evaluated based on the pre-determined criteria. These were then discussed with the officers and the Fund's independent advisor.

(4) Having completed further due diligence involving site visits to managers' offices, the Officers along with the Independent Advisor and Investment Consultant shortlisted 2 managers. The 2 managers were invited to a selection panel meeting at which the panel (made up of officers, investment consultant and independent advisor) clarified the information provided in the submissions and selected the manager to appoint.

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

- Management of an active currency hedging programme covering the Fund's US dollar, euro and yen denominated overseas equity assets
- Objective is to reduce the volatility of investment returns in sterling and minimise cash outflows associated with currency hedging whilst capturing the gains from favourable exchange rate movements

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

Evaluation Criteria	Weighting
Corporate Structure and Resources	20%
Investment Philosophy and Process	30%
Risk Management and Portfolio Construction (including investment and operational risk management)	25%
Performance including Risk	5%
Fees	10%
Client Service	10%

6 DECISION TO APPOINT

6.1 After assessing the submissions, the Selection Panel agreed to appoint Record Currency Management. Reasons for this include:

- Clear philosophy and approach
- Approach well aligned with Fund's objective
- Strong evidence of ability to implement and service the mandate to meet the Fund's requirements

Further details on Record, their management approach and process are in the exempt appendix 1.

6.2 This appointment is subject to completion of a legal agreement between the Fund and Record.

6.3 The portfolio will be managed on a segregated basis meaning that the Fund's custodian (BNY Mellon) will be responsible for the safekeeping of assets and settlement of all transactions.

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 This is reporting the outcome of a consultation process.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained 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	
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-008

Meeting / Decision: Avon Pension Fund Committee
Date: 24 June 2011

Author: Liz Feinstein
Report Title: CURRENCY HEDGING MANAGER APPOINTMENT Exempt Appendix Title: Appendix 1 – Summary of Appointment

Indicate which of the following categories the report / appendix falls in to.

1. The report / appendix constitute confidential information, and the meeting must therefore resolve to exclude the public.

   Confidential information is defined as:
   I. Information furnished to the council by a Government department upon terms which forbid the disclosure of the information to the public;
   II. Information the disclosure of which to the public is prohibited by or under any enactment or by the order of a court.

2. The report / appendix constitutes exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

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

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the committee resolve to exclude the public. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

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

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

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

Weighed against this is the fact that the exempt appendices contain the investment processes / strategies of the investment manager. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers. It is also important that the Committee should be able to retain some degree of private thinking space.

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

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

Document is Restricted

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2011**	**AGENDA ITEM NUMBER**
TITLE:	**APPLICATION FOR COMMUNITY HEALTH & SOCIAL CARE (CIC) 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: B&NES Council Minutes

1 THE ISSUE

1.1 Under Regulation 5 of the Local Government Pension Scheme (Administration) Regulations 2008, an administering authority may make an admission agreement with a community admission body.

1.2 An application to become a member of the Avon Pension Fund has been received from Bath & North East Somerset Council in respect of Community Health & Social Care (Community Interest Company or CIC).

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to agree that:

2.1 Community Health & Social Care (CIC) be allowed entry into the Avon Pension Fund as a Community Admission Body with Bath & North East Somerset 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. If an admission body becomes insolvent with pension liabilities, those liabilities have to be met by all the other employers in the Fund **unless a guarantee or bond is in place**. Because of this it is the Committee's policy that, save in exceptional circumstances, a community admission body will only be allowed to join the Fund if it can provide a guarantor. In this case Bath & North East Somerset Council (B&NES) will act as guarantor for the applicant.

4 THE REPORT

4.1 Community Health & Social Care (CIC) is a non-profit making Social Enterprise, established jointly between B&NES Council and B&NES Primary Care Trust to deliver community health and adult social care services in the B&NES area. Existing B&NES Council staff, who are members of the Local Government Pension Scheme, will be transferred across to the new body to protect their pension provision.

4.2 The admission agreement is to be set up as a 'closed arrangement' and will only cover B&NES Council staff transferred and not any new employees.

4.3 The number of potential transferring scheme members is currently:

Community Health & Social Care (CIC)	**567 (approx.)**

4.4 The Community Health & Social Care (CIC) is due to commence operations from 1st October when the staff transfer will take place. This is subject to contracts being agreed between Council, PCT and the Social Enterprise. Any Admission Agreement approved would only be activated on the successful conclusion of contracts and staff transfer.

4.5 The Pension Committee must approve any Community Admission Body who wishes to join the Fund.

5 RISK MANAGEMENT

5.1 In line with Avon Pension Fund 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 Pensions Manager x 5254***
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

Application for Community Bodies

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.

Bath & North East Somerset Council Minutes

Council - Tuesday, 16th November, 2010

47 TRANSFORMING COMMUNITY HEALTH AND SOCIAL CARE

(A) Mr Chris Howe, UNISON Trade Union South West Regional Organiser made a statement urging the Council to reconsider the proposed social enterprise model for delivering adult social care and to develop an alternative that would enable the service to be retained within the local authority. Mr Howe referred to the written joint submission from the B&NES Trade Unions which had been circulated to all Councillors.

(B) Ms Rowena Hayward, GMB Trade Union South West Region Organiser made a statement expressing concern about the proposals in this report because of the high risks involved in taking on the commissioned work from General Practitioners and urged the Council to extend the consultation process to enable the options to be more fully explored.

(C) Mrs Diana Hall Hall, Chair of B&NES Link made a statement expressing concern about the proposals in this report because of the high risks of the social enterprise model compared with using alternative statutory health and social care providers and urged the Council to extend the consultation and decision-making process to enable the options to be more fully considered.

Copies of the statements provided by the speakers which were circulated at the meeting are held on file in the minute book and published on the Council`s website with the draft minutes of this meeting.

The speakers were thanked for their statements which it was decided would be taken into account during consideration of agenda item 9.

The Council considered a report which set out proposals for a future organisational model for the Council that focused on a strategic leadership role and the structure to deliver it. An update report was circulated to all Members and the public at the meeting on two textual corrections to the main report and the latest projections on which the financial information was based.

During the debate on this item Councillor Will Sandry read a statement which summarised the position of the Liberal Democrat Group`s working party on this issue in the discussions they had held prior to the Council Meeting and requested that a copy be retained on the minute book and published on the Council`s website with the draft minutes.

On a motion proposed by Councillor Vic Pritchard and seconded by Councillor Francine Haeberling it was RESOLVED that the Council:

1. Indicates its commitment to a direction of travel that aims to transfer integrated community health and social care services into a potential social enterprise subject to the approval of the NHS Bath and North East Somerset Board at its meeting on 18th November 2010.

2. Recognises the key role of General Practitioner representatives as future Commissioners in developing the proposal.

3. Notes that the initial high level Integrated Business Plan will be developed further over the next two months to test the viability of the social enterprise.

Council- Tuesday, 16th November, 2010

4. Delegates authority to the Chief Executive with the agreement of the Leader of the Council and the Leader of the Liberal Democrat Group, in consultation with the Labour and Independent Group Leaders, the Cabinet Member for Adult Social Care and Housing, the Chair of the Healthier Communities and Older People Overview and Scrutiny Panel, a further member of the Liberal Democrat group, the Monitoring Officer, and the Council's Section 151 Officer, to:

a. Take all steps necessary or incidental to work with NHS Bath and North East Somerset and General Practitioner Commissioning representatives to develop the potential social enterprise option.

b. Implement the option including the organisational form of the potential social enterprise and the development and award of the contracts relevant to Council services, subject to the detailed Integrated Business Plan demonstrating to his satisfaction the viability of the new social enterprise within budget provision and support for the option being agreed with the General Practitioner Commissioning representatives and the Strategic Health Authority.

5. Instructs the Chief Executive to produce a further report to Council should, in his opinion after taking relevant advice, he conclude that the financial challenges as expressed in the Financial Implications to this report cannot be met or if sufficient agreement with General Practitioner Commissioning representatives and the Strategic Health Authority is not achieved.

6. Agrees that the proposed option is subject to proportionate due diligence prior to any transfer of services.

7. Notes that the Integrated Business Plan shall be submitted formally to the NHS South West, the Strategic Health Authority, following the meeting of the NHS Bath and North East Somerset Board, and will be subject to further development over the next two months.

8. Notes the project's governance arrangements, next steps, costs, timetable and the high-level outline terms of the pooled project budget between the Council and NHS Bath and North East Somerset.

(Notes: 1. The above resolution was carried by a majority of 46 Councillors voting in favour, 9 Councillors voting against and 6 Councillors abstaining from voting.
2. The wording underlined in paragraphs 4 and 5 above was added by Councillor Pritchard when moving the motion to the recommendations printed in the report. 3. During the debate on this item a motion under Council Rule 48 was moved and seconded and resolved to extend the duration of the Council Meeting until 11pm to enable the remaining business to be considered. 4. During the debate on this item a procedural motion was moved and seconded and resolved to vary the order of business to take agenda items 14 and 15 before the other remaining items because members of the public were present to make statements on both those items.)

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **24 JUNE 2011**	**AGENDA ITEM NUMBER**	
TITLE: **PENSION FUND ADMINISTRATION - EXPENDITURE FOR YEAR TO 31 MARCH 2011 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 30 APRIL 2011**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Summary Financial Account: financial year to 31 March 2011
Appendix 2 Summary Budget Variances: financial year to 31 March 2011
Appendix 3A Balanced Scorecard : 3 months to 30 April 2011 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 30 April 2011 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 30 April 2011 *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 30 April 2011 *(Pensions Clinics)*

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 financial year to 31 March 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 30 April 2011.

1.3 In April 2011 Internal Audit completed a review of the Fund's process for receiving pension contributions as part of the Council's Anti Fraud Plan. The outcome of the review is set out in Section 8 of this report.

2. RECOMMENDATION

That the Committee notes

2.1 the expenditure for administration and management expenses incurred for the year ending 31 March 2011 and Performance Indicators for the 3 months to 30 April 2011.

2.2 the conclusions from the Internal Audit Report

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 31 March 2011 and are contained in **Appendix 1**.

4.2 The variance for the year to 31 March is £661,000 under budget. Of this total under spend, £200,000 was within the directly controlled Administration budget. The under spend was achieved at the same time as the full one off costs of implementing the Altair Member Self Service System were incurred in the year.

4.3 A detailed analysis of the 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 30TH APRIL 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** in line with the target set for the year. The actual figures for last year in some areas were below target due to the delay from "GAD" (Government Actuaries Department) in supplying revised factor tables as a result of the change in the way pension increases were calculated [RPI to CPI]. The problems reported last meeting of the unavailability of the pensions administration system due to some "teething" problems following the switchover from AXIS to Altair have now been significantly reduced. This can be seen from the improvements for the current period

5.3 The delay in issuing relevant factor tables has also meant that providing quotations for members wanting to buy extra pension benefits by "ARCs" (Additional Regular Contributions), has had to be suspended. Members have been informed of the delays and the reasons for this. These tables are still awaited but DCLG have recently issued information on possible ways to proceed on this. 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. However, GAD is in the process of revisiting the Factor Tables again as a result of a European Court decision on unisex tables. Until further instruction is received from DCLG current tables will be used.

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. 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. The statements were issued in February and March. As a result of work done already, the statements for 2011 will be sent out considerably earlier in Autumn 2011.

6. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30TH APRIL 2011

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on **57** questionnaires returned from **active** members retiring. On average 68% 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 **24** questionnaires returned from *former* active members retiring from ***deferred*** status. 92% 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 95% (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 3 clinics were held 50 members gave feedback with a good/excellent rating of 98% for the service provided by APF staff. The venue and location also scored highly with a good/excellent rating of 96%. (See **Appendix 4C)**

7. EVENTS DURING THE PERIOD

7.1 **PENSIONS ADMINISTRATION STRATEGY:** became operative from 1st April 2011. Work is in hand to roll out a revised Service Level Agreement ("SLA") which will incorporate mutual stretch performance targets. A questionnaire has been sent to employers to find out their training requirements.

7.2 **EMPLOYER SELF SERVICE;** The Heywood self-service facility for Scheme employers has now been tested in-house and by a Scheme Employer and will be released to employers in June 2011.

8. INTERNAL AUDIT REPORT

8.1 As part of the 2010/11 Anti Fraud Plan, an audit review was carried out of Avon Pension Fund - Assets and Revenues by Internal Audit. The review concentrated on the processes in place to control and account for the monthly payments received from participating employers relating to employee and employer contributions. During the period under review (April to December 2010) the fund received c. £70 million in contributions. From sample testing no evidence of fraudulent activity was identified.

8.2 The auditor concluded from the review that the administration and management of the system of internal controls was good and only minor weaknesses were identified. As a result the Fund was given an Assurance Level 4 rating - Good Control Framework - for this aspect of its control environment.

8.3 The minor weakness identified was in the validation/certification by employers of the monthly form stating the contributions being paid to the Fund. Incorrect or invalid certification received from participating employers could lead to the wrong contributions being made. Finance officers will return forms that are not signed by the responsible manager.

