Bath & North East Somerset Council

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Date: 1st December 2011
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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), Councillor Mark Wright (Bristol City Council), Bill Marshall (HFE Employers), Rowena Hayward (Trade Unions), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member)

Co-opted Non-voting Members: Councillor Clive Fricker (Town and Parish Councils), Richard Orton (Trade Unions), Steve Paines (Trade Unions) and Paul Shiner (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 9th December, 2011

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 9th December, 2011** at **2.00 pm** in the **Brunswick Room - Guildhall, Bath.**

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

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

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, 9th December, 2011

at 2.00 pm in the Brunswick Room - Guildhall, Bath

A G E N D A

PRELIMINARY ITEMS

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 23 SEPTEMBER 2011 (Pages 7 - 16)

STRATEGIC REPORTS

8. INTERIM ACTUARIAL VALUATION (Pages 17 - 56)

   The Actuary will attend the meeting.

   Before discussing Exempt Appendix 1, the Committee is invited to pass the following resolution:

   Before discussing Exempt Appendix 3, the Committee is invited to pass the following

resolution:

> "Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."

9. RESPONSE TO CLG CONSULTATION ON SCHEME CHARGES (Pages 57 - 70)

10. COMMUNITY ADMISSION BODIES (Pages 71 - 80)

Before discussing Exempt Appendix 1, the Committee is invited to pass the following resolution:

> "Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."

11. INVESTMENT PANEL MINUTES (Pages 81 - 88)

12. REVIEW OF INVESTMENT STRATEGY (Pages 89 - 108)

MONITORING REPORTS

13. RECOMMENDATIONS FROM THE INVESTMENT PANEL (Pages 109 - 112)

14. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2011 (Pages 113 - 176)

Before discussing Exempt Appendix 3, the Committee is invited to pass the following resolution:

> "Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."

15. PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO OCTOBER 2011 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 30 OCTOBER 2011 (Pages 177 - 214)

16. ANNUAL REVIEW OF INTERNAL CONTROL REPORTS OF EXTERNAL SERVICE PROVIDERS (Pages 215 - 218)

17. WORKPLANS (Pages 219 - 230)

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, 23rd September, 2011, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes and Katie Hall

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Carolan Dobson (Independent Member), Councillor Mike Drew (South Gloucestershire Council), Rowena Hayward (Trade Unions) and Andy Riggs (HFE Employers)

Co-opted Non-voting Members: Councillor Clive Fricker (Town and Parish Councils) and Richard Orton (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Benefit Solutions)

Also in attendance: 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)

20 ELECTION OF VICE-CHAIR

Cllr Fox (Chair) having been being delayed by a disruption on the rail service between Bath and Keynsham and Cllr Gerrish (Vice-Chair) having presented his apologies, Cllr Batt was elected temporary Vice-Chair to chair the meeting until the arrival of Cllr Fox.

21 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Charles Gerrish, Paul Shiner, Bill Marshall (substituted by Andy Riggs) and Cllr Mark Wright.

23 DECLARATIONS OF INTEREST

Councillor Blatchford declared a personal and prejudicial interest in respect of item 14 by reason of her connection with a relevant admitted body.

24 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

26 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

27 MINUTES: 24 JUNE 2011

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

28 FINAL ACCOUNTS 2010/11, GOVERNANCE REPORT AND AUDIT PLAN 2011/12

The Finance & Systems Manager (Pensions) presented the report. He reminded that the draft accounts had come before them at the June meeting. The audited accounts were now laid before them before going for approval to the Corporate Audit Committee on 29 September 2011.

Mr Hackett said that the accounts for the Avon Pension Fund formed part of the accounts for Bath & North East Somerset Council, which, after a couple of representations had been dealt with, would be signed off on 30 September 2011. He said that information had been given to the auditors on time and had been accompanied by good working papers. On the whole the accounts complied with new financial reporting standards. The Annual Governance Report had been prepared in a new format, which he hoped would be more user-friendly.

A Member said that the accounts had received a remarkably clean audit report, for which the finance team deserved congratulations.

RESOLVED

1. To approve the final audited Statement of Accounts for 2010/11.

To note the issues raised in the Annual Governance Report. The Finance & Systems Manager (Pensions) presented the report. He reminded that the draft accounts had come before them at the June meeting. The audited accounts were now laid before them before going for approval to the Corporate Audit Committee on 29 September 2011.

Mr Hackett said that the accounts for the Avon Pension Fund formed part of the accounts for Bath & North East Somerset Council, which, after a couple of representations had been dealt with, would be signed off on 30 September 2011. He said that information had been given to the auditors on time and had been

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A Member said that the accounts had received a remarkably clean audit report, for which the finance team deserved congratulations.

RESOLVED

1. To approve the final audited Statement of Accounts for 2010/11.

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

29 AVON PENSION FUND ANNUAL REPORT 2010/11

The Investments Manager presented the report. She said that the Annual Report had been reviewed by the Auditor as part of the Fund's audit in accordance with audit guidelines.

RESOLVED

1. To approve the draft Avon Pension Annual Report 2010/11.

2. To note the arrangements for distribution of the Avon Pension Fund Report 2010/11.

30 APPLICATION BY THE PARK FOR COMMUNITY ADMISSION BODY STATUS

The Investments Manager presented the report. She reminded Members that the admission of any community admission bodies to the Fund had to be approved by the Committee. She invited Members to approve the admission of The Park Community Centre, subject to an appropriate decision, including the commitment to a satisfactory guarantee (as detailed in paragraph 4.5 and Appendix 2 of the report), being taken by the Cabinet of Bristol City Council at its meeting on 29 September 2011.

RESOLVED that The Park is allowed entry into the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as guarantor, subject to the condition set out in paragraph 4.5 of the report.

31 APPLICATION BY SOUTH WEST ACADEMIES FOR COMMUNITY ADMISSION BODY STATUS

The Investments Manager presented the report. She explained that South West Academies Limited had been established by four academies to provide them with financial and other support services.

A Member asked about the financial strength of the guarantors and expressed concern that the Fund would be accepting an open-ended commitment to a body that might have only a few employees now, but could expand in the future. The Investments Manager responded that the issue of the guarantee of academy liabilities had been raised with the Department for Education, who are the funders of academies and, it would be the only body that could meet any outstanding liabilities Officers were unable to advise on the financial strength of the front-line guarantors given they are reliant on central funding , but as scheduled bodies, academies had a right of admission to the Fund and could act as guarantors for other admitted bodies. Previously an academy which failed has been merged with another academy. A Member said that the Department for Education was at best providing an implicit guarantee. The Investments Manager said that officers would continue to press the Department for Education to clarify the situation.

RESOLVED that South West Academies Limited is allowed entry into the Avon Pension Fund as a Community Admissions Body subject to City Academy and Colston Girls' School acting as "joint and several" guarantors.

32 LGPS CHANGES/HUTTON REVIEW - VERBAL UPDATE

The Technical and Development Manager gave an oral update. He said that following the Comprehensive Spending Review the Government had decided that employee contributions should increase by up to 2.3%. However, in July the Government had indicated that it would be prepared to treat the Local Pension Scheme differently from other public sector schemes and invited the Local Government Association (LGA) to make proposals. Talks had been held between representatives of employees and the employers, but no agreement had been reached, so the Department of Communities and Local Government had made its own proposals. The LGA had suggested that the pensionable age should be 65-66 by 2014 and that higher employee contributions should commence in two years' time, with the option of lower benefits in return for lower contributions. There would be a short consultation on draft regulations at the beginning of next year, with a view to implementation by April 2012. There would be a three-month consultation of the headline proposals from the Hutton Review commencing by the end of October. Any proposed changes to legislation would be discussed by ministers in 2012-2013, with a view to implementation by April 2015.

RESOLVED to note the update.

33 ADMINISTRATION STRATEGY - STEWARDSHIP REPORT

Cllr Fox arrived and took the Chair.

The Pensions Manager presented the report. He said that there was a particular emphasis in the Strategy on the training of the relevant staff of the employers and on electronic service delivery. There would eventually be a self-service facility for the employers, allowing them to update records online. A few large employers had had digital facilities for processing employee data for some time. Meetings would be held with three other large employers in the near future to discuss the way forward. A software supplier was working on the construction of a hub, which would allow

employers to submit bulk data from their payroll systems without having to do a great deal of re-formatting; this might be functional by the middle of next year. Smaller employers with less than 50 employees could use an online interactive updating service; good progress was being made with this.

The Head of Business, Finance and Pensions said that one aim of the strategy was to improve the administrative efficiency of employers; there were provisions allowing the recovery of any disproportionate administration costs imposed by an employer.

A Member asked that the online interactive services should save data automatically, so that if the connection was interrupted for any reason data already input by the user would not be lost.

A Member said that she hoped that employers would use the electronic updating services, as the availability of current information would reduce problems for employees.

RESOLVED to note the current position on the actions detailed in paragraph 1.1 of the report and the proposals reported by Officers to progress these.

34 ADMITTED BODIES - VERBAL UPDATE

Cllr Blatchford withdrew from the room in accordance with her declaration of interest.

RESOLVED that, the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

RESOLVED to note the update.

35 INVESTMENT PANEL MINUTES

Cllr Blatchford returned to the room, and the Committee returned to open session.

Cllr Batt pointed out that although he had presented his apologies for this meeting, they were not recorded in the minutes.

RESOLVED to note the draft minutes of the Investment Panel meeting held on 7 September 2011.

36 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2011

The Assistant Investments Manager presented the report. He highlighted three matters:

- paragraph 4.13: State Street had been invited to attend the next meeting of the Investment Panel to discuss the decrease in the overall size of the State Street pooled funds in which the Fund is invested

- paragraph 4.14: because the reporting of Partners performance data would be lagged by a quarter, the Investment Panel had recommended that Officers verbally update the Panel and the Committee verbally on the latest performance of Partners

- paragraph 6.4: since the end of the reporting quarter volatility in equity and bond markets had had a negative impact on the Fund

Mr Finch drew attention to the information in paragraph 6.4 that the 0.5% decline in long-dated gilt yields since June could increase the liabilities of the Fund by 7-10%. In the three months to the end of June the performance of the Fund had lagged the Local Authority average because of its higher exposure in bonds. Hedge funds had slightly underperformed, but were likely to have helped overall performance during the period since quarter end. The drivers of performance in the period were outside the control of the Committee and the portfolio managers. A Member asked about the prospects for bond rates and their impact on the Fund. Mr Finch said that bond rates were at an historic low and in his view were likely to remain low. The actuary uses bond rates in the valuation so the low level of rates will increase the value of liabilities. The Fund had to fund liabilities for a period of 60-80 years, and, as he had mentioned, the decline in long-dated gilts since June could already have had a significant impact on the liabilities of the Fund. On the other hand, it was now thought that basing pension increases on CPI rather than RPI could reduce liabilities by as much as 1.5% rather than the initially projected 0.5%. In addition, there was a breathing space for the Fund, since contribution rates did not have to be reset until April 2013, by which time European debt problems should have been clarified.

A Member said that State Street should have notified the Fund about the large redemptions from their pooled fund. An enhanced indexation fund needed to be of a scale to offset the transaction costs. The Assistant Investments Manager agreed that they should have notified the Fund and their failure to do so would be taken up with them. Mr Finch added that State Street's broader investment base provided some comfort, but it was necessary to get a better understanding of what they were doing, which was why they had been invited to the next meeting of the Investment Panel.

A Member asked about rebalancing bonds against equities. The Investments Manager said that the situation was being carefully monitored; at present the ratio was just under the tolerance level. In such volatile markets it was not sensible to rebalance too soon as this would increase transaction caost.It was likely that rebalancing would take place in due course.

The Chair asked how the impact on the Fund of the changes in financial assumptions detailed in section 6 of the report would be communicated to employers. The Investments Manager replied that the finance managers of the employers would be invited to an investment forum.

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

37 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 AUGUST 2011 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JULY 2011

The Finance & Systems Manager (Pensions) presented the finance report. He said that since the circulation of the report an error had been discovered. The budget figure for compliance costs recharged should have been (£120,000) instead of (£52,000). The overspend was therefore reduced from £246,260 to £178,260.

The Pensions Manager presented the Performance Indicators. He apologised that no figures were available on performance against target for this period as the tool used to extract this information needed some work following the move from AXIS to Altair software so replacements for two pages in the appendix had been circulated to Members after the agenda had been issued. Work outstanding was well within the 10% target. Information about members opting out of the Fund, requested by the Committee at its previous meeting, had been included in appendices 5, 6 and 7 of the report. Appendix 7 showed that 80% of the staff of large employers were members of the Fund, which is a higher proportion than a few years ago.

A Member requested a comment on the trend line of graph 7 on page 281 of the agenda, which showed an increase in outstanding workload. The Pensions Manager conceded that the graph did show marginal increase, but emphasised that even though workload varied considerably from month to month, outstanding work remained within the 10% target. The Member asked whether he was confident that it would remain within the target, given that there were still vacancies for administration staff. The Pensions Manager said there were several issues affecting recruitment and retention. A small amount of overtime working had been necessary. The aim was to return to full complement.

The Pensions Manager reported that the issue of Annual Benefit Statements to Fund members would begin in October. In response to a question from the Chair he said that figures for eligible staff who were members of the Fund contained in appendix 7 would be the benchmark for future reports. The Pensions Team had put information on the Fund's website to warn members against making rash decisions to leave the Fund before the government announced its specific proposals for change.

RESOLVED to note the administration and management expenses incurred for the year to 31 August 2011 and Performance Indicators for the 3 months to 31 July 2011.

38 WORKPLANS

The Investments Manager presented the report. She drew attention to the updating of the workplan for the Investment Panel and to the item on the interim actuarial valuation on the Committee agenda for 9 December, with a training workshop on the valuation to be held in the morning before the meeting. The review of SRI policy had been split into two stages, with the stage 1 workshop now planned for December.

The Pensions Manager asked Members to note that the next Annual Employers Conference would take place at Novotel in Bristol on 8 Febrary 2012.