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 Internal Audit Report April 2011

AVON PENSION FUND

APPENDIX 1

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2011

	BUDGET £	ACTUAL £	VARIANCE TO BUDGET £
ADMINISTRATION			
INVESTMENT ADMINISTRATION	113,016	94,911	(18,105)
ADMINISTRATION COSTS	89,999	66,223	(23,776)
COMMUNICATION COSTS	252,844	201,197	(51,647)
INFORMATION SYSTEMS	158,719	159,552	833
SALARIES	1,265,493	1,232,703	(32,790)
CENTRAL ALLOCATED COSTS	394,718	362,729	(31,989)
MISCELLANEOUS RECOVERIES/INCOME	- 134,700	- 177,362	(42,662)
TOTAL ADMINISTRATION COSTS	**2,140,089**	**1,939,953**	**(200,136)**

INVESTMENT MANAGEMENT & COMPLIANCE			
GLOBAL CUSTODIAN FEES	87,840	78,189	(9,651)
INVESTMENT MANAGER FEES	7,106,733	6,839,589	(267,144)
GOVERNANCE COSTS	266,192	180,822	(85,370)
MEMBERS' ALLOWANCE	46,210	39,245	(6,965)
INDEPENDENT MEMBERS' COSTS	18,758	21,263	2,505
COMPLIANCE COSTS	212,400	162,062	(50,338)
COMPLIANCE COSTS RECHARGED	- 52,000	- 95,594	(43,594)
TOTAL INVESTMENT MANAGEMENT & COMPLIANCE COSTS	**7,686,133**	**7,225,575**	**(460,558)**
NET EXPENDITURE	**9,826,222**	**9,165,528**	**(660,694)**

Summary of Budget Variances: 31st March 2011 **APPENDIX 2**

Variances Analysis of the budget against outturn for the full year 2010/2011

Expenditure Heading	**Amount of Variance ***	**Most Significant Reasons for Variance**
Investment Administration	(18,000)	Savings have been made through the discontinuation of the Open Air investment accounting system that had previously been running in parallel with the custodian's accounting system. Expenditure on staff training & travel costs were below budget.
Administration Costs	(24,000)	Savings were achieved through reduced spending on equipment, training, printing and tracing. The level of tracing resulting from the data cleansing exercise was less than anticipated.
Communications Costs	(51,000)	The move towards greater use of electronic delivery produced ongoing savings on guides, leaflets and postage. Expenditure on website development was also below budget. The gross savings were partly used to meet the initial one off costs of the Altair Member Self Services system, leaving the net saving of £51,000.
Salaries	(33,000)	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 worked by some staff.
Central Allocated Costs	(32,000)	The reduction in central charges was mainly as a result of reduced expenditure on IT support, Democratic Services, Financial Management Services and Business Support.
Miscellaneous Income	(42,000)	Additional income was earned from recharges for work carried out for employing bodies.
Total Directly Controlled Administration Costs	(200,000)	

Custody and Investment Manager Fees	(277,000)	The saving was due to the delaying of the appointment of an Equity Manager until 1April 2011 which was partly offset by a general increase in Investment Management Fees due to an increase in asset values.
Governance Costs	(90,000)	The saving was due to a delay in projects planned for 2010/11 including the Custody tender and review of the Socially Responsible Investing policy. The fees for performance monitoring were also slightly reduced during the year.
Compliance Costs	(50,000)	The budget included £30k for a 1/3rd of the cost of the Triennial Valuation. Following advice from the auditor the total cost of the valuation is being deferred to be charged over the ***next*** three years. Savings have also been made as a result of the reduction in external audit fees. An increase in expenditure on actuarial fees has been largely offset by an increase in recharges as shown below.
Compliance Costs Recharged	(43,000)	The increase in work carried out by the Actuary on behalf of employers has been recharged to the employers.
Total Investment Management & Compliance Costs	(460,000)	
TOTAL EXPENDITURE	(660,000)	

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 30th April 2011

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2010/11 Actual	Target for 2011/12	Actual - 3 months to 30/04/2011	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	100%	3 clinics held during period.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	99%	Generally good from response from retirees	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future See separate appendix	
3	Level of Equalities Standard for Local Government	G	Admin	100%	100%	100%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	**76%**	90%	**91.67%**	**11 of 12 tasks were completed within target.**	
	Retirements [15 days]	G	Admin	**82%**	90%	**91.04%**	**307 of 337 tasks were completed within target.**	
	Leavers (Deferreds) [20 days]	A	Admin	**62%**	75%	**72.92%**	**641 of 879 tasks were completed within target.**	
	Refunds [5 days]	G	Admin	**85%**	75%	**77.78%**	**35 of 45 tasks were completed within target.**	
	Transfer Ins [20 days]	G	Admin	**64%**	75%	**75.00%**	**96 of 178 tasks were completed within target.**	
	Transfer Outs [15 days]	G	Admin	**74%**	75%	**80.39%**	**82 of 102 tasks were completed within target.**	
	Estimates [10 days]	G	Admin	**94%**	90%	**95.41%**	**1163 of 1219 tasks were completed within target.**	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
5	Number of complaints	G	Admin	2	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	on time	n/a	n/a	due next quarter	
8	Number of hits per period on APF website	G	Admin	**49256**	36000p/a 3000p/q	15537	5191 per calendar month for reporting period	Graph 2
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	100%		
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%		
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	99%		

B People Perspective

1	Health & Safety Compliance	G	All	100%	100%	100%		
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	n/a - reawarded in Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%		
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)2.49% 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%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

C Process Perspective

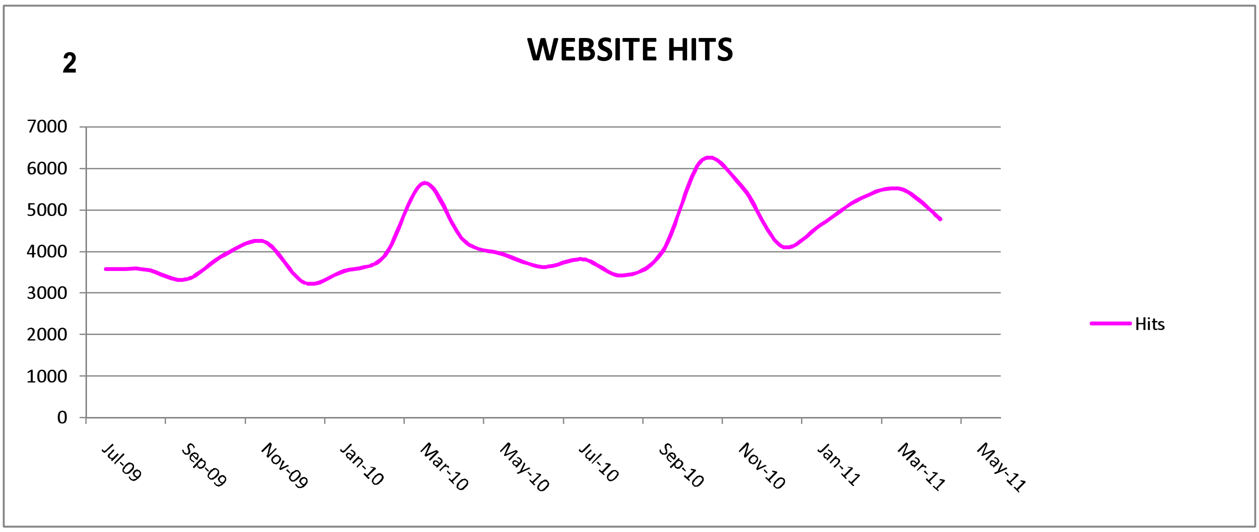
1	a) 5 Services actually delivered & b) electronically & services capable of delivery to members	A	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 1500 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
2	% Telephone answered within 20 seconds	G	Admin	**99%**	98%	98%	11474 calls, 11219 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	G	Admin	100%	100%	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	**5.77%**	10%	4.59%	3647 Created, 3897 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	

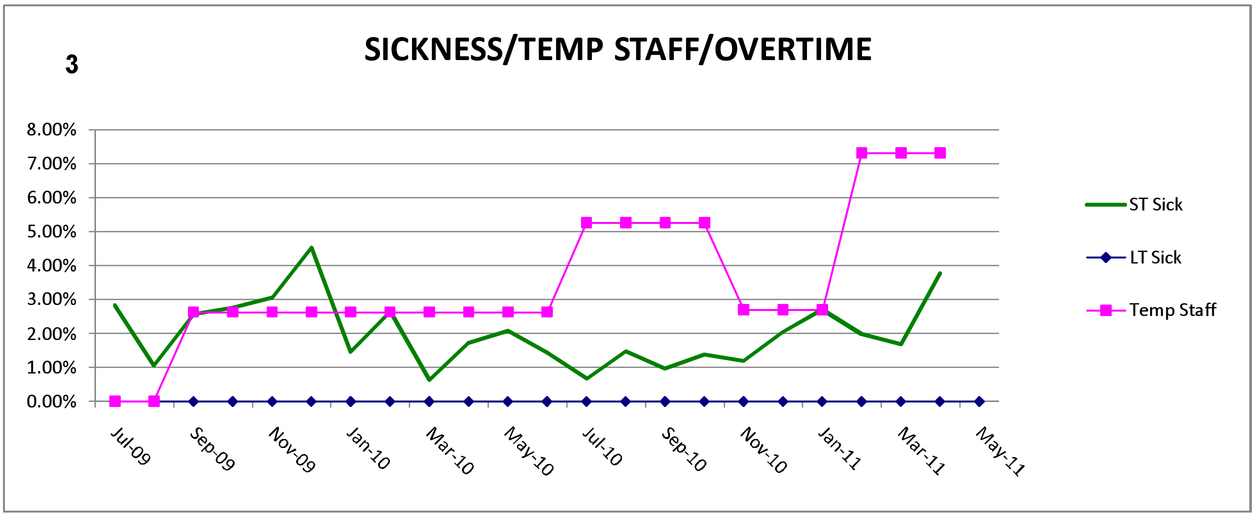
D Resource Perspective

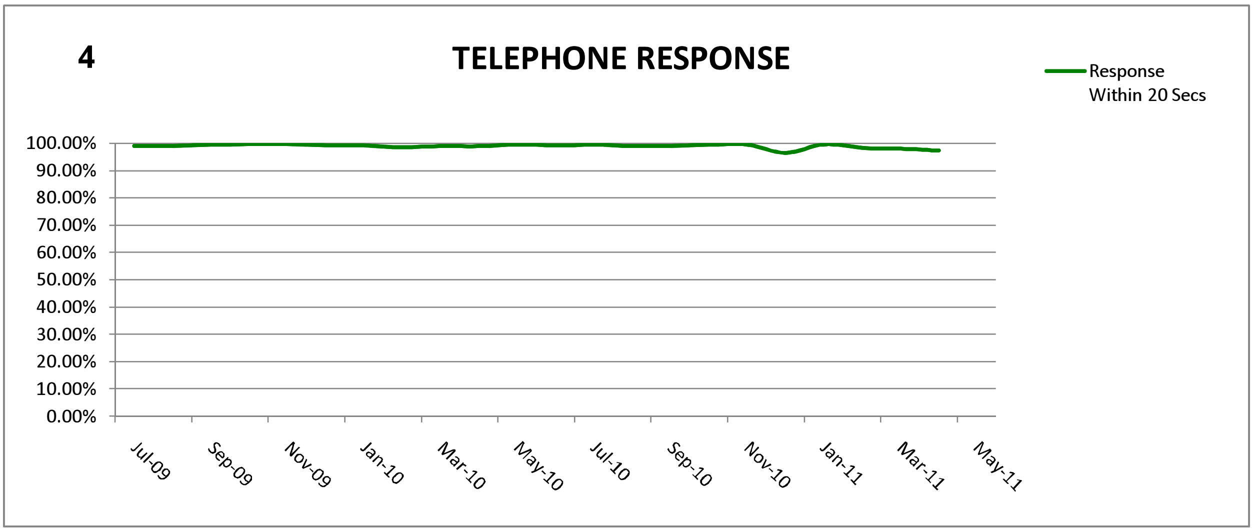
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	98.00%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	G	All	0.40%	3%	2.56%	Below target - due temporary admin assistant post from September
3	% of IT plan achieved against target	R	Supp & Dev	24%	100% (25% p/q)	20%	EDI progressing slow. However, encouraging signs from 2 unitaries who are in talks with their payroll providers to provide standard reports. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm.

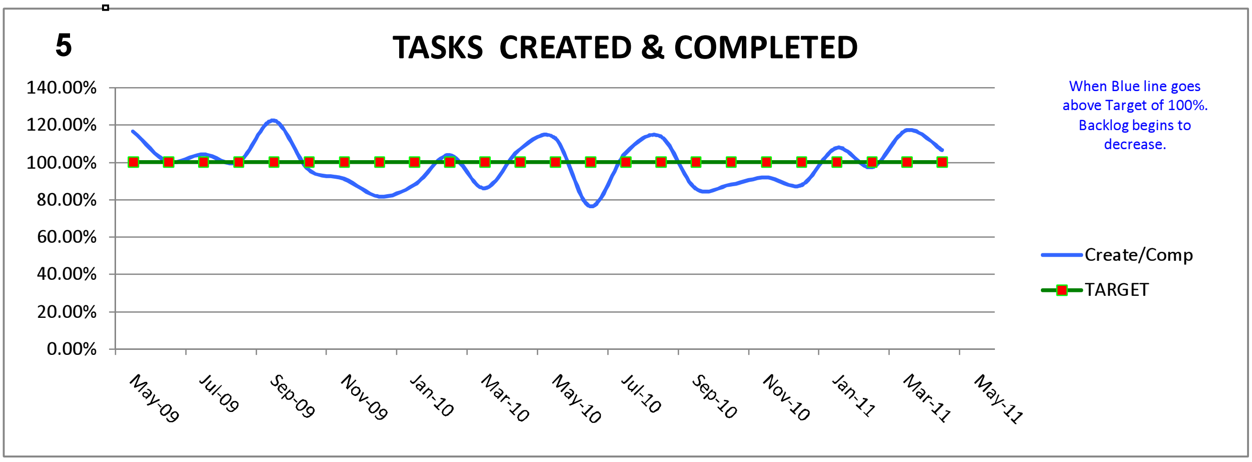
4	% of Training Plan achieved against target	**G**	Supp & Dev	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.

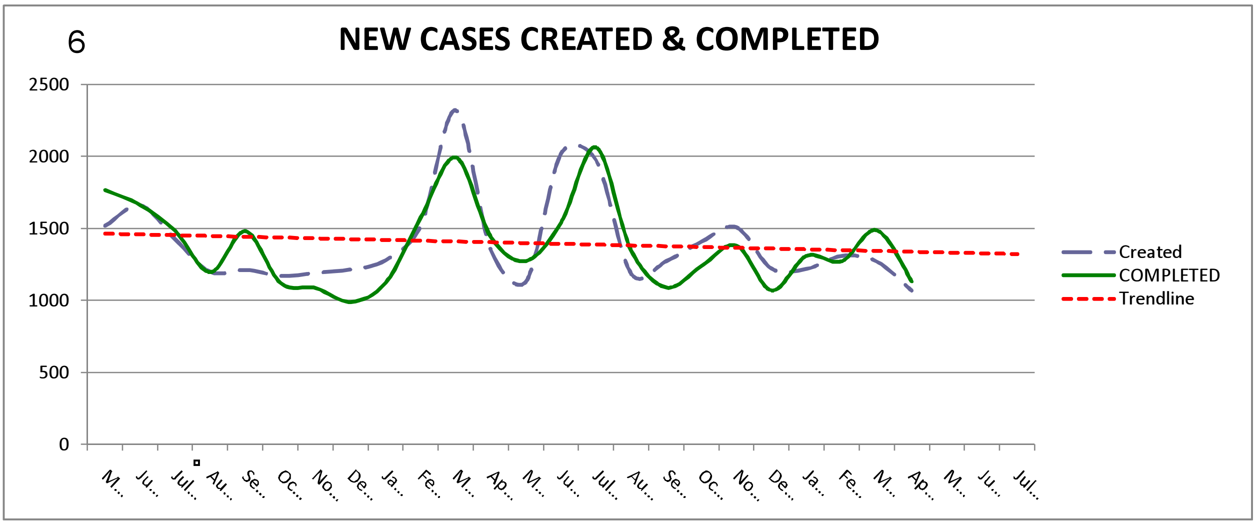
APPENDIX 3B to Budget Monitoring Report at at 30th April 2011: selected items in GRAPH format






4
TELEPHONE RESPONSE
Response Within 20 Secs
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11


5
TASKS CREATED & COMPLETED
When Blue line goes above Target of 100%. Backlog begins to decrease.
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Create/Comp
TARGET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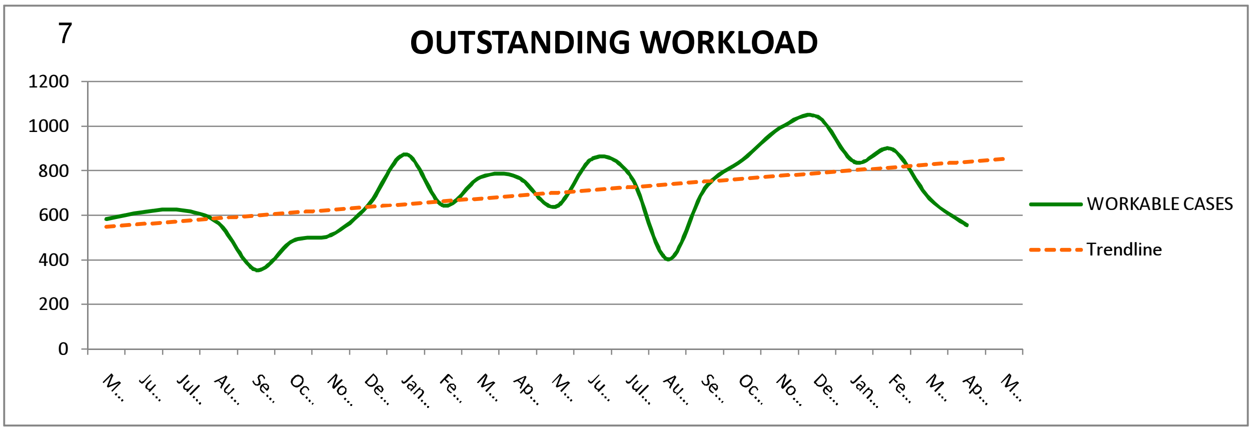
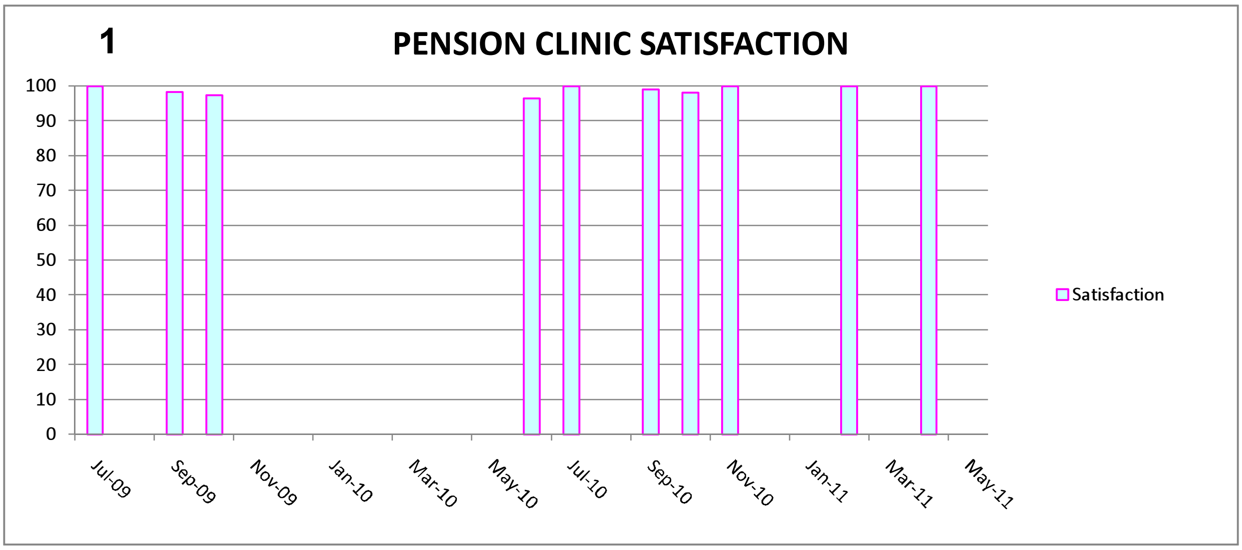
NEW CASES CREATED & COMPLETED
2500
2000
1500
1000
500
0
Created
COMPLETED
Trendline


7
OUTSTANDING WORKLOAD
1200
1000
800
600
400
200
0
WORKABLE CASES
Trendline


1
PENSION CLINIC SATISFACTION
100
90
80
70
60
50
40
30
20
10
0
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
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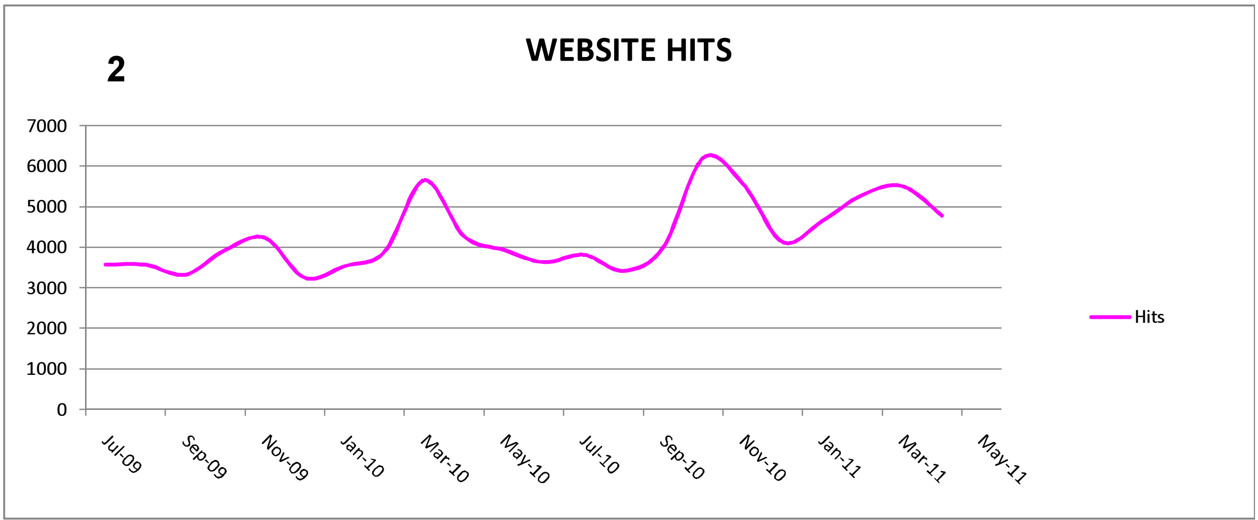
Mar-11
May-11
Satisfaction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WEBSITE HITS
7000
6000
5000
4000
3000
2000
1000
0
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
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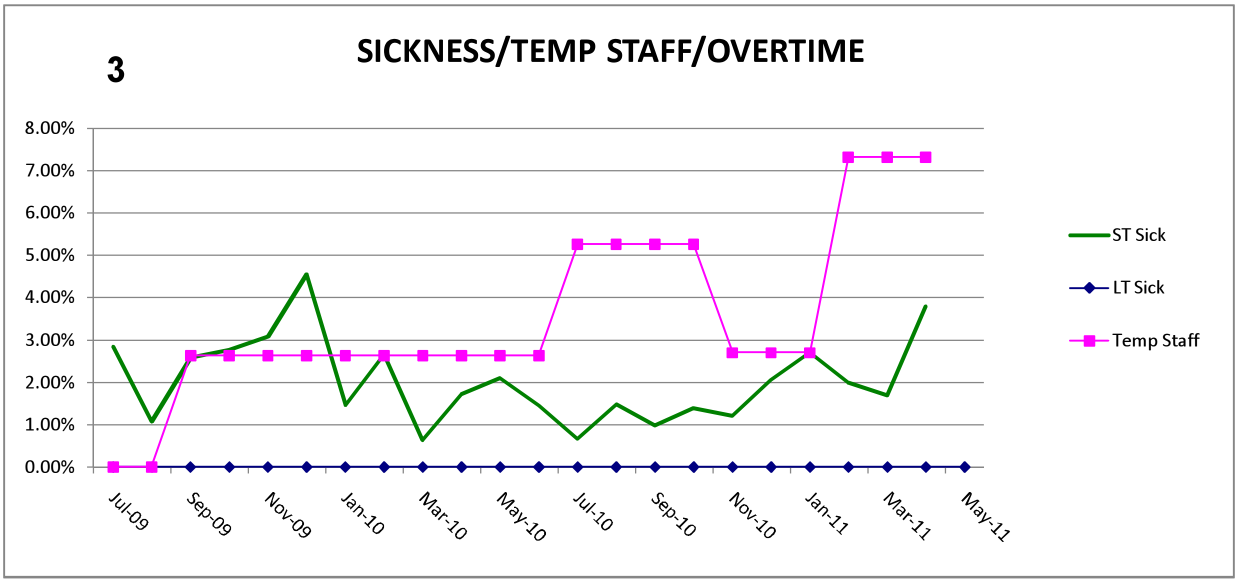
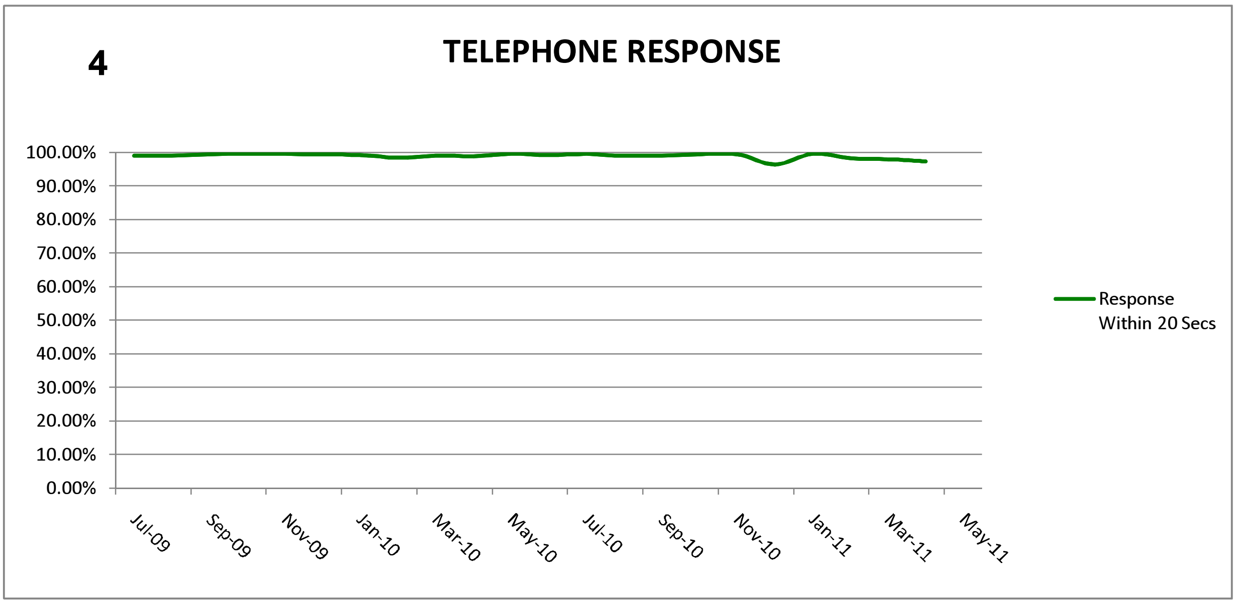
Mar-11
May-11
Hits