RESOLVED to note the workplans for the period to 31 March 2012.

The meeting ended at 3.19 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**INTERIM VALUATION**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Interim Valuation Report		

1 THE ISSUE

1.1 The LGPS regulations require the Fund to carry out an actuarial valuation every three years. Between these mandatory valuations, the Fund requests interim valuations periodically to assess whether the funding strategy is on track. Given the volatility in the investment markets and the proposed changes to the LGPS, the Fund commissioned an interim valuation as at 31 March 2011, rolled forward to 31 August 2011.

1.2 For the Committee report Mercers have added an update (referred to as the "addendum" elsewhere in this report) at beginning of the report covering:

a) the funding level to 30 September and

b) the latest proposals for changes to the LGPS

1.3 The interim valuation provides an update as to the current funding level of the Fund. It does not re-calculate contribution rates or deficit payments. **It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time.**

1.4 The Actuary will be at the meeting to summarise the interim valuation report and answer any questions. A workshop has been held prior to the Committee meeting to explain the report in greater detail, the basics of the valuation process and the proposed changes to the scheme.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the information set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates and deficits payments required from scheme employers for the three years following the valuation. The Interim valuation provides some insight into how close the current funding position is to the funding strategy set out at the 2010 valuation.

3.2 It therefore provides an indication of the scale of the potential increases / decreases in contributions required at the next valuation (due in March 2013).

4 THE INTERIM VALUATION REPORT

4.1 The Interim Valuation report from the Actuary is in Exempt Appendix 1.

4.2 The interim valuation which updates the 2010 valuation uses the same membership data (except where there have been material changes) and demographic/actuarial assumptions. However the financial assumptions are updated to reflect changes in market values as at 31 March 2011 and 30 August 2011. An addendum to the report then updates the position to 30 September 2011.

4.3 As at 31 March 2011 the funding level was largely unchanged from 31 March 2010 valuation at 83% (82% at 31 March 2010). The deficit had contracted from £552m to £532m. However, when rolled forward to 31 August 2011 the funding level fell to 74% (deficit of £914m). This deterioration was due to a fall in the value of the assets (driven primarily by falls in equity markets) and the fall in the UK gilt yields since 31 March 2011. Gilt yields are the basis for the discount rate and when yields fall (bond prices rise) the discount rate falls which increases the value of the liabilities.

4.4 The funding level has fallen further to c.69% when the valuation is rolled forward to 30 September. During September equity markets fell and there was a further fall in bond yields (as investors sought security in “safe haven bond markets” which included the UK), both of which led to an increase in the deficit (to c. £1,130m).

4.5 It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time. However any potential savings in employer contributions arising from the short term scheme changes will have to be considered within the context of the deterioration in the funding level since the last valuation.

4.6 The report also provides an analysis of the ill-health and mortality experience of the Fund since the 2010 valuation. The evidence suggests that the mortality assumption remains appropriate whereas there has been a higher level of “Tier 1” ill-health retirements than assumed in the 2010 valuation. These assumptions will be reviewed at the 2013 valuation using the trend in Fund experience.

4.7 Section 4 of the report discusses the potential impact on the Fund in terms of contribution rates and cash flows of the possible changes to the scheme. *However, as this report was prepared before the current proposals were published the current proposals are addressed in the addendum in more detail*. The latest proposed changes will be discussed at the workshop prior to the Committee meeting. In addition, the Fund’s response to the CLG consultation paper on the short term changes is covered later on this agenda.

4.8 The Interim valuation was discussed with employers at the Investments Forum held on 25 November 2011.

5 RISK MANAGEMENT

5.1 The funding strategy is key to ensuring pension liabilities can be met in the future and therefore the strategy must be regularly monitored so that the Fund and employers are aware as to whether the current funding level deviates from the long term funding plan and the scale of any shortfall / surplus. Such information can assist employers in planning their medium term budgets and assist the Fund officers in managing those employers that pose a greater financial risk to the Fund.

6 EQUALITIES

6.1 This report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer 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	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-021

Meeting / Decision: Avon Pension Fund Committee
Date: 9 December 2011

Author: Liz Feinstein
Report Title: Interim Valuation Exempt Appendix Title: Exempt Appendix 1 – Interim Valuation

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

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

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

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 fund and employers which is commercially sensitive. 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 exempt appendix contains observations and opinions of an external consultant about the actual and expected fund performance and employee/employer contributions impacts of the performance. The response is not a LGPS regulations actuarial valuation but has been carried out at this time to give the committee an understanding with to volatility in the investment markets and the proposed changes to the LGPS.

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

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the performance of the fund has 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.

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Bath & North East Somerset Council

MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**DCLG CONSULTATION PAPER ON SCHEME CHANGES FROM 1 APRIL 2012 "TREASURY DOCUMENT PUBLIC SERVICE PENSIONS: "GOOD PENSIONS THAT LAST"**	
WARD:	**ALL**	

AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1: Consultation Response Letter

Appendix 2: Proposed Changes to LGPS 2012 and 2015

Appendix 3: Consultation Changes Examples

1 THE ISSUE

1.1 Following the Chancellor's Comprehensive Spending Review in October 2010 there was a directive that public sector pension schemes acquire savings by increasing employee pension contributions. On 7th October 2011 DCLG issued for comments, a consultation paper on the options required to achieve these savings. This covers scheme changes that cover the period 1 April 2012 to 31 March 2015.

1.2 Subsequent to this document on 2nd November 2011, the Treasury released its proposals to Trade Unions on the basic proposals arising from the Hutton recommendations. This covers potential scheme changes from April 2015 but some of the proposals allow protections from April 2012. Although comments were not asked for on this document it was felt that key issues needed to be communicated to the Treasury as this constitutes the potential future for the LGPS going forward.

1.3 Response letters have therefore been compiled on behalf of the Avon Pension Fund.

2 RECOMMENDATION

The Pension Committee is asked to approve:

2.1 The response letter in respect of the DCLG Consultation document.

2.2 A letter to the Treasury highlighting issues that Public Service Pensions document brought up.

3 FINANCIAL IMPLICATIONS

3.1 These documents will have key financial implications for the Pension Fund going forward. There is a need to ensure that the relevant Government Departments are made aware of the risks such changes may have on the Fund. The major concern is if changes result in a high level of Scheme opt outs this would have a severe adverse effect on the funding strategy and could jeopardise the Fund's cash flow position.

4 THE REPORT

4.1 The future of public sector pension schemes has been under review. which led to the Hutton recommendations, which proposed that changes should be made to all public sector schemes from April 2015.

4.2 The Treasury wants to recover monies from all public sector schemes by increasing employee contribution rates from April 2012. Representations by employers and unions were made to the Treasury to show that as the LGPS was different from the other schemes because of its funding. As a result the consultation period for LGPS was not issued until 7 October 2011.

4.3 The Treasury issued its proposed "reference Scheme" for public sector schemes and revised this on 2 November 2011. These are only proposals at this stage which could be withdrawn if agreement with Unions is not forthcoming.

4.4 The consultation document asks for comments by 6 January 2012 and Avon Pension Fund need to make representations regarding these. Although the Treasury release does not actively seek comments a response should be made as it is interlinked with the consultation. This will also ensure that all Government Departments involved in the future of LGPS are aware of our views

5 RISK MANAGEMENT

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

6 EQUALITIES.

6.1 There are no direct equality implications from this process

7 CONSULTATION

7.1 No consultation is appropriate

8 ADVICE SOUGHT

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

Contact person	*Alan South x 5283*
Background papers	*Hutton Recommendations* *Correspondence from DCLG and Treasury*
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

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AVON PENSION FUND

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Ask for: Alan South
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Our ref.: Pens/AGS
Your ref.:
Date: ?? December 2011

Dear Sir / Madam

Avon Pension Fund submission on the consultation on the proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012

The Avon Pension Fund [APF] is part of the Local Government Pension Scheme [LGPS] and is committed to participating in all discussions and consultations regarding its future. This response considers the proposals impact on the future sustainability of the fund and in particular membership implications. The administrative impacts are similarly considered. All employers within the APF have been informed of the consultation and have been encouraged to put forward their own comments.

The Avon Pension Fund recognises the underlying aims of providing a scheme that is affordable, sustainable and fair to both members and taxpayer and supports the need for change in order to achieve this across the public sector.

The key issues for the Fund arising from these proposals are;

- Increases in contributions and wider scheme proposals are inextricably linked and every effort should be made to ensure that a single coherent package of measures is proposed and the LGPS only changes once.

- Minimising opt out rates is crucial to the sustainability of the fund and given both the balance of membership of the LGPS (low paid, part time) and current economic conditions, contribution rate increases should be minimized. (Approach 2 would be more preferable than Approach 1)

- Scheme changes should be simple and easily understood to reduce the administrative burden of complex system changes and unnecessary communications.

- The proposals for contribution rate increases fail to recognise that the LGPS has already done this in 2008 as well as a myriad of other changes. The universal application of the 3.2% contribution savings fails to recognise the strides already taken by the LGPS in addressing its financial sustainability.

- Savings arising from the proposed increase in employee contributions cannot be passed back to employers without regulation and if so would only be temporary. This underlines the point that the LGPS is structurally different to all other public sector pension schemes.

Before answering the specific questions posed in the consultation, I would like to expand on the above points.

Communications
It was unfortunate that consultation in respect of the 2012 changes was issued within weeks of the Treasury's document on 2015 changes – "Public Service Pensions: good pensions that last". Whilst the two may be regarded as separate they are invariably linked and employers and members want to understand the implications of both.

The numerous press releases from both Government and Unions contain confused and misleading information which administrators are finding difficult to understand and communicate, leaving little hope for the fund member.

For example; The Treasury document on the 2015 changes contained numerous implications for the changes proposed from 2012 (e.g. protection from April 2012 if with 10 years of retirement age / 60th accrual rate as opposed to reduced accrual rates for earlier years). Of course there is still the proviso that the 2015 proposals may be withdrawn!
.
It is therefore difficult to respond to a consultation that is clearly fluid and which underlines how difficult it is to separate the two sets of proposals. **The fundamental conclusion is that DCLG and Treasury need to agree a single package of reforms with one implementation date, supported by a structured communication strategy.**

The LGPS differential
Although the Treasury have acknowledged that the LGPS is different from the other public sector schemes because of its funded nature it still fails to recognise the structural differences that exist between it and other schemes.

Many of the Hutton recommendations have already been addressed within previous LGPS changes. The DCLG has already addressed the issue of retirements at age 60 with unreduced benefits, when the rule of 85 was abolished in 2006 and, unlike other public sector schemes who retained age 60 retirements for existing members, LGPS only gave full and limited protections to members nearing retirement. Indeed any benefits accruing on service from April 2020 are only payable unreduced from age 65. Compare this to the Teacher's Scheme where a 25 year old in the scheme at 31 December 2006 has retained the right to receive their pension unreduced at age 60 on all service.

This is further highlighted by the fact that the Government Actuary does not regard the LGPS as a broadly comparable scheme for TUPE transfer with other public sector schemes. The LGPS has recently been amended to cater for Learning Skills Council Staff transferring into Councils in order to protect their superior benefits. However in any information given out by the Government, all public sector schemes are deemed as one.

On the basis that the public sector pension schemes have to generate a 3.2% contribution saving or cost reduction, It is a great pity that the efforts already taken by DCLG to ensure that the LGPS is more sustainable have not been recognised and accepted. **The cumulative impact of the 2012 and 2015 proposals will undoubtedly give rise to deterioration in membership levels due purely to affordability**.

Contrast this with the proposed cost ceiling for the schemes beyond 2015 where the civil service scheme has the highest cost ceiling percentage level but the lowest average employee contribution rate. It would seem that differences between schemes are sometimes relevant!

There is also a lack of evidence that the proposals for 2012 will actually generate savings of £900m and with the protection for lower paid members it does throw this into doubt. Moreover it is unclear what effect this will have on the Hutton recommendations if the required savings are not achieved. **This again points to the need for a single package of reforms and to further ensure that there will be no need for further revisits in the near future.**

Employer Savings

There is an expectation that employers will benefit by a reduction in contributions as a result of these proposals **but** at the 2010 valuation the APF extended recovery periods as far as is deemed prudent in order stabilise employers contributions. The current economic circumstances do not auger well for asset returns and a valuation in 2013 will leave it no choice but to increase employer rates in 2014. The Fund's actuary has already advised that any windfall savings should be used to reduce this recovery period and definitely **not reduce employer's contributions**.

This points to two clear issues; that the 2012 proposals will not generate any savings for the employer unless Government legislates for this and that even if it does the savings will be short lived as contribution rates will increase in 2014; Further savings from any new scheme proposal will need to be agreed early in order to affect the 2013 valuation. Given the economic conditions it would seem sensible to merge proposals into a coherent scheme and contemplate postponement of the 2013 valuation. Given market performance over the past decade I would go further and extend the valuation period to 5 years – 3 years being too short to reflect on the volatility of financial markets and assess underlying asset growth.

Protecting the Low paid (minimising opt out)

A disproportionate number of APF (LGPS) members are part time and low paid and the contribution basis (gross pay) for calculating contribution rates unduly puts financial pressure of the low paid and is a real deterrent to membership. With the changes taking place within Councils workforces, the number of part time members will continue to grow. The present proposals for increasing contribution rates (which are confusing) also put a disproportionate cost on a smaller percentage of the higher paid workforce – which is not the case in other public sector schemes. Hence the argument to keep member contribution rises to a minimum

Each employer within the LGPS will have a different make up of pay profiles and an employer with a high level of members with pay under £19,400 will not achieve the expected savings or if they do, it will be because the other scheme members are compensating. One of our employing bodies has 60% of its scheme members with pay under £19,400, therefore the other 40% would be expected to make up the savings.