3
SICKNESS/TEMP STAFF/OVERTIME
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
ST Sick
LT Sick
Temp Staff


4
TELEPHONE RESPONSE
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Jul-09
Sep-09
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Mar-10
May-10
Jul-10
Sep-10
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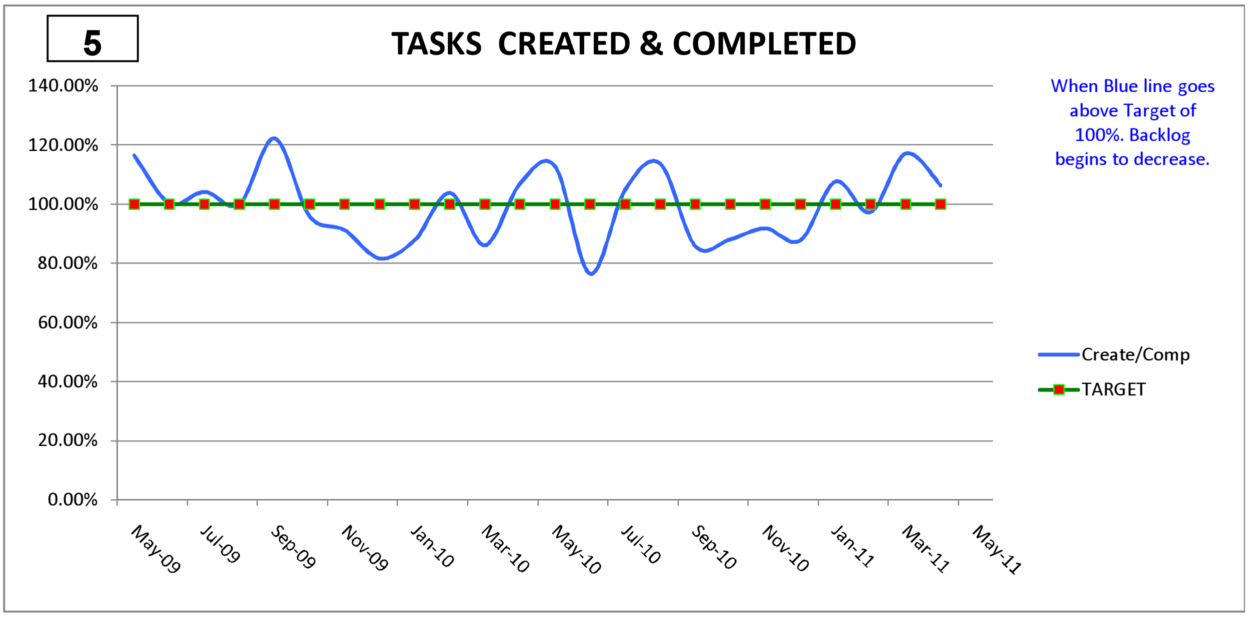
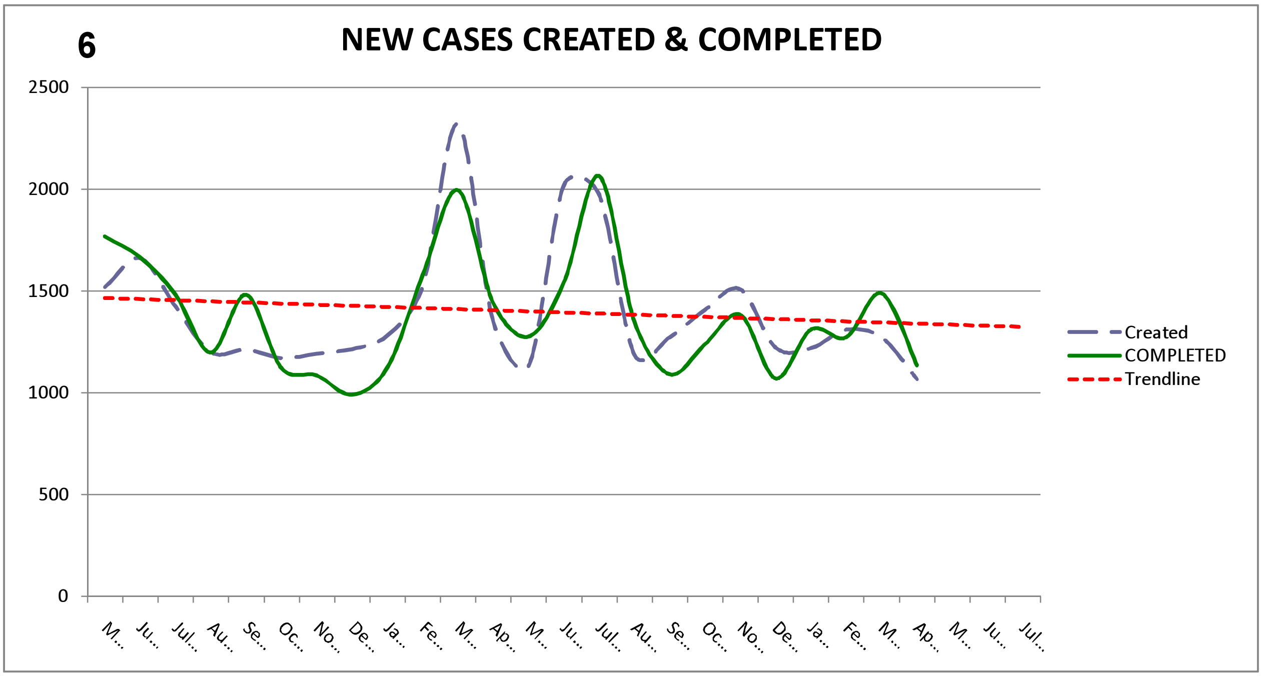
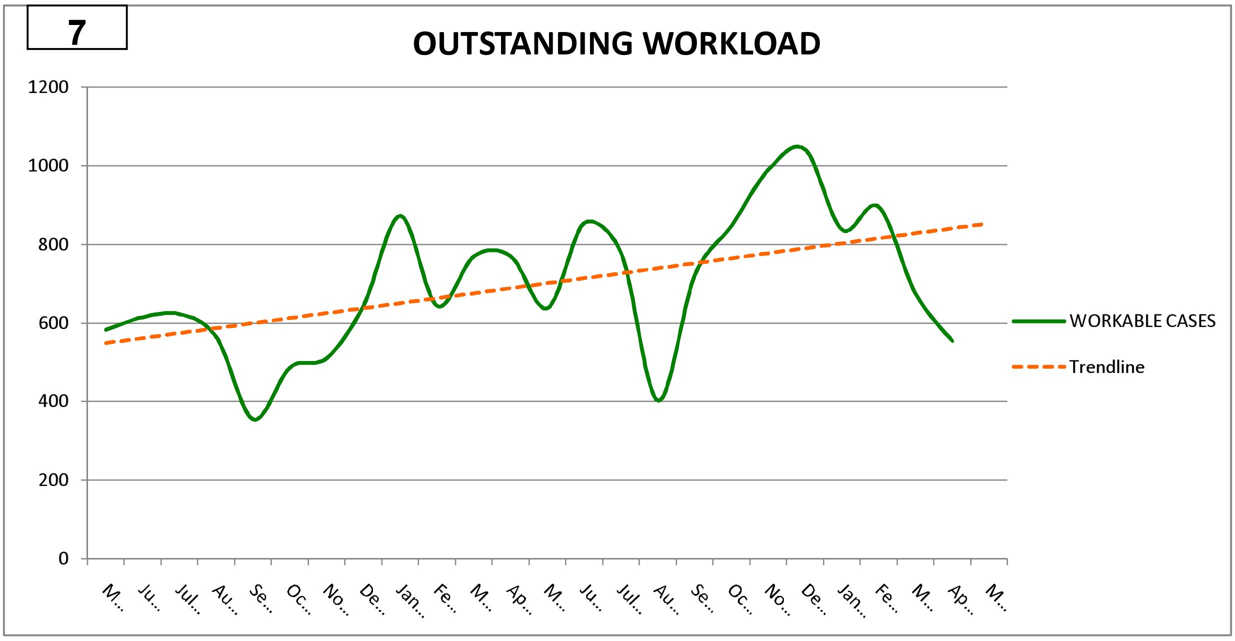
Jan-11
Mar-11
May-11
Response Within 20 Secs

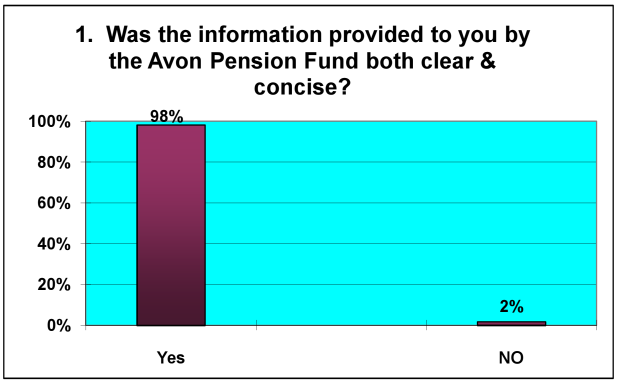

5
TASKS CREATED & COMPLETED
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
When Blue line goes above Target of 100%. Backlog begins to decrease.
Create/Comp
TARGET

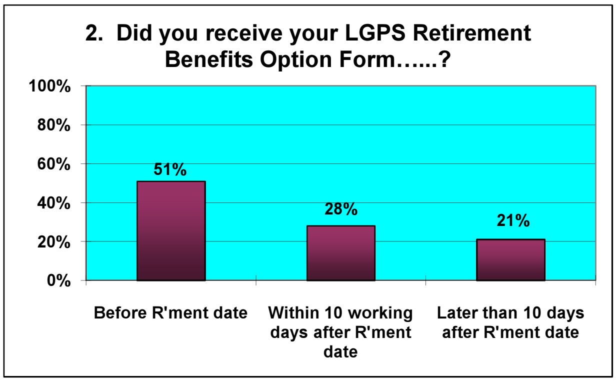

6
NEW CASES CREATED & COMPLETED
2500
2000
1500
1000
500
0
Created
COMPLETED
Trendline


7
OUTSTANDING WORKLOAD
1200
1000
800
600
400
200
0
M... Ju... Jul... Au... Se... Oc... No... De... Jan... Fe... M... Ap... M... Ju... Jul... Au... Se... Oc... No... De... Jan... Fe... M... Ap... M...
WORKABLE CASES
Trendline

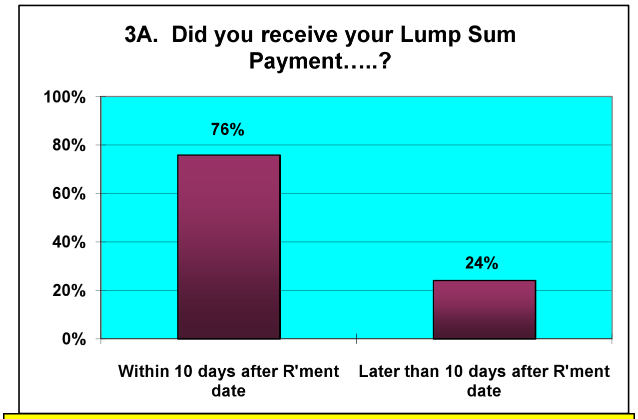
Retirements from Active Status: Feedback - 3 months to 30th April 2011

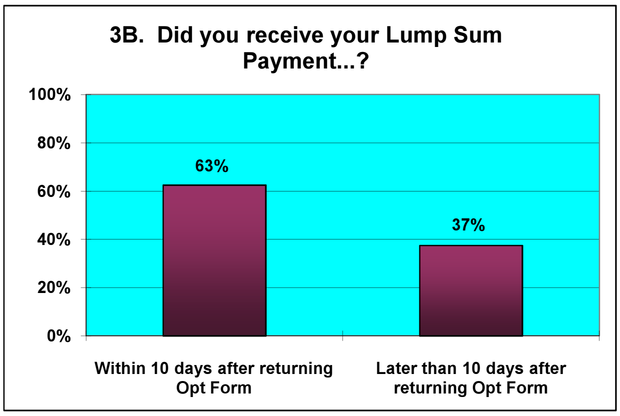
Appendix 4A





From Question 2 above (column 1) | **From Question 2 above (column 2)**





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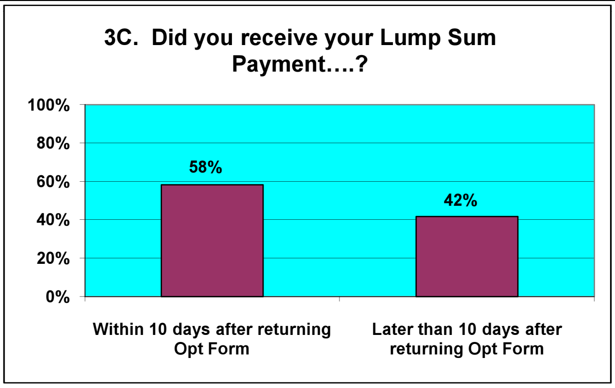
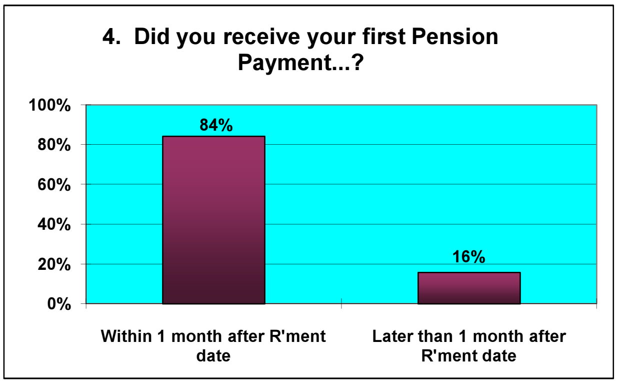
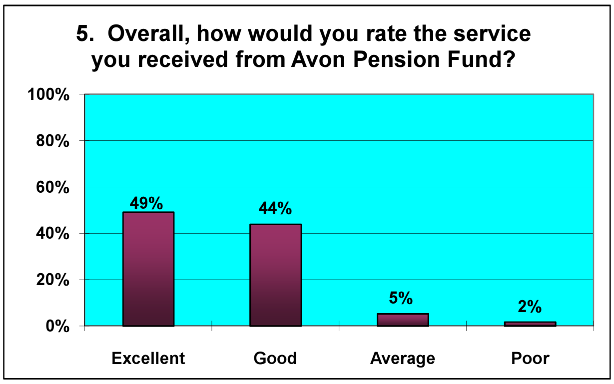
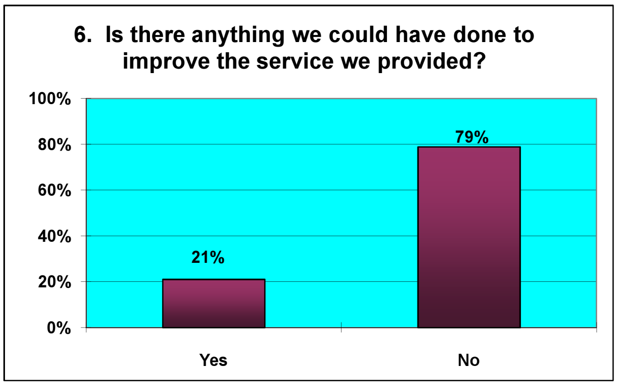
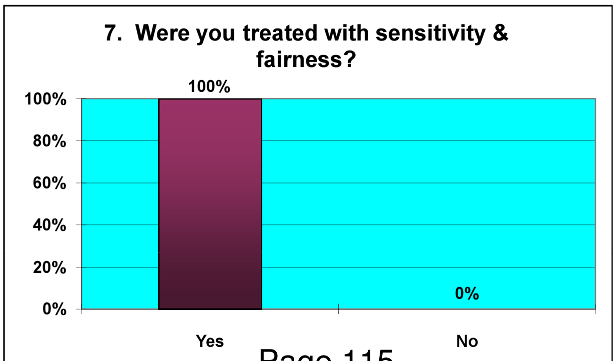