The table below for this employer shows that both options fail to produce the required % contribution increase by 2015

	2012/13	2013/14	2014/15
	% of payroll	% of payroll	% of payroll
CURRENT	6.45	6.45	6.45
Approach 1	6.94	7.47	7.75
Difference from current	0.50	1.02	1.30
Approach 2	6.71	7.08	7.31
Difference from current	0.26	0.64	0.86

There is therefore a fine balance here between avoiding opt outs within low paid members on pure affordability grounds and preventing opt outs from mid to high earners who feel that their value for money is being compromised by the increases required on their contribution rates which are higher because of the guaranteed protections for low paid.

There is a very serious risk that increases in employee contributions, economic conditions and potential adverse decisions from the Fair Deal consultation could cause a spiralling effect on funds where membership decreases significantly bringing funds closer to maturity. This then impacts on employers costs which would be passed on to the members if it exceeds the scheme's cost ceiling and therefore creating a cycle of decline, thus making the scheme untenable.

Administrative complexity

The proposition of changes to administration and payroll systems not once but twice in short succession (2012, 2015), gives rise to serious concerns around the funds ability to maintain accurate records, collect the correct contributions and pay the right benefits. The administrative changes are

- Increasing in the number of pay-bands from 7 to 11
- Two options on the level of increases [including sharp increases on specific bands between the two options]
- More complexity for Employer payrolls in paying members correctly and providing administering authorities with the necessary information. This is a key area as timescales to produce these are reducing with the increase in HMRC requirements and career average calculations.
- Increasing employers recruitment problems where promotion could lead to very little or no net pay increase; thus removing incentive for employees.
- No consideration for members to decide their own requirements. Pay more to get higher accrual rate or in the case of low paid pay less to get less: as set out in the LGA proposals
- Either one or two changes in accrual rate before any changes for 2015 when they could change again or does this mean LGPS will be different from the other schemes and not have 60th accrual rate as set out in the Treasury proposals?

It is recognised that any new scheme will create additional complexity, if only to reflect the inherent protections inbuilt. However the vast growth in employers due to creation of academies and outsourcing are already causing administrative pressures and in order not to add to the burden, **Funds will need more powers** to compel employers to provide accurate and timely information. The act of enabling the construction of **administration strategies** and penalty regimes did not go far enough and needs

cementing with clear penalty structures for failing employers and compulsion to make necessary system changes to meet the needs of Funds. Without this the cost of bureaucracy will increase.

The questions raised in the consultation

Question 1 – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

It is unclear whether the proposals will deliver the necessary level of savings as the cost of protections has not been calculated. It is expected though that the savings will be in the right region. Unfortunately the savings objective has been universally applied and does not recognise the starting position of the LGPS and is not aligned to future Hutton proposals as the proposal is isolated at present from the main scheme reforms.

Question 2 – Are there any consequences or aspects of the proposals that have not been fully addressed?

The effect of increased contributions at a time when the country is at best in a period of low growth if not further recession is already impacting on membership numbers. The proposals need to be put in context of other measures already impacting on membership numbers, such as pay freezes, VAT increases, future increases of NI contributions due to the proposed abolition of contracting out, all of which make the LGPS more unaffordable.

Question 3 – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

Trying to cater for all categories of employee within a single package of measures is extremely difficult. However catering for the low paid in particular needs to be given separate and detailed consideration. Options to consider would be

- a reduced pension based on lower contributions and lower accrual rate
- an increase retirement age in line with state level to remove the increase in costs
- an incentive to give low paid possible reasons to stay in or join. (e g Allow early partial lump sum release.)

Question 4 - Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

There is the existing anomaly for part-timers who get assessed on their whole time pay equivalent and so if a member is earning only £15,000 but working half time they would pay considerably more contributions than a full time employee on £15,000.

The contribution rate differential between pay bands will discourage individuals from seeking promotion and equally the ability to attract high quality professionals and leaders into local government will reduce.

Consideration should be given to having contribution bands similar to income tax, by having contributions paid on each level as each band is reached. Fewer bands would then be needed and it would assist employers in recruitment in that employees being promoted would only have pension contribution increases on the amounts over the next limit rather than the whole salary being affected.

An example of how this could work

	Pay	13000	33000	97000
		Employee Contributions		
5%	Up to 15000	650	750	750
10%	15001 – 30000	0	1500	1500
12%	30001 - 75000	0	360	5400
14%	75000 +	0	0	3080
		650	2700	10730

Question 5 - Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

Fully support the current move to bring this forward earlier to prevent having the proposed scheme changes in the 2012-15 period and then again from 2015 onwards. If this also leads to a lower contribution increase and therefore less opt outs then it should be given serious consideration. The Chancellors further proposals for bringing state retirement age forward in 2026 to 67 will no doubt also have a beneficial impact on costs, if adopted across the public sector schemes.

Conclusions

- We urge that serious efforts are made to ensure that only **one single set of clear scheme changes** is introduced. **We would support bringing forward the implementation date for the Hutton recommendation changes to April 2014 to achieve this.**

- Emphasis must be placed on creating a sustainable LGPS for the long term. This must be achieved sensibly and not driven by unhelpful time constraints due to economic circumstances rather than pension scheme sustainability.

- The impact of increased contributions of any magnitude to LGPS members could result in significant scheme opt-outs due to the high numbers of part time and low paid staff and this defeats the object of the exercise. This is therefore the opportunity to make sure we cater for all the membership's needs over the long term.

- DCLG should endorse the philosophy advocated by Lord Hutton that it is not "a race to the bottom" with pension schemes.

Yours faithfully

Tony Bartlett
Head of Business Financial Services & Pensions
Bath & North East Somerset Council
Administering Authority for the Avon Pension Fund

Proposed Changes to LGPS for 2012 and 2015

	Consultation Document		Hutton Reference Scheme	
	Approach 1	Approach2	Reference Scheme	Current Offer
Accrued Rights	Protected	Protected	Protected	Protected
Retirement Age	Possibly Linked to State Pension Age	Possibly Linked to State Pension Age	Linked to State Pension Age	Linked to State Pension Age
DB STRUCTURE TYPE	Final Salary	Final Salary	Career Average Re-valued Earnings	Career Average Re-valued Earnings
REVALUATION OF CARE	Earnings	Earnings	Earnings	Earnings
ACCRUAL RATE	1/60 2012/13 1/64 2013/14 1/65 2014/15	1/60 2012/13 1/60 2013/14 1/67 2014/15	1/65 2015/16→	1/60 2015/16→
Indexation after leaving	Prices	Prices	Prices	Prices
Employee Contribution Rates	Increased over 3yrs on Pay over £15k	Lower Increases over 3yrs on Pay over £15k	Current Rate + 1.5% [Assumed]	Current Rate + 3.0% [Assumed]
Lump Sums	Optional with 12:1 commutation	Optional with 12:1 commutation	Optional with 12:1 commutation	Optional with 12:1 commutation
				Protection for members within 10yrs of retirement

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DCLG CONSULTATION PROSPECTIVE LGPS CHANGES FROM 1 APRIL 2012

Whole Time Equivalent Pay	% of WT If Part Time
£14,000	

		2011-12	Your Prospective Contribution Rate with gross monthly contributions for each of next 3 Years			YOUR ANNUAL PENSION ACCRUED FOR EACH YEAR			
			2012-13	2013-14	2014-15	2012-13	2013-14	2014-15	3yr TOTAL
		⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇
CURRENT (If No Change)	➡	5.80%	5.80% £67.67	5.80% £67.67	5.80% £67.67	60th £233.33	60th £233.33	60th £233.33	TOTAL £700.00
APPROACH 1	➡		5.80% £67.67	5.80% £67.67	5.80% £67.67	60th £233.33	64th £218.75	65th £215.38	TOTAL £667.47
APPROACH 2	➡		5.80% £67.67	5.80% £67.67	5.80% £67.67	60th £233.33	60th £233.33	67th £208.96	TOTAL £675.62

DCLG CONSULTATION PROSPECTIVE LGPS CHANGES FROM 1 APRIL 2012

Whole Time Equivalent Pay	% of WT If Part Time
£33,000	

	2011-12	Your Prospective Contribution Rate with gross monthly contributions for each of next 3 Years			YOUR ANNUAL PENSION ACCRUED FOR EACH YEAR			
		2012-13	2013-14	2014-15	2012-13	2013-14	2014-15	3yr TOTAL
CURRENT (If No Change)	6.80%	6.80% £187.00	6.80% £187.00	6.80% £187.00	60th £550.00	60th £550.00	60th £550.00	TOTAL £1,650.00
APPROACH 1		7.50% £206.25	8.30% £228.25	8.70% £239.25	60th £550.00	64th £515.63	65th £507.69	TOTAL £1,573.32
APPROACH 2		7.10% £195.25	7.80% £214.50	8.20% £225.50	60th £550.00	60th £550.00	67th £492.54	TOTAL £1,592.54

DCLG CONSULTATION PROSPECTIVE LGPS CHANGES FROM 1 APRIL 2012

Whole Time Equivalent Pay	% of WT If Part Time
£98,000	

		2011-12	Your Prospective Contribution Rate with gross monthly contributions for each of next 3 Years			YOUR ANNUAL PENSION ACCRUED FOR EACH YEAR			
			2012-13	2013-14	2014-15	2012-13	2013-14	2014-15	3yr TOTAL
		⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇
CURRENT (If No Change)	➡	7.50%	7.50% £612.50	7.50% £612.50	7.50% £612.50	60th £1,633.33	60th £1,633.33	60th £1,633.33	TOTAL £4,900.00
APPROACH 1	➡		9.00% £735.00	9.80% £800.33	11.00% £898.33	60th £1,633.33	64th £1,531.25	65th £1,507.69	TOTAL £4,672.28
APPROACH 2	➡		9.00% £735.00	9.80% £800.33	10.50% £857.50	60th £1,633.33	60th £1,633.33	67th £1,462.69	TOTAL £4,729.35

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**COMMUNITY ADMISSION BODIES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Community Admission Bodies		

1 THE ISSUE

1.1 The Fund has a significant number of smaller employers including Transferee Bodies and Community Admission Bodies (CAB). This report deals with the CABs, most of which are not guaranteed by other scheme employers. It should be noted that the majority of CABs were admitted to the Fund some years ago and therefore represent a legacy issue. Since December 2005 the Fund's policy is that any body seeking admission to the Fund as a CAB will only be admitted if a guarantee by a scheme employer is put in place.

1.2 Given the significant pressure on their financial position, these bodies, though small in number and in monetary terms, pose a risk to the Fund in terms of recovering the pension liabilities. This report sets out the Fund's policy to managing the risk and recovering outstanding debts.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the information set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The Fund currently has a deficit that was calculated at £552m at the 2010 valuation. There is a significant risk that some employers may not be able to meet their full liability especially given many of these bodies are funded by local authorities and central government. Where employers cannot meet their full liability the regulations allow for the outstanding sum to be recovered from the other bodies in the Fund.

3.2 The aggregate deficit of the CABs at the 2010 valuation was £23m or 4.1% of the total deficit (2% of the 4.1% relates to one relatively secure entity). Many of the CABs have relatively secure income streams underpinning the deficit.

4 BACKGROUND

4.1 The Fund has 22 CABs in the Fund. A CAB is generally one "which provides a public service in the United Kingdom otherwise than for the purposes of gain" or a body to the funds of which a Scheme employer contributes. These bodies can take various forms, as will be seen from Appendix 1, but one common feature is that their funding generally comes from the public sector. The security of the funding sources varies, which means that, in terms of being able to meet their pension liabilities, some bodies pose a greater risk to the Fund than others. All CAB admissions to the Fund must be approved by the Committee.

4.2 Only those bodies more recently admitted to the Fund have their pension liabilities guaranteed by a scheme employer or have a bond in place to protect the Fund. Before the Local Government Act 2000 (LGA 2000) there was uncertainty as to whether local authorities could provide guarantees to such bodies. The "well-being powers" in the LGA 2000 can be utilised to enable such guarantees to be provided in most instances. In addition, the Regulations now require a guarantee to be put in place in respect of bodies to the funds of which a Scheme employer contributes 50% or less of the total amount received by the body. In such cases the Scheme employer(s) must guarantee the liability of the CAB to pay all amounts due from it under the Regulations. Historically, there was a belief that any deficits which might arise would be both temporary and manageable. In recent years, with liabilities increasing because of increased longevity and lower interest rates and assets failing to perform satisfactorily, the situation has become fundamentally different. This has now been exacerbated by the reduction in funding available from the public sector.

4.3 Exempt Appendix 1 summarises key financial and actuarial data of each CAB.

5 FUND POLICY FOR RECOVERING OUTSTANDING LIABILITIES

5.1 The LGPS regulations are clear in the responsibility of the Fund to recover outstanding liabilities when an employing body exits the Fund. They provide as follows:-

> "Where an admission agreement ceases to have effect, the administering authority which made it must obtain—
>
> (a) an actuarial valuation as at the date it ceases of the liabilities of the fund in respect of current and former employees of the admission body which is a party to that agreement ("the outgoing admission body"); and

(b) a revision of any rates and adjustments certificate for any fund which is affected, showing the revised contributions due from that body.

Where, for any reason, it is not possible to obtain revised contributions from the outgoing admission body, or from an insurer or any person providing an indemnity or bond on behalf of that body, the administering authority may obtain a further revision of any rates and adjustments certificate for the fund, showing—

(c) in a case where that body is a transferee admission body contributions due from the body which is the Scheme employer in relation to that admission body; and

(d) in any other case, the revised contributions due from each employing authority which contributes to the fund."

5.2 Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Administering Authority will pursue an outgoing body (including liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Administering Authority will also pursue any bond or indemnity provider or guarantor, for payment where appropriate. It is important to stress that each situation is dealt with on a case-by-case basis, given the different financial situation and funding issues applying in each case and also the legal complexity and costs of pursuit of any claim.

5.3 As indicated in paragraph 5.1, any outstanding liability that is not recovered from a CAB that does not have a guarantee is met by the other employing bodies in the Fund.

5.4 In the event that a body fails and the recovery of liabilities is not economic or possible to pursue, under the regulations stated in 5.1(b), the Section 151 Officer will instruct the actuary to revise the contribution rates as necessary and notify the Committee of such action.