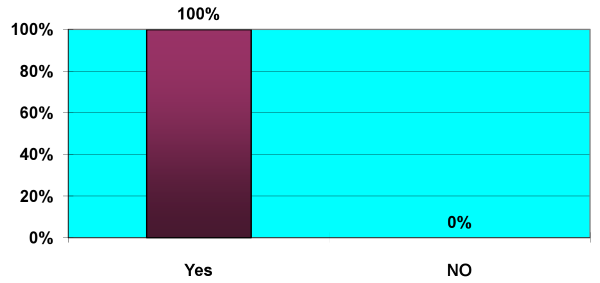




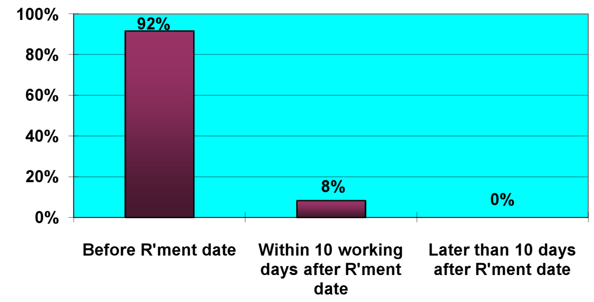




1. Was the information provided to you by the Avon Pension Fund both clear & concise?

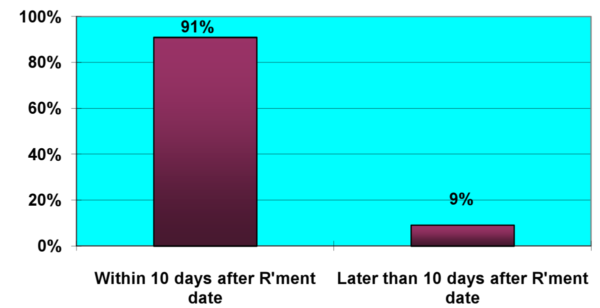


2. Did you receive your LGPS Retirement Benefits Option Form...?



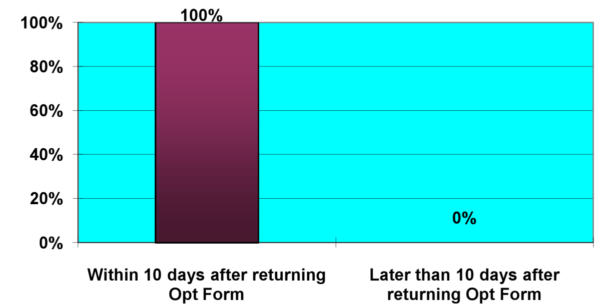
From Question 2 above (column 1)

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



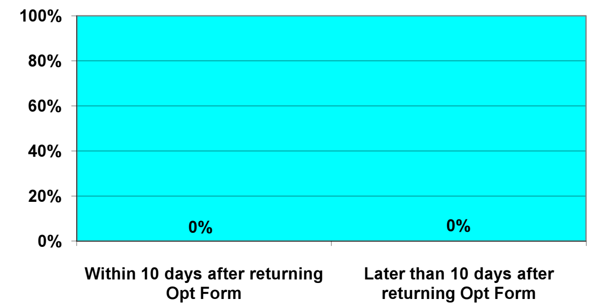
From Question 2 above (column 2)

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

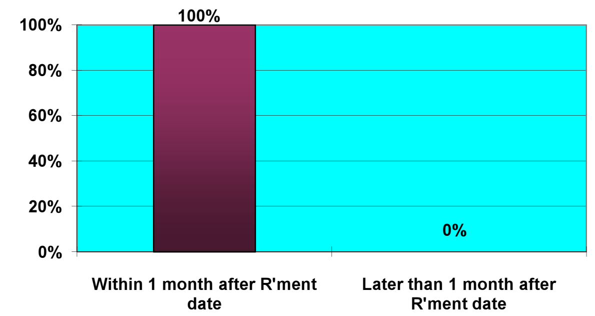


From Question 2 above (column 3))

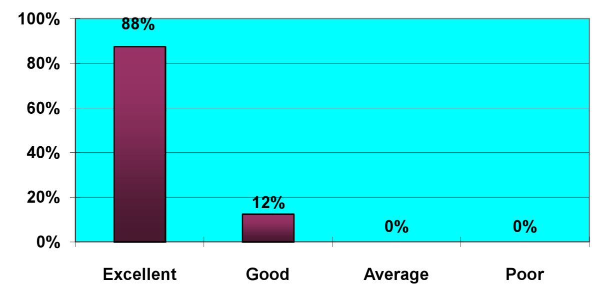
3C. Did you receive your Lump Sum Payment....?



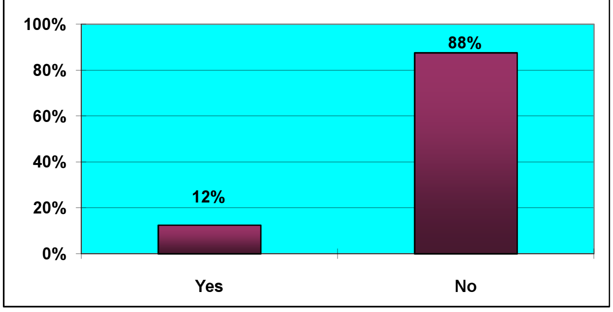
4. Did you receive your First Pension Payment...?



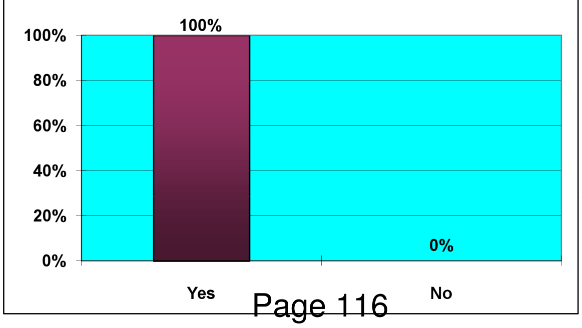
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



Responses to Retirement Questionnaire

Number of Questionnaires in this period	57

No.	Question	Option	Response	Count	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	56	98%
			NO	1	2%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	29	51%
		B	Within 10 working days after R'ment date	16	28%
		C	Later than 10 days after R'ment date	12	21%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	22	76%
			Later than 10 days after R'ment date	7	24%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	10	63%
			Later than 10 days after returning Opt Form	6	37%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	7	58%
			Later than 10 days after returning Opt Form	5	42%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	48	84%
			Later than 1 month after R'ment date	9	16%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	28	49%
			Good	25	44%
			Average	3	5%
			Poor	1	2%
6	Is there anything we could have done to improve the service we provided?		Yes	12	21%
			No	45	79%
7	Were you treated with sensitivity & fairness?		Yes	57	100%
			No	0	0%

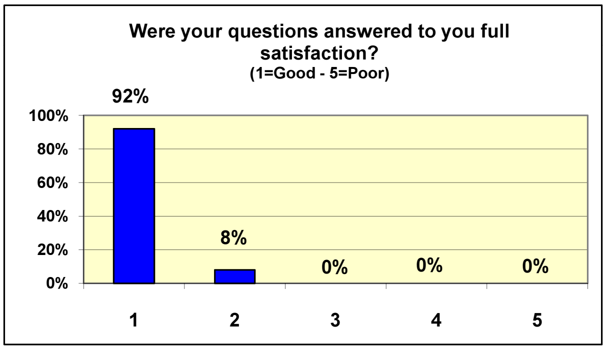
Responses to Retirement Questionnaire

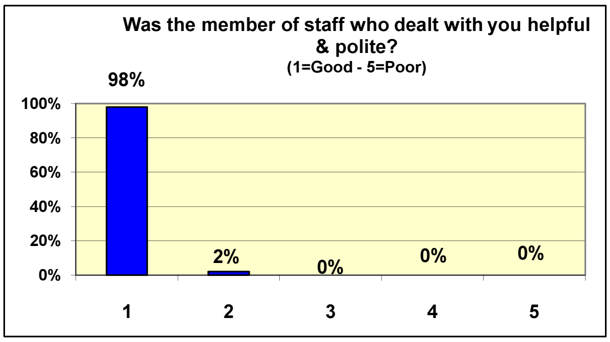
Number of Questionnaires in this period	24

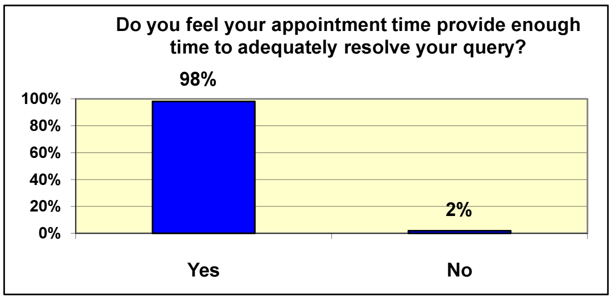
No.	Question		Response	Count	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	24	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	22	92%
		B	Within 10 working days after R'ment date	2	8%
		C	Later than 10 days after R'ment date		0%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	20	91%
			Later than 10 days after R'ment date	2	9%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	2	100%
			Later than 10 days after returning Opt Form		0%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form		n/a%
			Later than 10 days after returning Opt Form		n/a%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	24	100%
			Later than 1 month after R'ment date		0%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	21	88%
			Good	3	12%
			Average		0%
			Poor		0%
6	Is there anything we could have done to improve the service we provided?		Yes	3	12%
			No	21	88%
7	Were you treated with sensitivity & fairness?		Yes	24	100%
			No		0%

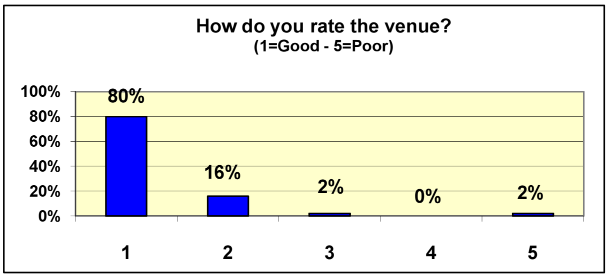
Clinic Feedback Results February - April 2011

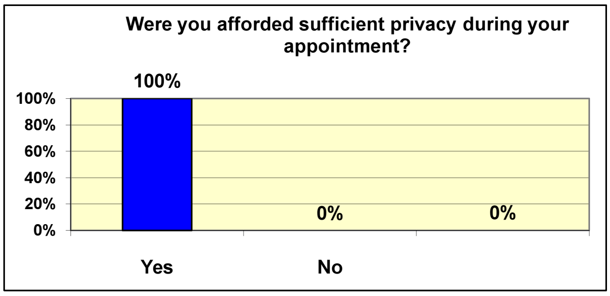
Question	Response	No.	%
Number of questionnaires		50	
Were your questions answered to your full satisfaction?	5	46	92%
	4	4	8%
	3	0	0%
	2	0	0%
	1	0	0%
Was the member of staff who dealt with you helpful and polite?	5	49	98%
	4	1	2%
	3	0	0%
	2	0	0%
	1	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	49	98%
	No	1	2%
How do you rate the venue?	5	40	80%
	4	8	16%
	3	1	2%
	2	0	0%
	1	1	2%
Were you afforded sufficient privacy during your appointment?	Yes	50	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	48	96%
	No	2	4%
	No response	0	0%
Was this location convenient for you?	Yes	45	90%
	No	5	10%

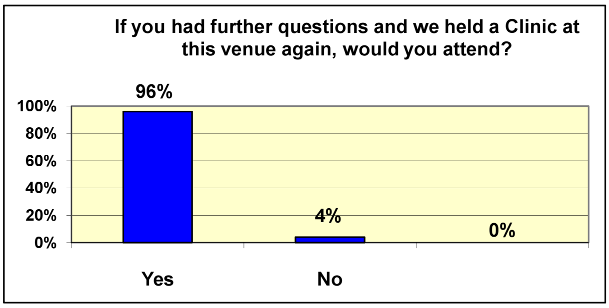












Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2011**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2010 / 2011**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2011**		

1. THE ISSUE

1.1. The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2011 is attached as **Appendix 1.**

Note: This is the latest draft available at the time of publishing these papers. The final draft will be tabled at the meeting with any changes hi-lighted. No substantive changes to the figures are expected to be made. Some new disclosures are still being prepared.

1.2. The Draft Statement of Accounts for the year to 31 March 2011 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.3. In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2011 must be signed off by the Council's Section 151 Officer by the 30 June and the Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 29 September 2011.

1.4. The Pension Fund Committee will be asked to approve The Final Statement of Accounts at its September meeting.

2. RECOMMENDATION

That the Committee notes

2.1. **the Draft Statement of Accounts for the year to 31 March 2011 for audit**.

3. FINANCIAL IMPLICATIONS

3.1. There is a requirement that the Avon Pension Fund Statement of Accounts are included in the Council's accounts and presented to the Corporate Audit Committee.

4. COMMENT ON THE DRAFT FINAL ACCOUNTS

4.1. The accounts show an increase in the total net assets of the Fund from just under £2.5bn to just under £2.7bn. This increase was almost entirely due to the rise in market value of investments and to a much lesser extent to receipts of investment income and the excess of contributions received over benefits paid.

4.2. The hi-lights of the Draft Final accounts are:

a) Total net assets of the fund are valued at £2,668m made up of investment assets of £2,658m and net debtors and creditors of £10m.

b) The net debtors figure in previous years included cash invested by B&NES Council on behalf of the pension fund. In 2009/10 this accounted for £10m of the net debtors. Since 1 April 2010 the Pension Fund has managed its cash separately, consequently this cash is now included as part of the investment assets. The £10m of net debtors at 31 March 2011 is mainly made up of contributions that relate to the year to 31 March 2011 although they are not due for payment until April 2011.

c) The increase in contributions received from employers and employees compared with the previous year reflects the increase in total pay as a result of salary increments and the increase in some contribution rates as specified by the actuary at the 2007 valuation.

d) The increase in benefits paid reflects inflation and the increased number of retired members.

e) The increase in Investment Income primarily reflects the reversal of the tactical switch in 2009/10 from Gilts to Corporate Bonds. The pooled Corporate Bond Fund reinvests its interest income rather than distribute it to investors, whereas the Gilt portfolio is managed on a segregated basis and the interest income is paid directly to the Pension Fund.

f) The increase in Investment Management expenses reflects the increase in investment management fees due to the rise in asset values.

g) In accordance with International Financial Reporting Standards (International Accounting Standard 26) the draft Statement of Accounts now includes a statement prepared by the Fund's actuary disclosing the actuarial present value of promised retirement benefits. Previously it has not been a requirement for the Fund to show its pension liabilities in the Statement of Accounts. The Actuary has calculated the present value of promised retirement benefits using the Corporate Bond based discount rate of 5.6% as is considered appropriate for the maturity profile of the Avon Pension Fund.

h) In compliance with the CIPFA code of Practice on Local Authority Accounting in the United Kingdom 2010/11, notes to the accounts provide;

- details of any single investment exceeding 5% of any class or type of security.

- an analysis of current assets split between Central Government, Local Authorities, NHS Bodies, Public Corporations and trading funds, and Others.

5. RISK MANAGEMENT

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

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. 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	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

PENSION FUND ACCOUNTS 2010/11

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2010 to 31 March 2011.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (‘Code of Practice’) in the United Kingdom 2010 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at ‘Statement of Accounting Policies’ – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 This is the first year in which the accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice. There is no material difference in the Net Assets as at 1 April 2009 that would effect the 2009/10 accounts shown for comparison with the 2010/11 accounts.

1.4 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund’s assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.

1.6 The deficit recovery period for the Fund overall is 23 years.

1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers’ contributions are set, are as set out below:

	Past Service	Future Service
Rate of Discount	6.85% per annum (pre retirement) 5.6% per annum (post retirement)	6.5% per annum
Rate of pensionable pay inflation	4.5% per annum	4.5% per annum
Rate of price inflation	3.0% per annum	3.0% per annum

1.7 The 2010 valuation set the employer contribution rates effective from 1 April 2011. In previous years the employer contribution rate has been expressed as a percentage of pay. For the 2010 valuation, due to declining payrolls, the deficit recovery payment has been expressed as a monetary amount payable annually, whereas the future service rate is still expressed as a percentage of pay.

1.8 The Actuary has estimated that the funding level as at 31 March 2011 has marginally increased to 83% from 82% at 31 March 2010. The increase in the asset value exceeded the rise in liabilities, which was caused by the unwinding of the discount rate by one year.

1.9 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Feinstein, Investments Manager.

Statement of Investment Principles

1.10 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Feinstein, Investments Manager.

Statement of Accounting Policies

Basis of Preparation

2.1 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

i. Quoted Securities have been valued at 31 March 2011 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value.

ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2011.

iv. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2011.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

vi. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.

viii. Additional Voluntary Contributions used to acquire money purchase benefits by scheme members are not included in the Fund's financial statements.

ix. Investment debtors and creditors at the year end are included in investment assets in accordance with the Pensions SORP.

x. The Fund's surplus cash is treated as an investment asset. Prior to 1 April 2010 the Fund's surplus cash was managed together with the surplus cash of B&NES Council, consequently this balance was shown as a debtor in the Fund's accounts. Since 1 April 2010 the Fund's surplus cash has been managed separately and consequently is now treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

Benefits, Refunds of Contributions and Cash Transfer Values

2.4 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

Investment Management & Administration

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.10 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Fund Account

For the Year Ended 31 March 2011

	Notes	**2010/11**	2009/10
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	139,519	134,681
Transfers In		9,571	14,934
Other Income	5	273	361
		149,363	149,976
Benefits Payable	6	121,745	115,101
Payments to and on account of Leavers	7	9,094	14,618
Administrative Expenses	8	2,245	2,340
		133,084	132,059
Net Additions from dealings with members		**16,279**	17,917
Returns on Investments			
Investment Income	10	22,663	16,014
Change in Market Value of Investments	11	177,861	612,435
Investment Management Expenses	9	(7,194)	(6,860)
Net Returns on Investments		**193,330**	621,589
Net Increase in the Fund during the year		**209,609**	639,506
Net Assets of the Fund			
At 1 April		2,458,588	1,819,082
At 31 March		**2,668,197**	2,458,588

Net Assets Statement at 31 March 2011

	Note	31 March 2011 £'000	%	31 March 2010 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**154,494**	**5.8**	134,999	5.5
Equities		**246,996**	**9.2**	241,264	9.8
Index Linked securities : Public Sector		**157,378**	**5.9**	147,483	6.0
Pooled investment vehicles :-	12				
- Property : Unit Trusts		**69,935**	**2.6**	43,608	1.8
: Unitised Insurance Policies		**49,875**	**1.9**	33,034	1.3
: Other Managed Funds		**52,242**	**2.0**	26,071	1.1
Property Pooled Investment Vehicles		**172,052**		102,713	
- Non Property : Unitised Insurance Policies		**844,190**	**31.6**	873,040	35.5
: Other Managed Funds	12	**1,028,962**	**38.5**	873,533	35.5
Non Property Pooled Investment Vehicles		**1,873,152**		1,746,573	
Derivative Contracts: FTSE Futures		**543**	**0.0**	152	0.0
Cash deposits		**50,515**	**1.9**	63,042	2.5
Other Investment balances		**4,749**	**0.2**	4,150	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**(59)**	**0.0**	0	0.0
Other Investment balances		**(1,869)**	**(0.1)**	(738)	0.0
TOTAL INVESTMENT ASSETS	12	**2,657,951**		2,439,639	
Net Current Assets					
Current Assets	14	**11,682**	**0.4**	21,149	0.9
Current Liabilities	14	**(1,436)**	**0.1**	(2,200)	(0.1)
TOTAL NET ASSETS		**2,668,197**	**100**	2,458,588	100

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2011.

Notes to the Accounts - Year Ended 31 March 2011

1, GENERAL

The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of admitted bodies. A list of employers with contributing scheme members can be found in note 22.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

2, MEMBERSHIP

Membership of the Fund at the year-end was as follows:-

	31 March 2011	31 March 2010
Employed Members	**33,810**	34,800
Pensioners	**22,541**	21,313
Members entitled to Deferred Benefits	**26,868**	24,544
TOTAL	**83,219**	80,657

3, TAXATION

i. **Value Added Tax**
   The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

ii. **Income Tax**
   The Fund is a wholly exempt fund and some UK income tax is recoverable from HM Revenue and Customs. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

iii. **Capital Gains Tax**
   No capital gains tax is chargeable.

iv. **Taxation of Overseas Investment Income**
   The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		31 March 2011		31 March 2010
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**86,680**		84,394	
Admitted Bodies	**7,587**	**94,267**	7,564	91,958
Employers' contributions- Augmentation				
Scheduled Bodies	**5,051**		3,548	
Admitted Bodies	**552**	**5,603**	814	4,362
Employers' Deficit Funding				
Scheduled Bodies	**35**			
Admitted Bodies	**1963**	**1,998**	241	241
Members' normal contributions				
Scheduled Bodies	**33,352**		33,582	
Admitted Bodies	**3,568**	**36,920**	3,595	37,177
Members' contributions towards additional benefits				
Scheduled Bodies	**696**		901	
Admitted Bodies	**35**	**731**	42	943
Total		**139,519**		134,681

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 19.

5, OTHER INCOME

	31 March 2011	31 March 2010
	£'000	£'000
Recoveries for services provided	**262**	356
Cost recoveries	**11**	5
	273	361

'Recoveries for services provided' refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	31 March 2011	31 March 2010
	£'000	£'000
Retirement Pensions	90,317	86,016
Commutation of pensions and Lump Sum Retirement Benefits	28,734	26,536
Lump Sum Death Benefits	2,694	2,549
	121,745	115,101

Analysis of Benefits Payable by Employing Body:-

	31 March 2011 £'000	31 March 2010 £'000
Scheduled & Resolution Bodies	**114,117**	107,100
Admitted Bodies	**7,628**	8,001
	121,745	115,101

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2011	31 March 2010
Leavers	**£'000**	£'000
Refunds to members leaving service	**22**	77
Individual Cash Transfer Values to other schemes	**9,072**	14,541
Bulk Cash Transfers	**-**	-
	9,094	14,618

There have been no bulk transfers during the year.

8, ADMINISTRATION EXPENSES

Costs incurred in the management and administration of the Fund are set out below.

	31 March 2011	31 March 2010
	£'000	£'000
Administration and processing	**1,638**	1,680
Actuarial fees	**137**	178
Audit fees	**47**	71
Legal and professional fees	**-**	1
Central recharges from Administering Authority	**423**	410
	2,245	2,340

9, INVESTMENT EXPENSES

Expenses incurred in the management of the Fund are set out below.

	31 March 2011	31 March 2010
	£'000	£'000
Portfolio management	**6,840**	6,469
Global custody	**78**	74
Investment advisors	**174**	171
Performance measurement	**32**	33
Investment accounting	**15**	22
Investment Administration	**55**	91
	7,194	6,860

10, INVESTMENT INCOME

	31 March 2011	31 March 2010
	£'000	£'000
Interest from fixed interest securities	**6,350**	4,135
Dividends from equities	**7,051**	6,275
Income from Index Linked securities	**6,187**	3,840
Income from pooled investment vehicles	**2,917**	1,574
Interest on cash deposits	**146**	172
Other - Stock lending	**12**	18
	22,663	16,014

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2011 was £43.67 million (31 March 2010 £9.42m). This was secured by collateral worth £45.21 million comprising OECD sovereign and supra national debt and equity index baskets from the FTSE 350 index.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/10 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change In Market Value £'000	**Value at 31/03/11 £'000**
Fixed Interest Securities	134,999	36,541	(20,446)	3,400	**154,494**
Equities	241,265	117,633	(128,049)	16,147	**246,996**
Index linked Securities	147,483	30,450	(24,322)	3,767	**157,378**
Pooled Investments -					
- Property	102,713	85,169	(27,383)	11,553	**172,052**
- Non Property	1,746,573	97,871	(108,188)	136,896	**1,873,152**
Derivatives	152	1,922	(3,415)	1,824	**483**
	2,373,185	369,586	(311,803)	173,587	**2,604,555**
Cash Deposits	63,042	232,606	(244,154)	(979)	**50,515**
Net Purchases & Sales		602,192	(555,957)	46,235	
Change in Creditors, Debtors and Revenue.					
Investment Debtors and Creditors	3,412			(531)	**2,881**
Total Investment Assets	2,439,639				**2,657,951**
Adjustment for Revenue, Debtors & Creditors	18,949			(8,703)	**10,246**
Less Net Revenue of Fund				(31,748)	
Total Net Assets	2,458,588			**177,861**	**2,668,197**

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents net losses on foreign currency deposits and foreign exchange transactions during the year.

Investment Transaction Costs

The following transactions costs are included in the above:

£'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees and Taxes	606	1	-	607
Commission	159	152	3	314
TOTAL	765	153	3	921

12, INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

		31 March 2011		31 March 2010
UK Equities		**£'000**		£'000
Quoted	**209,686**		191,718	
Pooled Investments	**415,651**		456,708	
FTSE Futures	**543**	**625,880**	152	648,578
Overseas Equities				
Quoted	**37,310**		49,546	
Pooled Investments	**987,796**	**1,025,106**	830,704	880,250
UK Fixed Interest Gilts				
Quoted	**154,494**		134,999	
Pooled Investments	**35,247**	**189,741**	49,413	184,412
UK Index Linked Gilts				
Quoted	**157,378**	**157,378**	147,483	147,483
Sterling Bonds (excluding Gilts)				
Pooled Investments	**138,079**	**138,079**	124,427	124,427
Non-Sterling Bonds				
Pooled Investments	**74,000**	**74,000**	72,348	72,348
Hedge Funds				
Pooled Investments	**222,379**	**222,379**	212,973	212,973
Property				
Pooled Investments	**172,052**	**172,052**	102,713	102,713
Cash Deposits				
Sterling	**49,672**		52,627	
Foreign Currencies	**843**	**50,515**	10,415	63,042
Investment Debtors/Creditors				
Investment Income	**3,264**		3,231	
Sales of Investments	**1,485**		919	
Foreign Exchange Hedge	**(59)**		-	
Purchases of Investments	**(1,869)**	**2,821**	(737)	3,413
TOTAL INVESTMENT ASSETS		**2,657,951**		2,439,639

DERIVATIVES ANALYSIS

"Over The Counter"

		31 March 2011 £'000
Forward Exchange Hedge :	Receivable in Sterling	3,774
Forward Exchange Hedge :	Payable in Euros	(3,786)
Forward Exchange Hedge :	Payable in Sterling	(132)
Forward Exchange Hedge :	Receivable in Euros	133
		(11)
Forward Exchange Hedge :	Receivable in Sterling	9,523
Forward Exchange Hedge :	Payable in U.S. Dollars	(9,571)
		(48)
		(59)

There were no "Over The Counter" derivatives held as at 31 March 2010

Exchange Traded Derivatives held at 31 March 2011:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE	June 2011	15,228	543

As at March 2010 the following Exchange Traded derivative was held:-

FTSE	June 2010	20,887	152

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a short term passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are held by two of the investment managers to eliminate the impact of the currency on the sterling investment return.

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:-

	31 March 2011		31 March 2010	
	£'000	**%**	£'000	%
Barclays Global Investors	**1,469,327**	**55.3**	1,402,836	57.5
Capital International	**20**	**0**	57	0
Threadneedle Pensions	**0**	**0**	4	0
Wellington Management International	**4**	**0**	18	0
Jupiter Asset Management	**109,295**	**4.1**	94,451	3.9
Genesis	**147,200**	**5.5**	130,211	5.3
Invesco	**169,742**	**6.4**	158,223	6.5
State Street	**91,176**	**3.4**	85,675	3.5
Partners	**53,129**	**2.0**	26,100	1.1
Royal London Asset Management	**131,992**	**5.0**	122,185	5.0
TT International	**132,073**	**5.0**	124,756	5.1
Man Investments	**100,418**	**3.8**	95,047	3.9
Gottex Asset Management	**53,490**	**2.0**	51,280	2.1
Stenham Asset Management	**11,665**	**0.4**	11,544	0.5
Signet Capital Management	**47,225**	**1.8**	45,279	1.9
Lyster Watson Management	**10,228**	**0.4**	9,823	0.4
Schroder Investment Management	**120,511**	**4.5**	76,798	3.1
Bank of New York Mellon	**1,882**	**0.1**	5,352	0.2
Treasury Management	**8,574**	**0.3**		
TOTAL INVESTMENT ASSETS	**2,657,951**	**100.0**	2,439,639	100.0

Residual values held by former Managers Capital International, Threadneedle Pensions and Wellington Management International relate to reclaimable tax.

13, SINGLE INVESTMENTS OVER 5% OF ASSET CLASS

The following investment holdings amounted to 5% or more of their asset class excluding pooled funds. If pooled funds were included the only holding to exceed 5% of its asset class would be the Index linked 2.5% July 2016 which would be 5.01% of its class.