5.5 In notifying the Committee of the decision to instruct the actuary in 5.4, the statutory officer will take account of the policy as described in 5.2.

6 RISK MANAGEMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet their liabilities, especially when it ceases to be an employing body within the Fund. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and to support the Investments Manager in managing the financial and liability risk.

6.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund takes a number of actions in consultation with the individual bodies to obtain a form of guarantee through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation and at the same time, not unnecessarily increase the financial risk to the organisation represented by the pension liabilities. However, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or government agency) being a major factor.

6.3 In recognition of the risk posed by the liabilities to the Fund, the officers have increased the ongoing dialogue with CABs about the risk posed to their operations by the pension deficit. Meetings are held periodically with all the CABs.

7 EQUALITIES

7.1 This report is for information only.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 N/a

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.

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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-11-015

Meeting / Decision: Avon Pension Fund Committee
Date: 9 December 2011

Author: Liz Feinstein
Report Title: Community Admission Bodies Exempt Appendix Title: Appendix 1 – Community Admission Bodies (CABs)

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

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

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

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 Community Admission Bodies which is commercially sensitive to the Community Admission Bodies (CAB). 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 exempt Appendix 1 contains financial information about the specific deficits for each CAB and the Council's assessment of the risk associated with each CAB.

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

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the deficit of the Fund and the overriding risks of the CAB's has been made available on these issues – by way of the main report.

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL MINUTES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 22 November 2011 – to follow		

1 THE ISSUE

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

1.2 The *draft* minutes of the Panel meeting held on 22 November 2011 are in Appendix 1.

2 RECOMMENDATION

2.1 That the Committee notes the *draft* minutes of the Investment Panel meeting held on 22 November 2011.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 MINUTES

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

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 This report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report is for information only.

9 ADVICE SOUGHT

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

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

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Tuesday, 22nd November, 2011, 3.00 pm

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Ann Berresford, Councillor Mary Blatchford, Councillor Nicholas Coombes and Andy Riggs (In place of Bill Marshall)
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

9 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

10 DECLARATIONS OF INTEREST

There were none.

11 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

12 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

14 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

15 MINUTES: 7 SEPTEMBER 2011

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

16 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPT 2011

The Assistant Investments Manager presented the report. He highlighted three points of note:

1. Man had reduced the number of underlying managers in their portfolio, in line with the recommendations of the review of hedge funds in March 2011. This restructuring had been completed in October.

2. A letter had been received from BlackRock in response to questions about their corporate governance raised at the meeting with them on 7th September. This was attached as Appendix 4 to the report.

3. The active currency hedging programme had been implemented in July and would be fully implemented within a 12-month timeframe. Currency movements favoured the fund during the quarter and therefore the active currency hedge reduced overall return by 0.1%.

Mr Finch commented on the JLT investment report (Appendix 2 to this agenda item.) He said that market volatility had been significant during the period since 30 June 2011. There were no fundamental concerns with any manager. Aggregate manager performance as shown on page 13 of the JLT report demonstrated that diversification across different assets had added value to the Fund during the last 3 months. The second graph on page 13 demonstrated the differences in returns generated by the equity managers over the last 12 months.

Members agreed that the performance of the Fund had been reasonably good in current market conditions.

A Member asked for an update on how cash held internally (paragraph 7.4 of the cover report) had been invested. The Investments Manager replied that the amount of cash held by the Treasury Management Team had been reduced.

Before consideration of Exempt Appendix 3 (TT Peer Group Analysis) and Exempt Appendix 5 (Summaries of Investment panel meetings with Investment Managers) to the report, the Panel **RESOLVED** as follows:

> that having been satisfied that the public interest would be better served by not disclosing relevant information in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for these items because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Committee returned to open session

Mr Finch tabled a paper setting out the issues of the euro crisis and some strategic options that the Fund might wish to consider. He said that the past 18 months had been the most extraordinary from an investment perspective that he could recall. In 2010 there had been talk of the UK's credit rating being reduced, but now the UK was seen as a safe haven. The change in yields over the period, shown in Chart 1, resulted almost entirely from the Eurozone crisis. Yields had been pushed to unprecedented levels. The last time that bonds were 2.5% was after the war when yields were restricted by legislation. It was noted that the UK has benefitted from the long term structure of its debt when compared with some European countries.

Chart 2 of his paper showed that about 50% of UK exports went to the EU. Admittedly these included exports shipped to Rotterdam whose ultimate destination was outside the EU. The effect of austerity programmes and cascading debt (Italy, for example, owes €309bn to French banks), would depress EU economies and have a significant impact on the UK.

On the positive side, there were UK companies which were major global players, with diverse geographical revenue streams.

In his view speculation was not a major factor in the present crisis in the Eurozone. The fact was that a number of countries had borrowing levels that were completely out of scale with their GDP; even Germany was outside the limits set when the Euro was created. The situation was very different from the credit crisis of 2008 which was a liquidity and banking system crisis. Then corporate bonds yields had risen on credit concerns. This time corporate bond yields had fallen, but gilt yields had gone down even more. Chart 3 showed the spread between government and corporate bonds and how low the yields on UK government bonds are. Chart 4 also illustrated that, unlike in 2008, there had not been much increase in concern about the credit worthiness of companies. The price earnings ratio of equities had fallen, but this had been because of a fall in price, suggesting that there is fear about the current and future level of company earnings. Chart 5 showed the phenomenal increase in the value of long-dated government bonds. As the capital value increases, so the yield decreases and the price of government bonds impacts on the valuation of the Fund as the gilt yield is the reference rate (used in the discount rate) for valuing pension liabilities.

The discussion then addressed the question of what, if anything, should the Fund do? Should it stick with government bonds, or should it realise their capital value and invest in other assets? He recalled that some time ago the Committee agreed a tactical switch between gilts and corporate bonds which could be repeated.

In response to questions, Mr Finch said that the current crisis was very much a political one. It could be traced back to allowing countries with loose fiscal policies to join the Eurozone. He thought that yields on government bonds would continue to be low and that they could fall even further. But companies had strong balance sheets, and if the Fund was looking for an asset that would appreciate or hold value and generate a higher yield in a prolonged period of low growth, corporate bonds would be an attractive option compared to gilts.

The Chair asked about the possibility of B&NES and the other local authorities in the Fund issuing bonds, as some local authorities were planning to do. Mr Finch responded that there might be a problem with the credit rating of some local authorities. The Investments Manager said there might be statutory restrictions on the Fund investing in the bonds of the Fund's administering authority (and possibly other Fund employers). Mr Finch said that government and local authority projects, such as housing schemes, could generate good returns, but there was a shortage of capital for this at present. Corporate debt would be a safer option.

In response to a question about the impact of the government's austerity programme, Mr Finch said that the danger was that, as in Greece, tax revenues declined so that austerity turned into a vicious circle. Home ownership had underpinned a great deal of private borrowing; if people felt that the value of their

homes was decreasing, they restricted their spending, so a stabilisation of house prices would help the economy.

In response to a question about the UK's debt, he said that most was owed to the US andthe UK's biggest debtors were Ireland, Japan and Portugal, followed by Spain.

He advised that if there was to be a switch from gilts into corporate bonds, it would be best to do it fairly quickly ahead of the Christmas break if possible. The Head of Business, Finance and Pensions suggested that the Avon Pension Fund Committee should have the earliest possible opportunity to consider the issues and proposal, and that a report should be presented at the next meeting (9 December 2011). The Panel agreed in principle, given that they did not have a detailed proposal to consider and so could not put forward a substantive recommendation to the Committee.

It was accordingly **RESOLVED:**

1. To invite Officers to prepare a paper on switching from gilts to corporate bonds and to recommend to the Avon Pension Fund Committee to consider it at its meeting on 9 December 2011. In addition, the implementation of any decision to switch should be delegated to Officers.

2. To note the performance report.

17 SSGA POOLED FUNDS

The Investments Manager presented the report.

Members agreed that there was no need for immediate concern that the management of the pooled fund would suffer because of the reduction in the number of investors.

RESOLVED to recommend to the Avon Pension Fund Committee that no further action is required and that Officers will continue to monitor fund size as part of their on-going monitoring.

18 PANEL WORKPLAN

RESOLVED to note the workplan.

The meeting ended at 4.46 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 December 2011**	**AGENDA ITEM NUMBER**
TITLE:	**REVIEW OF INVESTMENT STRATEGY**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – JLT paper on tactical switch from gilts to corporate bonds Appendix 2 - JLT brief on Euro Crisis		

1 THE ISSUE

1.1 At its meeting on 22 November the Investment Panel discussed the impact of the euro crisis on the Fund's investment portfolio. The background paper by JLT for the discussion is found in Appendix 2. In this paper JLT put forward a number of options that the Fund could consider to mitigate risk within the current investment strategy, one of which is to switch between UK gilts and corporate bonds. However, as the Panel was not able to consider this option in detail at the meeting, the Panel agreed that the proposal should be considered fully by the Committee.

1.2 Appendix 1 sets out the proposal and rationale in detail.

2 RECOMMENDATION

2.1 Having considered the proposal from JLT, the Committee agrees:

(i) the recommendation from JLT to tactically switch from UK government bonds (gilts) to sterling corporate bonds

(ii) the value to be switched is (£80m c.3.2%) of Fund assets

(iii) the trigger point to reverse the tactical switch is when the corporate bond yield spread over the gilt yield falls to (1.2%).

(iv) to delegate implementation to the Officers, subject to current conditions prevailing.

3 FINANCIAL IMPLICATIONS

3.1 Transaction costs of the proposed action have been factored into the analysis.

4 BACKGROUND

4.1 On November 22 2011, the Investment Panel considered options for protecting the Fund's assets from any adverse impact of the on-going euro crisis.

4.2 In the short term, the Panel felt there was value in considering a tactical switch from gilts into corporate bonds but required further detailed information on the proposal before making a recommendation for the Committee. Given the speed at which markets are moving it was agreed to bring the proposal directly to the Committee meeting on 9 December 2011. Therefore the Panel asked Officers and JLT to present a detailed proposal to Committee.

4.3 It should be noted that the Fund undertook a similar tactical switch of £40m from gilts into corporate bonds between July 2009 and January 2010 which generated a £4m return to the Fund.

5 PROPOSAL

5.1 The proposal from JLT is for a temporary tactical switch of £80m (3.2%) of Fund assets from gilts to corporate bonds. The rationale for this is to seek to provide some protection from future rises in gilt yields (which are at historic lows) and in so doing achieve a higher yield from corporate bonds and an opportunity for capital returns should the spread between gilts and corporate bonds narrow. Selling gilts would also allow the Fund to crystallise profit from the current high price of gilts.

5.2 Appendix 1 has been prepared by JLT and sets out the proposal in full, the rationale behind it and the inherent associated risks.

5.3 The Fund's current holding in gilts as at 31October is £188m, 7.3% of assets (managed passively by BlackRock) and corporate bonds is £138m, 5.3% of assets (actively managed by RLAM). The strategic target allocation for gilts is 6% and 5% for corporate bonds.

5.4 The Fund also has £177m in UK Government index linked bonds and £78m in overseas bonds which will remain unaffected by the proposed change.

5.5 The switch would be implemented selling down the gilt portfolio managed by BlackRock and investing in the active corporate bond portfolio managed by RLAM. The alternative to investing in the RLAM portfolio is to invest in a passively managed corporate bond fund managed by Blackrock. However, this is not the preferred solution as such funds track the index and are more exposed to the most highly indebted companies which pose greatest credit risk.

5.6 The Committee is asked to consider the proposal, the amount to be switched and the trigger point for reversal of the switch.

5.7 The Committee is asked to delegate responsibility for implementation to the Officers, who will only implement if the current conditions prevail. If conditions alter, the Officers will consult with JLT and the Committee Chair.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues being considered are contained in the report.

10 ADVICE SOUGHT

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

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

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Avon Pension Fund

Tactical switch from Gilts to corporate bonds

Proposal

This paper proposes that the Avon Pension Fund (the "Fund") undertake a tactical switch from UK government bonds ("gilts") to UK corporate bonds ("credit").

The proposed amount to switch is £80million or 3.2% of the Fund. It is proposed that this position be reversed when the spread of credit yields over gilt yields falls to 1.2%.

The expected benefit of the tactical switch is £6 million. The risk of the tactical switch is that spreads widen further and do not subsequently fall.

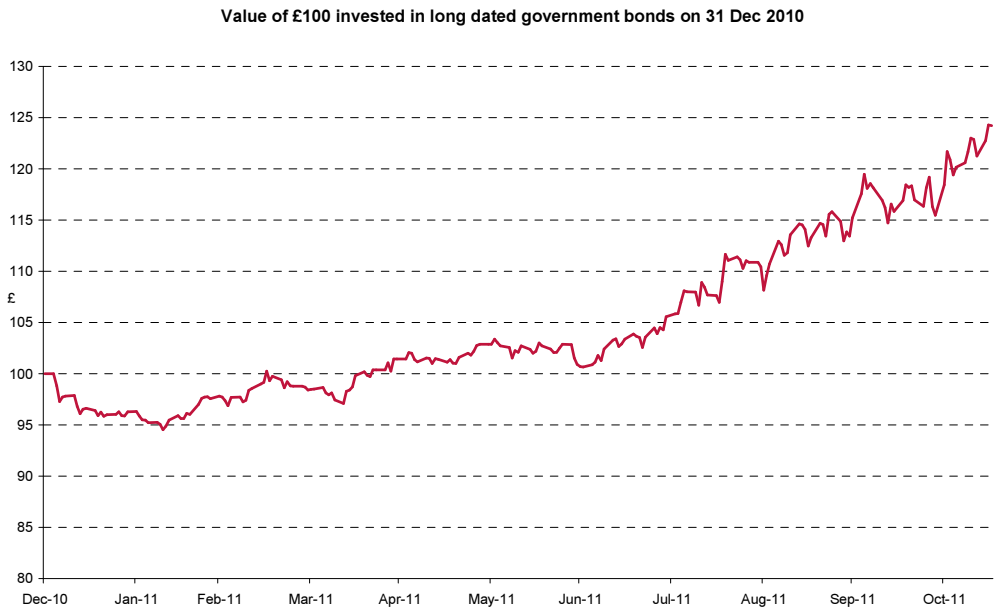
Background

In July 2009, the Fund switched approximately 2% of the Fund's total assets from Gilts to corporate bonds to take advantage of a widening of corporate bond yields relative to Gilt yields.

The position was reversed in January 2010. The benefit to the Fund of holding the tactical position out of Gilts and into credit was approximately £4 million (net of all trading costs).

Rationale for the switch

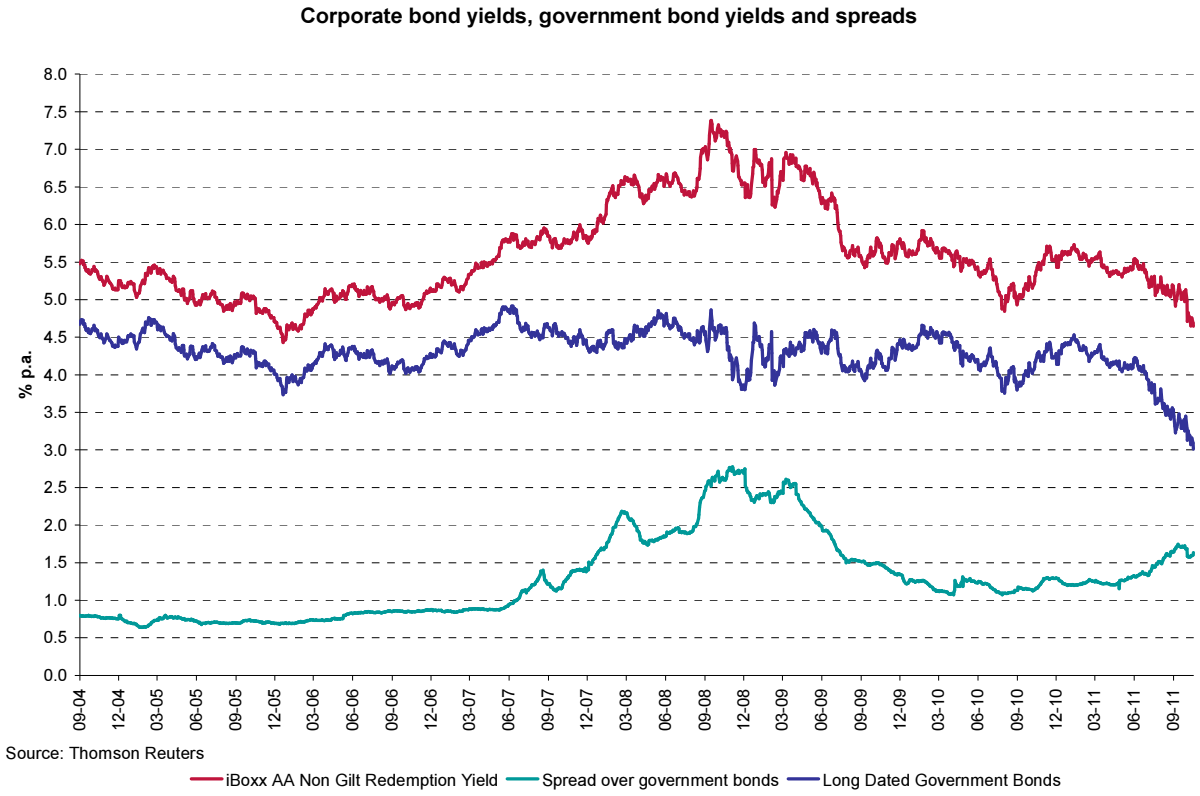
The chart below shows the increase in government bond prices and that there has been a particularly sharp rise over the past few months as a result of the Eurozone debt crisis. Consequently, this has led to government bond yields being at historic lows.



Source: Thomson Reuters

Returns on corporate bonds have also been positive over the year but not by the same extent. This has led to an increase in the additional yield available from corporate bonds relative to gilts (the spread). By taking a tactical position of switching into corporate bonds relative to gilts, the Fund is expected to benefit from any narrowing in the spread. The Fund would also gain from the increased income available from corporate bonds (due to their higher yield).

The chart below shows the yield from corporate bonds, yields from gilts, and the spread between these. The time period shown is from 30 September 2004 to 24 November 2011.



Over the period shown in the chart, the spread of corporate bond yields over gilts was at its lowest of 0.6% in February 2005 and its highest point of 2.8% in December 2008. Over the period shown in the chart, the average of the spread of corporate bond yields over gilts was 1.3%, albeit heavily influenced by the period between Q3 2008 and Q2 2009. As at 24 November 2011, this was 1.7%.

When the tactical position was taken in July 2009 the spread was at 1.6%. When it was reversed in January 2010 the spread was 1.2%. As can be seen from the chart, the current spread has only recently increased to this level.

Narrowing of the spread

When the tactical switch was undertaken in 2009, gilt yields and corporate bond yields were both higher than they are today. The expectation was that the majority of the narrowing of the spread would occur through a fall in corporate bond yields.

The increase in spread in the current market has occurred, by contrast to in 2008 and 2009, due to the fall in government bond yields, which has been driven by the debt crisis in the Eurozone: UK government bond yields have become a 'safe haven' for investors which has driven the bond yields down. Indeed, corporate bond yields have also fallen as investors feel that companies have relatively sound financial health (compared to 2008 and 2009). As such, there is a greater expectation that any narrowing of the spread on this occasion will occur primarily through a rise in government bond yields due to their yields currently being at historic lows.

There are of course a number of ways in which the spread could narrow but the above shows that the expectation is that the benefit to the Fund will be through selling assets (gilts) that will fall in value, rather than the previous switch where the expectation was for the corporate bonds being bought to increase in value. Corporate bonds may also fall in value on this occasion given that they have recently experienced increases, but this is expected to be by less than the fall in government bond prices (and hence the yield spread narrows) due to the large relative increases which have been seen in government bond prices compared to the increase in corporate bond prices.

Options to be considered

The previous chart shows that the spread has been as low as 0.6% over the period considered. However, in the current environment we do not expect the spread will move below 1%. Furthermore, there remains a risk that spreads could widen.

The following table illustrates the potential monetary benefit and cost of undertaking a tactical switch should spreads widen or narrow by 0.5%. For these calculations, we have assumed that gilts have a duration of 15 years, and that the corporate bonds have a duration of 8 years. We have included in the table different scenarios for the spread between yields compressing, as there are a number of different possibilities.

1. Spreads narrow: if this occurs then the Fund is expected to benefit.
2. The spread between corporate bond yields and gilt yields remains the same: the Fund will again be expected to benefit in this situation due to the increased income or yield that will be received on the corporate bonds.
3. The final scenario is that the spread will widen and remain wide. If this occurs then the Fund is expected to incur a loss as a result of the switch.

Amount switched out of gilts and into corporate bonds	Impact of 0.5% narrowing of spread		Impact of 0.5% widening of spread	
Assumed reason for change in spread	gilt yields rise	corporate bond yields fall	gilt yields fall	corporate bond yields rise
3.2% of Fund assets (c. £80m)	£6,000,000	£3,200,000	-£6,000,000	-£3,200,000
1.6% of Fund assets (c. £40m)	£3,000,000	£1,600,000	-£3,000,000	-£1,600,000

Assumes that government bonds switched are long dated, with a duration of 15 years, corporate bonds are all maturities with a duration of 8 years.

Amount to switch: with respect to the amount to be transferred, to be able to take advantage of the benefits of a tactical switch, it is important to consider switching assets at a meaningful level whilst still having regard to practicalities and not unduly exposing the Fund to perceived risk. The Fund's strategic allocation to fixed interest gilts is 6%. We recommend the transfer of 3.2% of the Fund's assets, or approximately one half of the current gilt exposure, in order to achieve these objectives. We have shown the impact of switching a similar amount to the previous switch, and the impact of doubling that amount.

Corporate bonds to purchase: it makes sense to apply the proceeds from the gilts sale to the Royal London Corporate Bond Fund that the Fund currently manages. RLAM are an active corporate bond manager, and will aim to avoid potential defaults and those bonds that will be downgraded and therefore avoid being a forced seller within the corporate bond market (very few bonds go direct from investment grade status to defaulting). This is clearly an attractive feature. The charts at the end of this note show that there are significant differences in yields depending on credit quality. An active manager is expected to be able to take advantage of these differences. Furthermore, Royal London may be able to take the gilts "in-specie", thus saving on transaction costs of the switch.

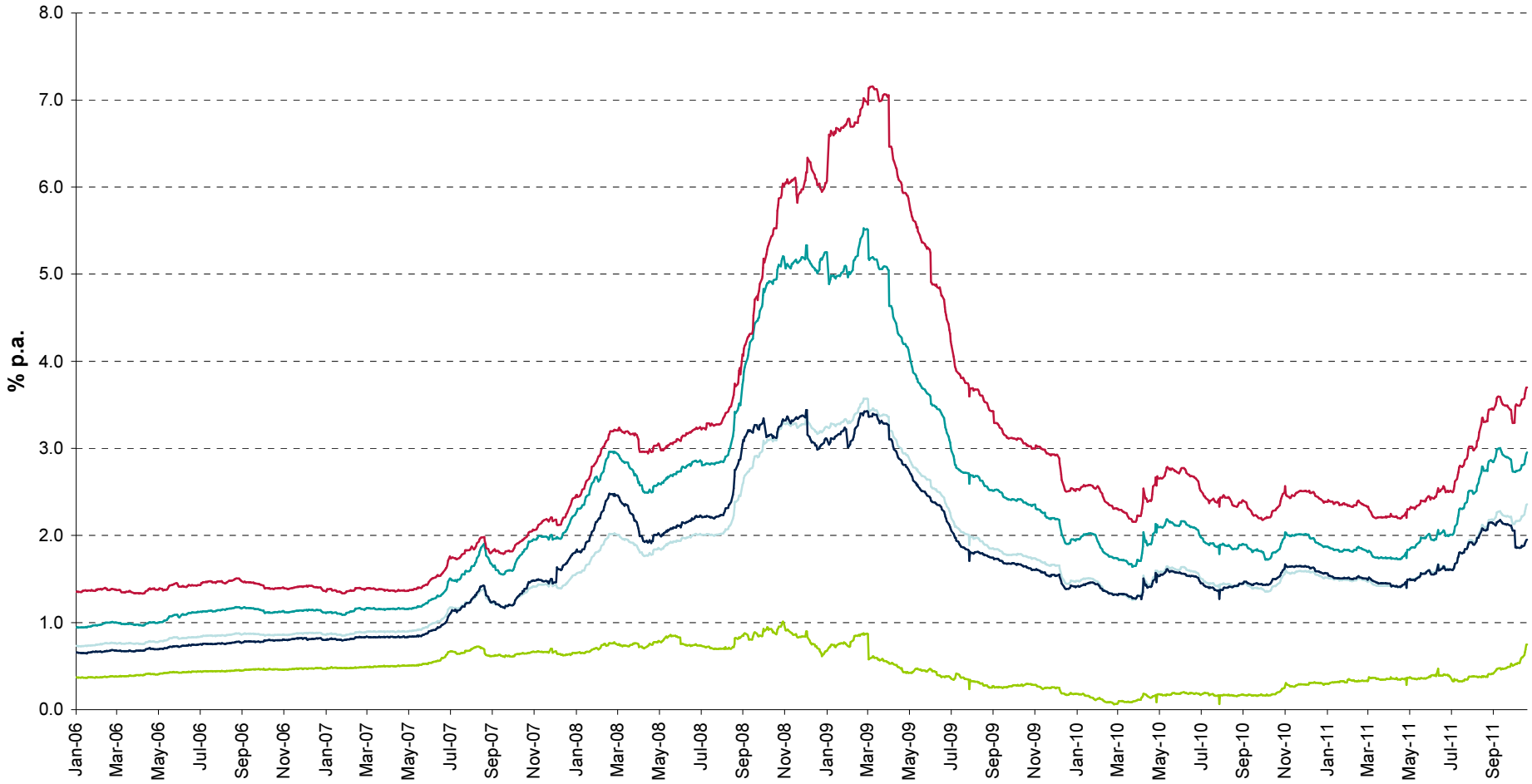
When to implement: given the current level of spreads it would be desirable to make the switch as soon as possible. However, it may not be possible to undertake the trade before Christmas and it is not advisable to trade close to or over the Christmas period due to lack of liquidity. It may therefore be necessary to undertake the trade in the new year, taking account of any changes in conditions between the date of this report and implementation.

The trigger for reversal: as noted above, we believe spread will not fall below 1% in the foreseeable future. We therefore believe a fall to 1.2% as a trigger for discussion and reversal of the trade allows a material profit to be banked on the switch. Whilst spreads may fall further, waiting for this could mean missing an opportunity to reverse the trade.