Fixed Interest Securities	Value	% of Asset Class
UK Government 4.250% 07-JUN-2032	13,819,909	8.9%
UK Government 4.750% 07-DEC-2038	13,801,303	8.9%
UK Government 4.250% 07-DEC-2027	13,788,096	8.9%
UK Government 4.750% 07-DEC-2030	13,288,963	8.6%
UK Government 4.250% 07-DEC-2055	12,279,623	7.9%
UK Government 4.250% 07-MAR-2036	12,048,891	7.8%
UK Government 6.000% 07-DEC-2028	11,851,040	7.7%
UK Government 4.250% 07-DEC-2046	10,883,067	7.0%
UK Government 4.500% 07-DEC-2042	10,637,834	6.9%
UK Government 4.250% 07-DEC-2049	9,992,587	6.5%
UK Government 4.500% 09/07/2034	9,434,179	6.1%
UK Government 4.250% 09/09/2039	8,736,240	5.7%
UK Government 4.250% 12/07/2040	8,048,473	5.2%

Index Linked Securities	Value	% of Asset Class
UK Government 2.500% 26-JUL-2016	17,391,647	11.1%
UK Government 2.500% 16-APR-2020	14,602,053	9.3%
UK Government VAR RT 17-JUL-2024	13,276,979	8.4%
UK Government 1.250% 22-NOV-2027	12,612,039	8.0%
UK Government 1.875% 22-NOV-2022	11,698,426	7.4%
UK Government 2.000% 26-JAN-2035	11,103,557	7.1%
UK Government 1.250% 22-NOV-2055	10,751,199	6.8%
UK Government 1.250% 22-NOV-2017	10,534,918	6.7%
UK Government 1.250% 22-NOV-2032	10,288,052	6.5%
UK Government 4.125% 22-JUL-2030	9,633,243	6.1%
UK Government 1.125% 22-NOV-2037	9,242,996	5.9%

UK Equities	Value	% of Asset Class
VODAFONE GROUP	13,799,031	6.6%
HSBC HLDGS ORD USD0.50 (UK)	10,854,552	5.2%
Overseas Equities		
ROYAL DUTCH SHELL 'A'	5,734,441	15.4%
XSTRATA COM STK	5,532,311	14.8%
BAYER AG ORD NPV	3,071,731	8.2%
WPP PLC ORD	2,082,094	5.6%

14, DEBTORS AND CREDITORS

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2011. Debtors and creditors included in the accounts are analysed below:-

		31 March 2011		31 March 2010
DEBTORS		**£'000**		£'000
Bath & North East Somerset Council	**-**		10,027	
Contributions Receivable :-				
- Employers	**7,466**		7,267	
- Members	**2,963**		2,985	
Discretionary Early Retirement Costs	**409**		498	
Other Debtors	**710**	**11,548**	372	21,149
CREDITORS				
Management Fees	**(728)**		(393)	
Lump Sum Retirement Benefits	**(380)**		(1,712)	
Other Creditors	**(328)**	**(1,436)**	**(95)**	(2,200)
		10,112		18,949
DEFERRED CHARGES				
Cost of Triennial Valuation		**134**		-
NET CURRENT ASSETS		**10,246**		18,949

The 31 March 2010 debtor with Bath & North East Somerset Council represents monies held by the Administering Authority on which a commercial rate of interest was paid. From 1 April 2010 the Fund has managed its surplus cash separately from the Council, consequently this debtor no longer occurs. Surplus cash is now included within the Total Investment Assets.

The cost of the 2010 Triennial Valuation has been deferred to be charged to the years 2011/12 to 2013/14 in which the resulting contribution rates will apply.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2011		31 March 2010
DEBTORS		**£'000**		£'000
Local Authorities	**9,068**		18,981	
NHS Bodies	**11**		10	
Other Public Bodies	**1,580**		1,674	
Non Public Sector	**889**	**11,548**	504	21,149
CREDITORS				
Non Public Sector	**(1,436)**	**(1,436)**	(2,200)	(2,200)
NET CURRENT ASSETS		**10,112**		18,949

There were no debtors or creditors of Central Government or public corporations and traded funds.

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2011. (March 2010 = NIL).

16, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26
In compliance with IAS 26 the following statement has been prepared by the Fund's actuary.

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million.

17, TRANSFERS IN
Transfers In during the year were all in relation to individuals. There were no group transfers in to the Fund during the year ending 31 March 2011.

18, BENEFITS RECHARGED TO EMPLOYERS
The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account or related notes.

	31 March 2011	31 March 2010
	£'000	£'000
Benefits Paid and Recharged	**6,025**	6,131

19, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2010/11 were £4,128 (2009/10 - £7,319). Additional Voluntary Contributions received from employees and paid to Friends Life during 2010/11 were £516,160 (2009/10 - £527,655).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2011	31 March 2010
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**784**	917
Unit Linked Retirement Benefits	**443**	449
Building Society Benefits	**319**	327
	1,546	1,693
Death in Service Benefit	**199**	296
Friends Provident		
With Profits Retirement Benefits	**173**	263
Unit Linked Retirement Benefits	**2,307**	3,227
Cash Fund	**277**	482
	2,757	3,972

AVC investments are not included in the Fund's financial statements.

20, RELATED PARTIES

Committee Member Related:-
In 2010/11 £39,245 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£36,893 in 2009/10)*. Four voting members and three non voting members of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2010/2011*. (Five voting members and three non voting members in 2009/2010, including three B&NES Councillor Members*)

Independent Trustee Related:-
Two Independent Trustees were paid allowances of £6,380 and £12,379 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Trustees are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2010/11 the Fund paid B&NES Council £246,209 for administrative services (*£239,878 in 2009/10*) and B&NES Council paid the Fund £6,091 for administrative services (*£1,528 in 2009/10*). Various Employers requiring IAS 19 disclosures and other actuarial work paid the fund a total of £3,266 *(£1,665 in 2009/10)* for their services in compiling data for submission to the actuary.

Officer and Manager Related:-
The officers and managers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

There are no other related party transactions except as already disclosed elsewhere.

21, OUTSTANDING COMMITMENTS

As at the 31 March 2011 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £86,867,061.

22, EMPLOYING BODIES

As at 31 March 2011 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies

Principal Councils and Service Providers

Avon Fire Brigade
Bath & North East Somerset Council
Bristol City Council
North Somerset Council
South Gloucestershire Council

Education Establishments

Academy of Trinity C of E
Bath Spa University College
Bristol Cathedral Choir School
Cabot Learning Federation
City Academy Bristol
City of Bath College
City of Bristol College
Colston Girl's School Academy
Filton College
Merchant's Academy
Oasis Academy Brightstowe
Oasis Academy Bristol
Oldfield School Academy Trust
Midsomer Norton School Partnership
Norton Radstock College
St. Brendan's College
The Ridings Federation Winterbourne
The Ridings Federation Yate
University of the West of England
Weston College

Designating Bodies

Bath Tourism Plus
Backwell Parish Council
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Destination Bristol
Dodington Parish Council
Downend & Bromley Heath Parish Council
Easton in Gordano Parish Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Parish Council
Hanham Abbots Parish Council
Keynsham Town Council
Long Ashton Parish Council
Mangotsfield Parish Council
Nailsea Town Council
Norton Radstock Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Peasedown St John Parish Council
Portishead & North Weston Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Westerleigh Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yatton Parish Council
Yate Town Council

Admitted Bodies

Active Community Engagement Ltd
Agilisys
Agincare Ltd. *
Aquaterra Leisure
Aramark Ltd *
Ashley House Hostel
BAM Construct UK Ltd (Henbury School) *
Bath &NE Somerset Racial Equality Council
Bespoke Cleaning Services Ltd *
The Care Quality Commission
Centre For Deaf People
Churchill Contract Services
Churchill Team Clean
Clifton Suspension Bridge Trust
Eden Food Services *
English Landscapes*
Holburne Museum of Art
ISS Mediclean (Bristol)*
ISS Mediclean Cabot Learning Federation*
Keir Facilities Services
Liberata UK Limited
Learning Partnership West Ltd
Merlin Housing Society Ltd
Merlin Housing Society (SG)
Mouchel *
Mouchel Business Services *
Mouchel Business Srvices Ltd (Nailsea IT)*
Northgate Information Solutions *
Northgate Colston Girls School IT
North Somerset Housing
Off The Record Bath & Nrth East Somerset
Prospect Services Ltd *
Quadron Services*
RM Data Solutions
Shaw Healthcare (North Somerset) Ltd*
SITA Holdings UK Ltd. *
Skanska (Cabot Learning Federation)*
Skanska Rashleigh Westerfoil *
SLM Community Leisure *
SLM Fitness and Health *
Sodexo Ltd
Somer Community Housing Trust
Somer Housing Group Ltd.
South Gloucestershire Leisure Trust *
Southern Brooks Community partnership
Southwest Grid for Learning Trust
The Brandon Trust *
Tone Leisure Trust *
University of Bath
West of England Sports Trust
Woodspring Association for Blind People
Yes Dining Ltd *

*Scope bodies: A body that provides, by means of contract, a service in a connection with the exercise of a function of a scheme employer.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2011**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT TO COUNCIL 2011**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council		

1 THE ISSUE

1.1 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report would also include a reference to the future work programme.

1.2 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2011, will be submitted to the Council meeting in September 2011. In addition, the report will also be circulated to all employing bodies within the Fund to inform them in detail of the work undertaken by the Committee.

2 RECOMMENDATION

That the Committee:-

2.1 Review and approve the Annual Report to Council (Appendix 1).

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 COMMENT

4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months starting from April 2010 and sets out its agenda over the coming year.

4.2 The Committee is invited to review this in order to ensure that it includes everything that the Committee would wish to report.

5 RISK MANAGEMENT

5.1 No decision is required and therefore a risk assessment in compliance with the Council's decision making risk management guidance is not necessary.

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 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 01225 395306 Steve McMillan, Pensions Manager 01225 395254
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2010 - March 2011)

1 BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2009 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of more than 100 employing bodies including the four unitary authorities. The Fund has c. 85,000 members and the value of the Fund as at 31 March 2011 was £2.6 billion.

The Fund's target asset mix is 60% equities, 20% bonds, 10% property and 10% fund of hedge funds. The Fund's assets are managed by external investment managers.

(a) AVON PENSION FUND COMMITTEE TERMS OF REFERENCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (APFC) whose terms of reference, as agreed by the Council in May 2010, are set out below:

> "To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of investment policy objectives, ensuring appropriate investment management arrangements are in place including the appointment of investment managers and monitoring investment performance; commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations; considering requests from organisations wishing to join the Fund as admitted bodies; making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and all aspects of benefit administration. At all times, the committee must discharge its responsibility in the best interest of the Avon Pension Fund."

(b) COMMITTEE MEMBERSHIP

The Committee structure is as follows:

Voting members (12)	5 elected members from B&NES 2 independent trustees 3 elected members nominated from the other West of England unitary councils 1 nominated from the education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

(c) INVESTMENT PANEL

The Investment Panel is a formal sub-committee of the APFC, established to consider the management and investment of the Fund's assets and to advise APFC on such matters. The Panel's terms of reference which were agreed by the Council in May 2010 are:

The Panel shall:

- recommend strategic investment objectives, policy and strategic asset allocation
- regularly review in detail and assess the performance of the investment managers, investment advisors, custodian and actuary
- recommend appointment and termination of investment managers and professional service providers as required
- review the Statement of Investment Principles and submit to APFC for approval
- make recommendations to the APFC on matters relating to investment strategy and management as the Panel considers appropriate. This will include issues of a more urgent nature, where the view of the Panel would be taken into consideration. (The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted the Chair of the Panel)
- review any legislative changes which have implications for investment governance and make recommendations to the APFC as appropriate.

The Panel has no delegated powers and can only make recommendations to the Committee.

The Panel consists of up to 6 voting members from the APFC and meets at least quarterly ahead of Committee meetings.

2 TRAINING AND WORKLOAD

Committee members are required to undertake a significant amount of training in order to have sufficient expertise to be able to make strategic investment decisions and to evaluate critically any advice they receive. As a result, on joining the committee all voting members attend an introductory training course customised for the Local Government Pension Scheme (LGPS) which covers the LGPS regulations, the benefits structure and basic investment concepts. The opportunity to attend this course is also extended to non-voting members although it is not compulsory. In addition, all committee members have the opportunity to attend a number of additional training courses and conferences each year.

Training activity during the year comprised:

- 1 committee member attended the 3-day customised training course organised by the Local Government Pensions Committee (LGPC)
- 5 members attended investment conferences during the year

Committee meetings and workshops:

- The Committee meets quarterly.
- Ad hoc workshops are arranged as necessary for the APFC. These workshops are designed to explore specific policy issues in detail. During the last 12 months, one workshop was arranged to review the Funding Strategy Statement which forms the basis of the triennial actuarial valuation. Another workshop was held to review the investments in hedge funds.

The Investment Panel met 4 times during the year. The Panel has explored the following issues in detail:

- Reviewed the Fund of Hedge Fund managers performance in detail in order to support the Committee's review of the Fund's hedge fund investments
- Reviewed the existing managers' performance in detail

3 REVIEW OF THE YEAR

a) INVESTMENT PERFORMANCE

2010/11 was another good year for investment markets and the Fund's investment returns was 7.8%. **The value of the Fund's assets rose by £204 million to £2,658 million at 31 March 2011.**

The Fund's return marginally lagged the average return of 8.2% for the Local Authority funds over the year due to its lower exposure to equities. **However, over 3 years the Fund's return was 6.3% per annum compared to the Local Authority average return of 5.4% which is due to the diversified investment strategy the Fund has adopted over this period.**

b) 2010 ACTUARIAL VALUATION

The regulations require that the Fund has an actuarial valuation every three years and the latest valuation was at 31 March 2010, which sets the employer contribution rates for the period 1 April 2011 – 31 March 2014. The funding level is 82% which compares to a funding level of 83% at the previous (31 March 2007). The average employer contribution rate is 16.6% of pensionable pay which is unchanged from the 2007 valuation. This has been achieved by extending the deficit recovery period to an average of 23 years from 20 years in 2007.

Overall the outcome was more favourable than initially anticipated, mainly due to the announcement that all public sector pension payments in the future will be linked to the Consumer Price Index (CPI) rather than the Retail Price index (RPI). As the CPI has historically been lower than RPI by 0.5-1.0% per annum, this change means the inflation assumption used for valuing the Fund's pension payments is lower which in turn reduces the Fund's liabilities. In terms of the assets, despite the strong recovery in markets in 2009/10, the overall investment return since 2007 fell short of the return assumed in the 2007 valuation.

Given the adverse public spending backdrop and taking into account affordability of the employers, the focus of the 2010 valuation was on

stabilising contribution rates within the existing funding framework as set out in the Fund's Funding Strategy Statement. Stable rates could only be achieved by extending the deficit recovery period (the period over which the 100% funding level will be achieved), where possible, from 20 years to an average of 23 years, with a maximum for an individual employer of 30 years.

It should be noted that the funding level does not impact the ability of the Fund to meet its pension obligations in the meantime. The Fund has a positive cash flow with current pension payments met by pension contributions, and this is expected to continue until approximately 2028 (based on the current benefits structure).