Summary of recommendations

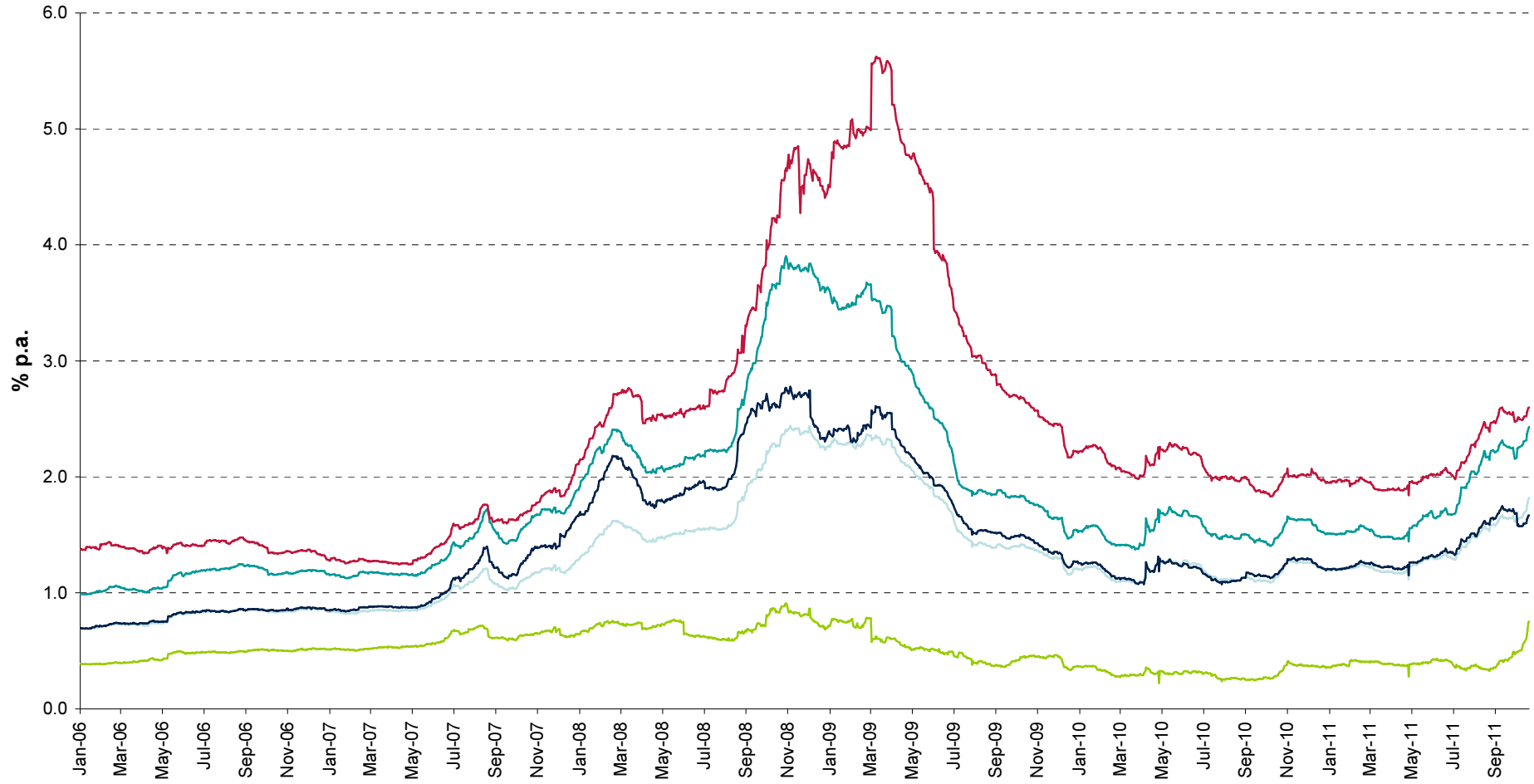
1. That a tactical switch from fixed interest gilts to UK corporate bonds be undertaken.
2. That the gilts be transferred, ideally in-specie from BlackRock's portfolio and invested with RLAM.
3. That 2% - 3% of the assets of the Fund be transferred.
4. That the Committee consider setting the trigger for reversing the tactical switch to when spreads fall to 1.2%.

Additional Yield over Gilts - All Maturities



Source: Thomson Reuters

Additional Yield over Gilts - Over 15 Years



Source: Thomson Reuters

The Eurozone Crisis

Background

Since the beginning of August 2011, it has been clear to the markets that the previously agreed bailout for Greece was going to be insufficient to stop Greece defaulting on its debt obligations. Whilst a complete bailout could be afforded by the Eurozone countries, they could not afford to also bail out Spain and Italy, should either of these countries require help in meeting their sovereign debt obligations. Italy in particular has been highlighted most recently due to its cost of borrowing having risen significantly - this raises serious concerns for 2012 when Italy needs to refinance some £300bn of debt - borrowing at the rates implied by markets today would not be sustainable for Italy.

Withdrawing from the Euro for either Greece or Italy will be particularly painful for the entire global economy (see the appendix to this note). Whilst there are still certain market and financial options open in theory to address the situation, the politics makes using these tools extremely difficult. For example, the likes of Germany and France would not be prepared to allow a change in rules so that Greece or Italy could issue debt that they are jointly and severally liable for, even though in the case of Italy this may bring borrowing costs down to sustainable levels. As another example, German citizens are unwilling to further bail out Greece due to its reluctance and ineffectiveness at implementing austerity measures that have been imposed on Germany several years previously (such as increasing the state retirement age).

Europe is a key area for world trade and whilst the fiscal position in aggregate looks favourable compared to the UK and the US, the current uncertainty is causing negative sentiment and inhibiting growth. This comes at a time when growth rates in some emerging markets are falling, partly as a result of central bank intervention to address over heating and inflation, and when the economic recovery in the US has all but stopped.

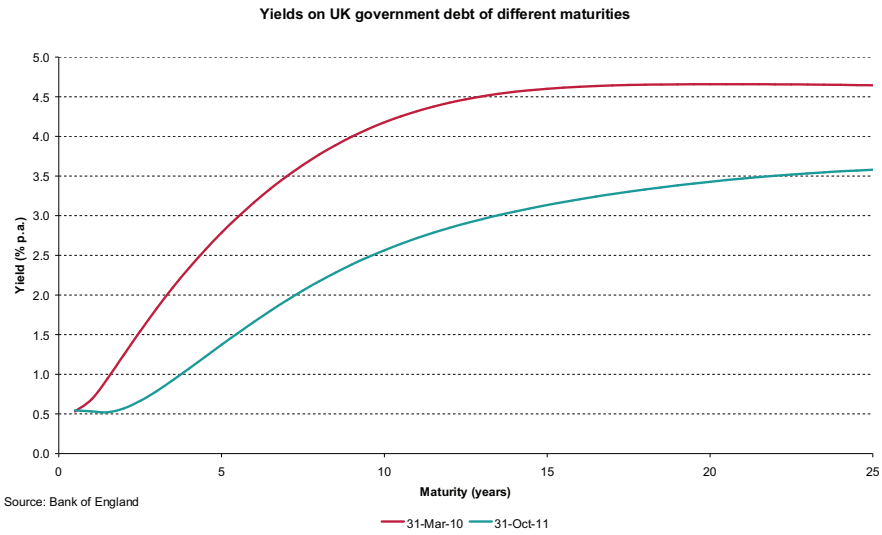
Many are now fearing that there will be another recession and / or a prolonged period of low global economic growth. This is in contrast to the sort of recovery that often follows recessions that was expected following the banking crisis of 2008. Indeed, many European banks are still in crisis due to their exposure to sovereign debt of these troubled countries, putting a further squeeze on credit which impacts growth.

The UK

What does this mean for conditions in the UK? During the beginning of 2010, the UK was warned over its coveted AAA rating for borrowing due to large debt relative to its GDP, a large structural deficit (the annual budget requires additional borrowing) and an unclear plan of how the debt and deficit would be reduced. The austerity measures introduced since the new coalition government came to power have not necessarily been popular with all parts of the

public and their success or otherwise cannot be judged for some time. However, if the rate at which the UK government can now borrow is anything to go by, the market has given the UK's plan an overwhelming thumbs up, as illustrated by the chart below. This is of course more than just a resounding endorsement of the UK government's finances, it is also a reflection of investors' flight to safety away from risky assets, such as equities.

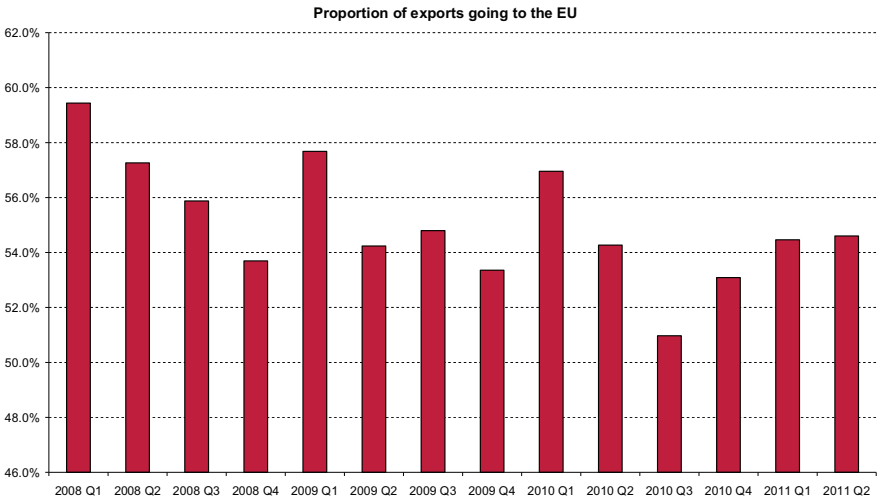
Chart 1



Source: Bank of England

However, the UK is not an isolated area unaffected by other parts of the world. The situation in Europe is especially relevant to the UK given the amount of trade the UK does with Europe - should economic conditions deteriorate in Europe, they will also deteriorate in the UK. The following chart shows what proportion of UK exports go to the EU.

Chart 2



Source: HM Revenue & Customs

Whilst this might be slightly overstated due to some exports going to Europe en route only, it shows that the UK economy is heavily dependent on conditions in Europe. The next largest destination is the US, with 13% of UK exports for 2011 to date (to end August). The largest destination for exports outside of Europe and the US is India, being responsible for 1.5% of exports to date for 2011.

Resolving the crisis

As can be seen from the above, it is very much in the UK's (and the global economy's) interests for Europe, and the Eurozone in particular, to address its issues. Dominating headlines has been the impact of austerity measures as indebted countries attempt to repair their balance sheets - from violent demonstrations on the streets of Greece to fights in Italian parliament.

So, if these indebted countries reduce their spending will it resolve the issue? Unfortunately not. A government or country needs to balance spending with revenues. The difference can be used to pay debt or invested elsewhere if a surplus, whilst any deficit needs to be financed by borrowing. So, reducing spending is only one part of the equation and all governments' budget reducing plans have to rely on an increase in tax receipts, which will only occur if there is growth. Unfortunately, because reducing spending reduces demand in the economy, it will also reduce tax receipts and therefore there has to be greater growth from the private sector.

Clearly there is a balance to be struck here but finding that balance is difficult, particularly in an environment where uncertainty makes consumers unwilling to spend and companies unwilling to invest.

The above paints a bleak picture and is why many are predicting a prolonged period of low economic growth.

What does this mean for companies?

The Avon Pension Fund is particularly exposed to the general health of companies through its investments in equities and corporate bonds, despite the fact that exposure to any one company is limited by holding highly diversified portfolios. During the financial crisis of 2008 equity prices and the prices of corporate bonds fell significantly and many companies feared they would collapse, indeed many did.

This crisis has been caused by government indebtedness rather than the indebtedness of banks, consumers and companies (although there is still overhang for each from the crisis). However, companies also rely on demand from consumers to purchase their products and services - does this current crisis mean that there will be also be an increase in defaults and bankruptcies within the private sector? The simple answer is yes, but the extent to which this

will occur is debatable. Since the 2008 crisis, companies (especially large global companies to which the Fund will be exposed to through equities and corporate bonds) have been reducing their leverage, cutting waste and generally getting leaner. This has made them much more resilient to the current downturn and, in contrast to daily negative news regarding sovereign debt, reported earning and profits have generally met or exceeded expectations (not in all cases of course).

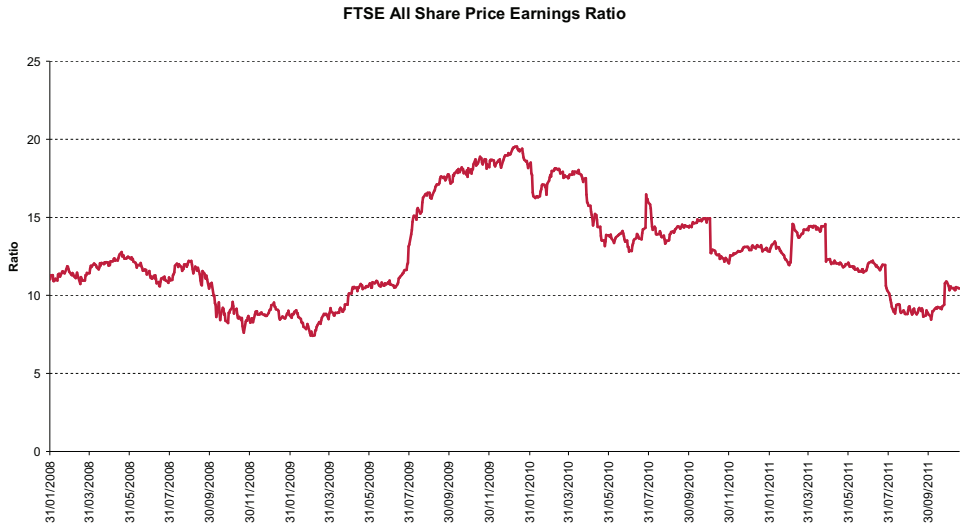
An example of the contrast to 2008 is the impact on corporate bond prices. The graph below shows corporate bond yields from the end of 2006 to the end of October 2011. It is true that the extra return from corporate bonds over government bonds has increased - a sign of risk aversion and concern of credit - but unlike 2008 the actual borrowing costs for companies in general has decreased.

Chart 3

Source: Thomson Reuters

The above suggests that there is not a significant increase in concern over the credit worthiness of companies. However, this in contrast to the impact on equities, which have seen significant falls over the past few months. It was mentioned earlier that earnings of companies had appeared to hold up well. The following shows the ratio of the price of UK equities to earnings. An increase in this measure means that equities appear to be more expensive relative to previously and vice versa.

Chart 4



Source: Thomson Reuters

The chart above shows that the ratio has fallen, suggesting that equities have become relatively "cheaper" than they previously were. However, an increase in price is not the only way for the ratio to increase. The fact that it has recently fallen suggests that market believes there is a risk to either the current level of earnings of companies, or that the assumption for growth in earnings has reduced. This is consistent with the picture painted at the beginning of this note regarding concerns over the impact on consumer demand from the current market concerns.

Are there any prospects for growth?

Reading the commentary above, one can be forgiven for thinking the economy and markets are only going to get worse. This is not true. It has already been stated that the finances of the Eurozone on aggregate are reasonable compared to other countries. At the beginning of the year, sentiment of the Eurozone was positive. Strong growth in Germany and France was providing a reasonable growth rate for Europe as a whole. Growth in Germany in particular was driven by growth in their emerging market exports.

It was accepted that the UK and US would feel the pinch of austerity and households continuing to deleverage, yet both were seen to be recovering and the prospect of a "double-dip" recession looked more remote. Whilst the possibility of recession has no doubt increased, there are positive signs in some sectors and regions. Companies, having cut costs, will have to invest and hire to deal with even moderate growth, which will feed through to other parts of the economy as more people in work will demand more goods and services.

The emerging market growth story is also an important factor. Whilst growth may have slowed and there are concerns over inflation, many countries have much healthier balance

sheets than their developed counterparts and so are not burdened to the same extent by debt. These countries cover huge populations (such as India and China) and a rapidly growing middle class will increase demand for goods and services that will ultimately benefit the world economy.

This dichotomy of prospects can be seen in the volatility of equity markets. Values have fallen overall in previous months but when, for example, there are indications that European politicians are working effectively to resolve their problems, the subsequent rises in equity markets are significant (albeit to a level still significantly below the peaks reached in 2011).

Can the Fund protect itself from the current economic concerns?

Whilst equities have fallen recently, they are likely to remain volatile in the current climate and could fall significantly further. The Fund could therefore sell its equities and retain cash, for example, to protect the capital value of the Fund. However, this would significantly affect the expected return of the Fund. Also, given the value of the equities has already fallen, the Fund would want to benefit from an increase in equity values which could occur if sentiment improves.

A temporary strategy of selling equities now to purchase them later is extremely risky as the price in the future could be significantly higher and timing can be crucial - a strategy of selling low and buying high is not advisable!

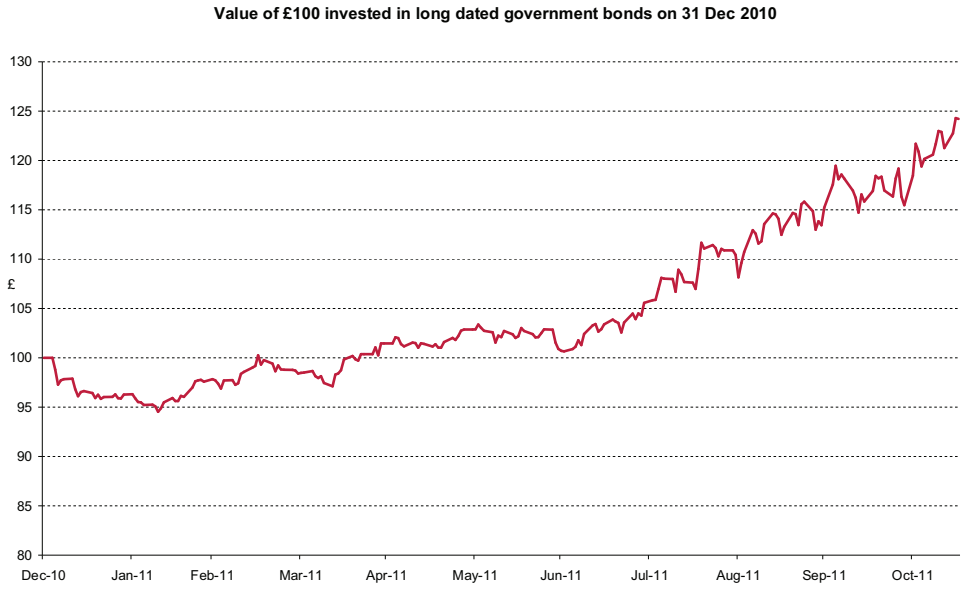
The Fund has already protected itself to some extent by diversifying away from equities. There is a 10% strategic allocation to each of property and fund of hedge funds, both have protected value relative to equities over the past few months.

There are specific contracts or strategies that the Fund could use to protect it from further falls in equity markets but still allow the Fund to benefit from price increases. For example, the Fund could purchase a **put option**. This would give the Fund the right to sell equities at a level specified in the put option, thus protecting the Fund from any falls below this level However, such strategies are currently extremely expensive given current market volatility and therefore further falls would have to be even greater than the cost of implementing the strategies for the strategy to be profitable.

The impact on and prospect fo UK government bonds

The chart earlier showed the fall in government bond yields. This corresponds to an increase in government bond prices and the chart on the following page shows that there has been a particularly sharp rise over the past few months.

Chart 5



Given this recent, sharp increase in bond values, are the Fund's UK government bond holdings now in danger of falling in value? Should yields return quickly to previous levels then there would be a sharp fall in values. However, there is a general expectation that interest rates and government bond yields will remain low for a prolonged period of time, especially given the current economic uncertainty.

Whilst the prospects for a sharp fall may not be a central scenario, current bond yields mean that the return from government bonds will be low unless there is a further fall in bond yields from the already historically low levels. For example, chart 1 shows a yield of 2.5% if lending to the government for 10 years - that is, your return from a government bond that matures in 10 years would be 2.5% p.a.

Should the Fund consider selling its UK government bonds for an investment that is expected to provide a better return? The reasons for such a move are clear - that there is a risk of rising yields (falling prices), and the low expected return. However, there are also reasons to maintain the investment: the change in the value of UK government bonds provides a match to the change in the value placed on the Fund's liabilities, although this matching is quite limited given the small allocation to UK government bonds. The bonds also provide diversification from the Fund's growth assets, as they have tended to rise in price at times when equity markets have fallen.

One possible compromise is to make a switch on a tactical basis to corporate bonds. Chart 3 shows that whilst corporate bond yields have also fallen, they have not fallen by as much as government bond yields. The Fund made a profit of approximately £4m from making a switch (of 2% of the total Fund assets) from government bonds to corporate bonds and subsequently

reversing that switch in 2008/2009, although the difference in corporate bond and government bond yields was larger than it currently is.

Prolonged low economic growth

Whilst the Fund may be able to withstand this equity market volatility in the short term, it also needs growth in the long term to be able to meet its obligations and pay members their benefits.

If there is to be a period of low economic growth, which as explained earlier is a real possibility, should the Fund look to other asset classes to generate the required returns? The following is a list of asset classes that may provide an attractive risk adjusted return profile in these circumstances, although any decision on whether to invest in these opportunities would need to be considered in the context of the Fund's overall investment strategy.

- Corporate bonds: we have noted earlier that the fall in corporate bond yields has not been as great as the fall in government bond yields (see chart 3) and therefore they may appear relatively more attractive than government bonds given the comments of the relatively healthy state of private sector companies (at least compared with 3 years ago).
- Overseas infrastructure: many parts of the world are still growing and developing their infrastructure. The governments of these countries rely on private investment as well as public funding and therefore returns can be attractive, particularly for long term, stable investors. This is perhaps in contrast to UK infrastructure, where austerity means that there will be fewer projects and those that are undertaken may have a much lower expected return than available elsewhere.
- Residential property: a housing shortage and difficulties in obtaining mortgages have meant that rents on residential properties have generally held up well. Investment opportunities that allow individuals to purchase, or work towards purchasing their own home, have also become popular.
- Secured loans: whilst generally of a lower credit rating than the Fund's current investment grade corporate bonds, the relatively healthy condition of companies as discussed above may make current prices and yields on these loans look attractive.
- Income equity investing: whilst a number of companies will be affected by a reduction in demand, some have resilient or non-cyclical earnings, particularly global leaders. This approach focuses more on returns from income generation than capital returns. Given the recent fall in equity prices, some of these companies look relatively more attractive as an investment.

We look forward to discussing this report.

Avon Pension Fund

Greek default within the euro is the only real option

By Robert Jenkins

FT, 8th November 2011

It was a possibility feared but unspoken – until last week. Suddenly a Greek exit from the euro was on the table. “Are you in or are you out?” Many Europeans no longer care. They should. Their leaders do. Here is why.

Greece will restructure. It can do so “within the euro” or it can do so “outside the euro”. The difference is crucial. If you already understand the distinction, stop reading here. If not, you may soon wish you had. For here is how an exit of Greece from the eurozone would play out:

1: The Greek cabinet decides an exit. Rumours begin to circulate. Greek citizens withdraw their euro deposits while they are still euros and not drachmas; supplies of banknotes run short; businesses shift their euro balances abroad. Foreign lenders to Greek businesses cancel credit lines. Banks close their doors.

2. Following an emergency cabinet meeting, the Greek government announces the new drachma. Capital controls are imposed and border patrols dispatched to enforce them. Public sector debt is redenominated in local currency. The value of the drachma plunges. Greek inflation soars.

3. Disputes erupt over private sector debt (for example a German bank’s loan to the Greek subsidiary of a multinational such as BMW). Is the obligation still a euro loan or is it now drachma-denominated? If it is a drachma loan then the German bank has a problem – a drachma asset worth a fraction of its euro book value. If, on the other hand, the obligation remains in euros then both bank and company have a problem as the Greek borrower now has a euro loan which it must service from depreciating drachma income.

4. Contagion commences. Portuguese citizens worry that it might happen there. Portuguese depositors begin to withdraw euros for fear they will soon be escudos. Companies in Portugal transfer funds abroad as a precaution. Banks close. Soon, similar scenes occur in Ireland with echoes elsewhere along the Mediterranean. Banks cease dealings with their “peripheral” counterparts.

5. Confusion mounts over the magnitude of European bank exposure to the private sector of the periphery. Trading with and between Europe’s banks stops. Bank stocks crater and haven assets rise. In response to an inward flood of capital Switzerland imposes punitive negative interest rates on non-resident deposits.

6. Bank lending across the EU ceases. Economic activity halts.

I could go on but you get the point. It is not a pretty picture. Let me just add the fact that European banking exposure to the private sector (corporations and households) of the

“peripherals” is a multiple of that to the public sector (government debt) of the area. These numbers are not secret. They have appeared in the Financial Times.

The associated risks are what used to be called cross-border risks – a term well known to US bankers of a certain age who once recklessly lent dollars and pesos to the Mexican public and private sector – only to discover that sovereign risk involved not only the risk that the sovereign might not pay but also that the private sector might be prevented by law or currency changes from doing so.

Banks in Europe can be forgiven for making this mistake. The advent of the eurozone was to have abolished the notion of cross-border risk, n’est-ce pas? Was not a Munich bank lending to BMW Athens now akin to a New York bank lending to General Motors in San Francisco? That was the idea. Seemed sound, right? It is, if the eurozone hangs together.

A number of senior officials understood this early on. Others have taken time for the implications to sink in – so focused has been everyone’s attention on sovereign bond-related exposures. This explains the slow but predictable shift in rhetoric: from no default to “orderly default”, from default to “default within the euro” and more recently, “we will defend the euro at all costs”.

Yes, the European leadership has grasped the gory details. They must now share them with their constituents. The peoples of northern Europe need to understand that their interests lie not in hounding the Greeks out but in keeping them in.

And referendum or no, the Greek government must explain the consequences that a Greek exit from the euro would have for the Greek economy and its citizens. A Greek default within the euro is manageable and will be managed. Greek default outside the euro involves risks to a different order of magnitude.

This issue has been the elephant in the room – visible for all to see should anyone care to look. For a long time no one cared to. No one wanted to. Now they must.

Robert Jenkins is an external member of the interim financial policy committee of the Bank of England. He writes in a private capacity

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 December 2011**	**AGENDA ITEM NUMBER**
TITLE:	**RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

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

1.2 The Panel has held one meeting since the September 2011 committee meeting and the recommendations from the Panel are set out in this report. The minutes of the Investment Panel meeting provide a record of the Panel's debate before reaching any recommendations. These can be found in an earlier agenda item.

1.3 Following a reduction in the size of the SSgA pooled funds in which the Avon Pension Fund (APF) invests in, the Committee expressed concerns, and requested the Investment Panel consider the potential impact on performance and costs due to smaller economies of scale, and to seek reassurance from SSgA of their continued commitment to these funds.

2 RECOMMENDATION

2.1 **That the Committee agrees the recommendation from the Investment Panel regarding the SSgA Pooled Funds:**

(i) no further action is required and that Officers will continue to monitor fund size as part of their on-going monitoring

3 FINANCIAL IMPLICATIONS

3.1 There is a potential impact on costs should there be any change to the investment manager structure. Careful analysis would be undertaken on the impact of any change in costs before any changes would be made.

4 BACKGROUND

4.1 Following the request by the Committee to consider the potential impact of the reduction in size of the SSgA funds, the Investment Panel received a presentation from SSgA at a workshop on 20 October 2011 and subsequently considered a paper on the issue at the Investment Panel meeting on 22 November 2011.

4.2 SSgA provided information on the potential impact on costs and performance, their commitment to the funds and the overall strategy they employ. They also outlined the current breakdown of assets under management and the reasons behind the fall in amount managed in enhanced indexation strategies (the SSgA funds in question fall under these strategies).

4.3 The Panel were satisfied that:

(i) The APF was not affected by the costs of other investors leaving the funds, and the impact on on-going administration and management costs of a smaller fund do not negatively impact remaining investors.

(ii) Performance would not be adversely affected by the reduction in fund size as the portfolio models are all generated from the same underlying quant process.

(iii) The funds in question are still of a size that is considerably above the size at which SSgA would begin to question commercial viability and therefore it is very unlikely that while the Fund continues to be an investor SSgA would seek to close the funds. Also, given SSgA's commitment to their enhanced indexation strategy the Panel felt it unlikely that SSgA would stop supporting the development of the model (from which the funds the APF is invested will continue to benefit).