During the year the Hutton Commission set out recommendations to reform the public sector pension schemes to make them more affordable and fairer. The Government has indicated that it accepts the Commission's recommendations and will report further in the autumn of 2011. The main recommendations include an increase in the retirement age, moving from a final salary to career average re-valued earnings benefit structure for future accruals (generally accepted to be "fairer" to lower paid members) and full protection of existing accrued rights. Any savings that arise from changes to the LGPS will be reflected in the next valuation in 2013 and initially be used to bring the deficit recovery period down to 15-20 years.

The Treasury has also announced that, separate from the Hutton recommendations, the public sector schemes should increase employee contributions by on average 3% (i.e. taking the current average employee rate in the Avon Pension Fund from 6.4% to 9.4%) in order to reduce the cost of pensions to employers (i.e. the government) in the short term. This is proving a very contentious issue, with significant risk that opt-out rates will rise substantially. As a result the government are currently consulting with employers and member representatives as to how this could be implemented within the LGPS.

c) FUNDING LEVEL

As at 31 March 2011 the Actuary has estimated that the funding level has marginally increased to 83% from 82% at 31 March 2010. The increase in the asset value of the Fund exceeded the rise in liabilities, which was caused by the unwinding of the discount rate by one year (effectively adds one year of interest to the liabilities).

d) FUND GOVERNANCE

Fund governance and ensuring the governance structure properly reflects the parties involved in the Fund, namely the employers, scheme members and local taxpayers, is of significant importance to the administering authority and APFC alike.

The current governance structure has been established since 2009. **During the year the Committee completed a self-assessment of the effectiveness of its decision making process. The exercise concluded that the members have confidence in the decision making process in that it enables the Committee to discharge its responsibilities effectively.** However, it did identify a number of areas where the process could be improved. Most of these have been implemented with the Committee approving a more formal training programme which will provide more opportunity for members to access training covering general pension issues and more specific investment topics.

e) PENSIONS ADMINISTRATION

(i) Budget

During the Year to 31 March 2011, total costs were £661,000 under the budget of £9.8 million. However, excluding Investment Management and custody fees and governance costs, administration costs were £200,000 under the budget of £2.1million, a saving of 9%. Savings were made across the all budgets except for IT where spending was in line with the budget due to investment in upgrading the pensions processing system.

There was an under-spend in Investment Management and custody fees due to the delay in appointing the global equity manager, whose expected costs where included in the budget. The investment management fees of £6.8 million equate to 0.26% of the Fund's assets.

(ii) CIPFA Benchmarking (Benefits Administration)

The Fund annually benchmarks its Pensions Administration costs through the CIPFA Benchmarking Club where its performance and running costs are compared against its peers and against the "average size. " The results are analysed and reported to Committee annually for further scrutiny where performance targets are also reviewed.

The Fund's administration costs remain competitive. The unit cost of £2.73 per member for paying pensions remains one of the lowest in the UK. The overall costs of £18.33 per member compares favourably with the comparator group average cost of £23.49 per member.

(iii) New Pensions Administration Strategy

The Fund has produced and issued a *Pensions Administration Strategy* (PAS) to improve the way it works with the hundred or so Fund employers. This was issued following in depth consultation with employers and came into effect on 1 April 2011. The main areas covered are communications, training and performance reporting. As part of the Strategy all employers will have new *Service Level Agreements* which will include a deadline in 2012 by which they will have to submit all information on member changes to the Fund electronically. A key strand of the PAS is joint accountability with regular performance measurement reports and progress review meetings. This development has been well received by employers and, in time, is expected to improve the level of service to Scheme Members.

4 COMMITTEE BUSINESS TO MARCH 2011

a) Review of Investment Strategy

In 2009 the Fund's investment consultant, JLT Actuaries & Consultants Ltd (JLT), were commissioned to review the strategic investment strategy (that is, allocations to various asset classes) given the outlook for investment markets following the financial crisis experienced in 2008/09. Most of the decisions were implemented in 2009/10 but a number of decisions were carried forward into 2010/11 as follows:

- Review of Hedge Fund investments – following a workshop held in March 2011 it was agreed to maintain the strategic allocation to hedge funds but to adjust the allocation between the existing manager

- Hedging the foreign currency exposure arising from the Fund's investments in overseas equities, to protect the Fund's value from adverse movements in sterling (weak sterling is positive for the Fund) – agreed to appoint a manager to actively hedge the non-sterling exposure

- Review the Fund's policy for Socially Responsible Investing – agreed brief for review in 2011/12

b) Allocation to UK equities

In light of the fall in the price of BP shares the Committee asked the Investment Panel to consider the allocation between UK and overseas equities that are managed on a "passive" basis (the portfolios mirror respective equity indices). BP highlighted the risks of passive investing when the underlying index (in this case the FTSE All Share Index) has significant stock and sector concentrations. Prior to its price decline, BP accounted for c. 7% of the FTSE All Share Index. In contrast, global equity indices are more diversified at both the sector and stock levels and thus have less concentration risk. The Committee accepted the Panel's recommendation that the asset allocation within the equity portfolio should be adjusted from 45% UK equities: 55% overseas equities to 30% UK:70% overseas with the switch implemented within the passive equity portfolios.

c) Funding Strategy Statement

The LGPS regulations require the Fund to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the Actuary uses in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Fund. The purpose of the FSS is to:

- Establish a clear and transparent Fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To maintain as nearly constant employer rates where possible;
- To take a prudent long-term view of funding those liabilities.

The Committee reviewed the FSS ahead of the 2010 triennial valuation. The focus of the Committee was to strike a balance between affordability of the employers and securing the solvency of the Fund. The draft FSS was circulated to employers for consultation prior to it being approved by the Committee.

d) Approval of the 3-year Service Plan and Budget 2011/2014

The Service Plan details the new development proposals that are planned to be undertaken during the next three financial years (2011/2014) and also reports on progress made against the 2010/11 planned actions. The new plan is designed to respond to known and anticipated legislative changes and Committee initiatives as well as to take the Pensions Service forward by improving performance and the overall quality of service to members and employers. Specifically the Fund is rolling out its Administration Strategy that will focus on working more closely in partnership with the Fund's employing bodies and utilising technology to deliver and process information.

The 2011/12 administration budget includes savings of 5.0% (£110,000) on the 2011/12 budget which was approved as part of the three year budget in March 2010. The savings have been made across the service mainly through identifying better ways of delivering the service through greater use of electronic systems.

e) SIP and updated Myners Principles for effective decision making by pension funds

The Fund is required under the regulations to publish a Statement of Investment Principles (SIP) which sets out the Fund's investment and risk management policy. It also includes a statement as to the Fund's compliance with the Myners Principles for effective decision-making for pension funds ("the principles"). In March 2011 the Committee approved the principles which were revised for the following:

- Changes to asset allocation and the appointment of new global equity manager
- Updated Myners' compliance to include self assessment of the effectiveness of the decision-making processes of the Committee and the training programme

f) FRC Stewardship Code

Corporate governance is an integral part of responsible investing. In the UK there has been a well defined framework for the role of investors in corporate governance but as the financial crisis of 2007/08 confirmed, the framework was not always effective. As a result the Financial Reporting Council (FRC) has taken over responsibility for the corporate governance framework with the publication of the Stewardship Code. This code is a set of best practice principles that are intended to improve the extent and effectiveness of shareholder engagement with companies. Shareholder engagement includes the voting of shares at company meetings and meeting with companies to discuss governance issues. The principles include the following:

- Investors must publicly disclose their policy on how they will discharge their stewardship responsibilities
- How investors monitor the investee companies with regard to governance issues
- Have a clear policy on voting and disclosure of voting activity

Importantly the FRC code requires investors to report their compliance with the Code. The Fund published its compliance with the code in December 2010. Its level of compliance will be strengthened in 2011 through the appointment of a vote monitoring agent who will monitor the voting activities of the Fund's external managers, against best practice principles.

g) Approval of Administration Strategy

In recent years LGPS funds have been encouraged to have a Pensions Administration Strategy as a matter of best practice. In 2010 the Avon Pension

Fund developed its strategy and, after a period of consultation with scheme employers, implementation of the strategy began with effect from 1 April 2011.

The strategy is key to preparing the Avon Pension Fund for the change anticipated over the next 3-5 years. The primary objective of the strategy is for the Fund and employers to work together more effectively in order to meet future challenges and deliver an excellent level of service.

Key elements of the strategy are improving communications between employers and the Fund, comprehensive training of both in-house staff and pension staff at the employers, and utilising technology more effectively to capture and process data.

The strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (between the Fund and scheme employers). Performance of both parties will be monitored via Stewardship reports which will be discussed at regular review meetings with employers. In addition, performance will be monitored by the Committee on a quarterly basis once sufficient data has been compiled.

h) Workplans

Separate workplans are prepared for the Committee and Investment Panel detailing the forthcoming areas of work relating to investments strategy and policy and Benefits administration to give the Committee and officers the opportunity to review the and accommodate issues that may arise.

5 FUTURE BUSINESS

The Committee's (and Investment Panel's) focus over the next twelve months will be as follows:

a) Investments

- Review the Fund's policy towards Socially Responsible Investing

b) Fund solvency

- Review potential impact of changes to the scheme structure on the funding and investment strategies

c) Governance

- Roll out the formal training policy for both Members.

d) Benefits Administration

- The Fund will roll out the Administration Strategy during 2011/12 and as data is compiled, the Committee will begin to monitor the performance against targets of both the employers and the Fund.

- It is expected that the government will issue its proposals for the future scheme in autumn 2011 for consultation with all relevant stakeholders. The Fund will fully participate in all consultations engaging fully with the Committee, national and regional LGPS groups as well as ensuring Fund members and employers understand how the proposed changes will affect them.

Avon Pension Fund

June 2011

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 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

Appendix 5 – Training Programme 2011-13

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 provisional training programme for 2011-2013 which was discussed at the March 2011 committee meeting is included as Appendix 5.

1.4 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.

1.5 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. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

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 and/or officers.

4.3 As this is a new committee, the committee workplan includes a number of training sessions planned for 2011/12 which are designed to support the committee in their role. In addition the provisional training plan for 2011 -13 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly.

4.4 At this stage the Investment Panel workplan focuses on monitoring the investment managers as there are no investment projects currently delegated to the Panel. Dates for these meetings will be agreed once the membership of the Panel is known.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

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 to be confirmed
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 the custody contract	December 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
Budget and Service Plan 2012/15	Preparation of budget and service plan for 2012/15	March 2012
Investments Forum	Organise forum meetings expected to be held in Autumn 2011	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for employing bodies	

WORK PLAN AS 24 JUNE 2011 - APPENDIX 2

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2012

Project	Proposed Action	Report
Employer Access –change of provider to Heywood	***Employer Access*** (a heywood software application) is a replacement for Gandlake which was withdrawn in late 2010. The new facility allows 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 has been tested by APF staff in "test" put into "live" mode. It is now subject to further testing for one week by a nominated employer. It will be rolled out to all employers during June 2011.	N/A
Administration Strategy/ Partnership (**SLA)** Agreements	Full consultation with employers on the Pensions Administration Strategy ("PAS") document took place in October 2010 and PAS was approved by the Avon Pensions Fund Committee 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
Fair Deal – review of the current policy (inc option to remove Fair Deal)	The government has issued a consultation paper for the treatment of pensions on compulsory transfer of staff from the public sector under The Fair Deal Policy There is a range of options for future policy on pension requirements for staff transferring out of the public sector due to outsourcing. This spans from keeping the Fair Deal policy in its current form to removing it. Responses to the consultation paper must be by 16 June. APF will be responding before this. The paper was sent to employers in April with an explanation of the ramifications of the possible changes so that they can respond appropriately.	As required

	Removal of the option for outsourced staff to remain in the LGPS would have significant consequences for the Fund and for the outcome of future outsourcings.	
EDI - auto designer interface	EDI is included in PAS. (see above) The Fund Officers will work closely with Fund employers' staff to meet the agreed target dates in 2012 for all employers to provide all member data changes **electronically**	N/A
Post Hutton Review consultation	The Hutton Report was published in March this year and has concluded that the benefits of the Scheme on a final pay basis are not sustainable / affordable and outlined potential changes to the benefit structure going forward. A move to to defined contribution scheme (money purchase has been ruled out and a CARE scheme (a generally less generous final pay type scheme looks the most probable replacement for future benefit accrual). Combined with a ***separate*** government proposal to increase member contribution rates on tiered basis over the next 4 years could result in a large number of members opting out of the Scheme. This would threaten its financial viability and continued existence. APF Officers will be monitoring member **Opt Out rates** going forward and reporting these to the government to properly inform it before it proposes final changes to the LGPS Scheme. Any major changes however are not expected to be put into effect before 2015. However the consultation period on potential changes is expected to open in November this year and significant work by APF Officers is required to Inform and **educate both members and employers** on the ramifications for them in respect of benefits (members) and costs (employers) to allow them to actively participate **Sessions** for both members and employers will be held in the autumn to communicate the proposed changes and their ramifications to allow them to participate in the government consultation.	As required
Data cleanse (following Actuarial Valuation)	Data Cleansing is continuing following data reconciliation for the 2010 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

Appendix 3

Committee Workplan to 31 March 2012

June 2011
Review of Investment Performance for Year & 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
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
Admitted Body Approval
Workplans
Planned Training session – July Overview of the Investment Strategy, investment management structure and performance monitoring

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 1

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
Planned Workshop – SRI Policy Review 4Q11 Stage 2

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
Planned Training session – February 2011

Appendix 3

Committee Workplan to 31 March 2012

Investment Manager Selection and Monitoring or The Basics of Asset Allocation

Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2012

Panel meeting / workshop	Proposed reports	Outcome
Sept 2011 Workshop and Meeting	• Review mangers performance to June 2011 • Meet the Managers workshop (BlackRock, Genesis and Schroder property)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Oct 2011 Workshop	• Meet the managers workshop (Royal London, TT, Invesco)	• Agree any recommendations to Committee
Nov 2011 Workshop and Meeting	• Review mangers performance to Sept 2011 • Meet the managers workshop (Jupiter, SSgA)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Feb 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Partners, Schroder equity)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Apr 2012 Workshop	• Meet the managers workshop (Intro to Hedge Funds, Man, Signet)	• Agree any recommendations to Committee
May 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Gottex, Stenham)	• Agree any recommendations to Committee • Agree any recommendations to Committee

Appendix 5

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 ○ Admin regulations (including discretions), admin strategy, communications strategy ○ Investment regulations ○ 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	3Q11
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