(iv) SSGA manage other regional enhanced indexation funds tailored for individual clients or group of clients (such as a managed pension fund series for UK pension funds) and recognise that this is required in order to provide appropriate investment vehicles.

5 CONCLUSION

5.1 The Panel were reassured that SSgA remained committed to the pooled funds and that performance would not suffer from a reduction in resourcing or from a negative impact on costs.

5.2 Given the minimal impact of the reduction in size on costs and performance, the low probability that SSgA closes the funds, and the dis-advantages associated with alternative options, it is recommended no further action is taken and that

Officers continue to monitor the size of the funds as part of their on-going monitoring.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues being considered are contained in the report.

10 ADVICE SOUGHT

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

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

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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**9 December 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 Sept 2011**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Exempt Appendix 3 – Summaries of Investment Panel meetings with Investment Managers Appendix 4 - Euro and European Financials exposure		

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 30 September 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 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 trends in 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 10 to 15), the investment managers (pages 16 to 36) and a commentary on investment markets (pages 5 to 7). In the section on the Fund (page 10), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

4.2 The Fund's assets decreased in value by 0.8% over the previous 12 months and by 7.9% (£213m) in the quarter, giving a value for the investment Fund of £2,488m at 30 Sept 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 30 Sept 2011**

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	-7.9%	-0.8%	6.7%
Strategic benchmark *(Fund relative to benchmark)*	-8.5% *(+0.6%)*	-1.3% ***(+0.5%)***	5.6% *(+1.1%)*
Customised benchmark *(Fund relative to benchmark)*	-8.0% *(+0.1%)*	-0.8% ***(=)***	7.2% *(-0.5%)*
Local Authority Average Fund *(Fund relative to benchmark)*	-9.3% *(+1.4%)*	-1.2% ***(+0.4%)***	5.9% *(+0.8%)*

4.4 **Avon Pension Fund**: Quarterly return driven by negative returns from all equity markets, which offset positive returns from bonds and property with hedge funds producing a zero absolute return. Annual return driven by same factors, with the only exception being small positive returns in Japanese and North American equity markets over the year.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Quarterly relative outperformance driven by Fund benefitting from being overweight bonds (versus the benchmark) and the overseas equity and hedge fund managers outperforming their industry benchmarks. Annual outperformance resulted from being overweight bonds and from the Fund's overseas equity managers outperforming industry benchmark returns over the year.

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):** Underperformed the benchmark over the year, with underperformance of TT, Schroder Equity and 3 hedge fund managers more than offsetting outperformance by Jupiter, Invesco, Genesis and Partners. The other managers performed broadly in line with their benchmarks.

4.7 **Versus Local Authority Average Fund**: Annual relative outperformance driven by Fund's lower than average allocation to equities which performed negatively over the year, and higher than average allocation to hedge funds and property which provided protection from equity losses. A small overweight position in bonds which performed well also added to the outperformance.

4.8 Since the end of September global equity markets have been volatile but have recovered slightly with the FTSE All Share index rising by c. 6% (to 10 November). In contrast, the total return for the Over 15-year Gilt index was c. 7% during the same period. The Fund value is estimated to be c. £2.49bn, marginally higher than at 30 Sept 2011. These market moves impact the funding position and this is discussed in Section 6 below.

B – Investment Manager Performance

4.9 A detailed report on the performance of each investment manager has been produced by JLT – see pages 16 to 36 of Appendix 2. Their report does not identify any additional performance issues with the managers.

4.10 TT performance – to be updated following consideration of report at Investment Panel meeting on 22 November.

4.11 During the quarter Man have commenced a reduction in the number of underlying managers in their portfolio. This is in line with the recommendations following the review of hedge funds in March 2011.

4.12 As part of the on-going “Meet the Managers” programme, the Investment Panel received presentations from RLAM, SSgA and Invesco in a workshop on October 20, and Genesis at the meeting on 22 November. The summaries of these meetings are in Exempt Appendix 3.

4.13 Performance reporting for Partners is lagged by a quarter. However, the latest estimate for the quarter ending September 30 2011 is 0.6% which is 1.1% behind benchmark.

5 INVESTMENT STRATEGY

5.1 JLT’s report notes the current market volatility driven by uncertainty over the Eurozone and suggests that it should be considered whether any changes to asset allocation are appropriate. A briefing note addressing this will be circulated ahead of the meeting.

5.2 In addition, the analysis of the Fund’s exposure to the Euro and to European financial institutions presented at the last Committee meeting has been updated and can be found at Appendix 4. This summarises the direct exposure the Fund has to the Euro currency and European banks and insurance companies (including those not in the Euro). However, this does not include the indirect

exposure of the Fund to other companies and financial institutions that have exposure to the Euro currency or European financial institutions.

5.3 The implementation of the active currency hedging programme commenced in July and will be implemented fully within a 12 month timeframe. This quarter currency markets moved in the Fund's favour and the programme successfully passed through the large majority of these currency returns. The costs of the programme had the effect of marginally reducing overall fund return but as expected these costs were significantly less than a 50% passive hedging approach.

6 FUNDING LEVEL UPDATE

6.1 As at 30 Sept 2011 the Actuary has estimated that the funding level has deteriorated to 69%, at 31 March 2010 triennial valuation it was 82%.

6.2 Since the 2010 valuation, the value of the assets has increased by £72m (3%) to £2.5bn, and liabilities increased by £647m (20%) to £3.65bn. As a result the deficit has increased from £552m to £1,130m, with much of the deterioration happening in the last quarter. Note that the revised funding level takes into account benefit payments and contributions received during the period.

6.3 Table 2 shows the change in financial assumptions:

Table 2: **Change in Financial Assumptions**

	31 March 2010	30 June 2011	30 Sept 2011
UK Gilt yield	4.50%	4.30%	3.60%
Real yield	0.70%	0.60%	0.20%
Implied RPI inflation p.a.	3.80%	3.70%	3.40%
Inflation adjustment p.a.	0.80%	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.90%	2.60%

6.4 The reduction in the gilt yield from 4.3% at 30 June to 3.6% at end of September is the reason why liabilities have increased so significantly since June (when liabilities were estimated to be £3.3bn). More positively, implied inflation has fallen by 0.3% in the quarter which has helped offset some of the impact from the reduction in gilt yields. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

6.5 The interim valuation at the Fund level as at 31 March 2011, rolled forward to 30 September will be discussed at the Committee workshop and meeting on 9 December 2011. The Actuary will also discuss the possible implications of the changes to the scheme as a result of the (expected) Hutton proposals and the changes put forward to achieve savings equivalent to 3.2% of contributions.

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 October 2011 the Equity:Bond allocation was estimated at 72:28. Given the current market volatility and uncertainty over developments in the eurozone, officers have temporarily suspended the rebalancing policy.

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, Schroder Equity 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.

7.5 The Council reduced their limits for a number of banks due to rating downgrades and in line with the Fund's Treasury Management Policy, the Fund's limits to these banks also reduced (from £5m to £3m). However, the Fund has lent up to the previous limits when required due to the lack of other approved counterparties given current market conditions. The Fund's policy has been to maintain the minimum cash balance required for working purposes with the Treasury Management Team. Any cash in excess of working capital requirements is invested via money market funds held with the custodian.

7.6 The Officers are reviewing the Fund's Treasury Management Policy and exploring options for managing the cash more efficiently given current market conditions. Any proposals will be brought to the Committee for approval.

8 CORPORATE GOVERNANCE UPDATE

8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted: 28
Resolutions voted: 495
Votes For: 475 (95.8%)
Votes Against: 20 (4.2%)

8.2 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. LAPFF's current activity includes:

(1) **BP Investor update**
One year on from the Macondo oil spill BP updated investors on their risk management strategies, emphasising the changes made to BP's risk management of contractors – investors were reassured by plans for closer and longer term relationships with fewer contractors allowing for deeper due diligence. So far only 2 of the 26 recommendations of the Bly report have been implemented by BP.

(2) **Engagement activity:**

a) News Corp – LAPFF initiated a dialogue with News Corp in June 2010 to address the company's poor governance record. LAPFF has increased its engagement with the company in response to the phone hacking scandal and issued a public statement opposing the re-election of Rupert and James Murdoch. LAPFF will continue engagement and believes News Corp must reform its board.

b) Shell – LAPFF met the Company regarding complaints made by Amnesty International and Friends of the Earth about how Shell manages oil spill risks and engagement in local communities by its business in Nigeria.

c) Premier foods – A meeting was held to discuss improvements in approach to health, nutrition and supply chain matters. Improvements include increased disclosure, better labelling and strategies for reducing salt and fat from products, and the auditing of labour standards at suppliers.

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 only.

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	

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APPENDIX 1

AVON PENSION FUND VALUATION – 30 SEPTEMBER 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	Schroder Global	Invesco	State Street	Royal London		Schroder & Partners	Currency Hedging		
EQUITIES														
UK	234.5	13.7	109.9	93.3		13.8							465.2	18.7%
North America	111.7	7.7				47.8							167.2	6.7%
Europe	101.9	4.5				15.1		25.7					147.2	5.9%
Japan	34.3					7.5		27.2					69.0	2.8%
Pacific Rim	40.4					16.0		24.9					81.3	3.3%
Emerging Markets					121.2	20.5							141.7	5.7%
Global ex-UK							149.2						149.2	6.0%
Global inc-UK	205.8												205.8	8.2%
Total Overseas	***494.1***	***12.2***			***121.2***	***106.9***	***149.2***	***77.8***					***961.4***	**38.6%**
Total Equities	**728.6**	**25.9**	**109.9**	**93.3**	**121.2**	**120.7**	**149.2**	**77.8**					**1426.6**	**57.3%**
BONDS														
Index Linked Gilts	177.6												177.6	7.1%
Conventional Gilts	182.6	31.1											213.7	8.6%
Sterling Corporate	6.5								135.2				141.7	5.7%
Overseas Bonds	81.0												81.0	3.3%
Total Bonds	**447.7**	**31.1**							**135.2**				**614.0**	**24.7%**
Hedge Funds										212.9			212.9	8.6%
Property											189.5		189.5	7.6%
Cash	3.2	16.8	3.5	6.5		1.0					0.5	13.4	44.9	1.8%
TOTAL	**1179.5**	**73.8**	**113.4**	**99.8**	**121.2**	**121.7**	**149.2**	**77.8**	**135.2**	**213.7**	**190.0**	**13.4**	**2487.9**	**100.0%**

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

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Review for period to 30 September 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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November 2011

Avon Pension Fund

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.

Fund

- The total Fund's assets fell in value by £213m over the third quarter of 2011, to £2,488m as at the end of September 2011, marginally outperforming the benchmark, returning -7.9% versus the customised benchmark return of -8%.
- An overweight position to equities at the beginning of the quarter detracted from performance but was partially offset by an overweight position to bond assets.
- The Fund was and remains underweight to property and fund of hedge funds. Funds allocated to global real estate are still in the process of being invested by Partners.

Strategy

- The Fund's strategic benchmark return of -8.5% was driven by negative equity markets over the quarter.
- The strategic weighting to alternatives (property and fund of hedge funds) was a positive contributor relative to equities.
- Gilts produced the strongest return (14.4%) but the Fund's other fixed income assets also produced positive returns and the allocation to overseas bonds was positive relative to UK corporate bonds, returning 6.0% over the quarter compared to corporate bonds of 1.6%.
- Currency movements favoured the fund during the quarter and therefore the active currency hedge marginally reduced overall return by 0.1%. This compares well with a passive 50% currency hedge which would have detracted 0.4%.

Managers

- Despite the positive contribution of hedge funds to absolute return at the fund level, the Fund's fund of hedge fund managers underperformed their cash plus benchmarks over the quarter.
- TT International underperformed their benchmark over the quarter and more than offset Jupiter's positive relative performance over the quarter. All three of the Fund's enhanced indexation portfolios outperformed over the quarter. The new global equity portfolio, managed by Schroder, underperformed, whilst Genesis produced a strong outperformance in their emerging market mandate.
- RLAM underperformed their UK corporate bond benchmark over the quarter whilst the BlackRock passive assets successfully tracked their respective benchmarks.

Key points for consideration

- There are no fundamental concerns with either the strategy or the Fund's managers.
- Performance of the SSgA Europe ex UK Enhanced Indexation Fund should be monitored closely following a significant drop in the size of the pooled funds.
- TT should be continued to be monitored closely in light of underperformance, although such periods are not unexpected from a high conviction active manager. It is too early to draw conclusions from the relative performance of new Schroder Global Equity portfolio.
- Given the current market volatility and the drivers of that volatility - the uncertainty over the Eurozone - it should be considered if any immediate changes are required to the Fund's asset allocation, either to take advantage of opportunities for return or to manage risk.

Section Two – Market Background

- The table below summarises the various market returns to 30 September 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	-13.5	-4.4
Overseas Equities	-15.1	-4.9
USA	-11.3	2.1
Europe	-24.4	-13.6
Japan	-3.1	1.9
Asia Pacific (ex Japan)	-17.9	-11.7
Emerging Markets	-19.2	-15.3
Property	1.9	8.7
Hedge Funds	-4.7	1.8
Commodities	-9.0	4.1
High Yield	-5.4	0.6
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-3.0	-1.1
Against Euro	4.9	0.6
Against Yen	-7.4	-8.8

Yields as at 30 Sept 2011	% p.a.
UK Equities	3.66
UK Gilts (>15 yrs)	3.45
Real Yield (>5 yrs ILG)	0.16
Corporate Bonds (>15 yrs AA)	5.12
Non-Gilts (>15 yrs)	5.03

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	14.4	11.2
Index-Linked Gilts (>5 yrs)	7.8	13.6
Corporate Bonds (>15 yrs AA)	6.0	3.3
Non-Gilts (>15 yrs)	6.4	3.8

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.8	-0.4
Index-Linked Gilts (>5 yrs)	-0.3	-0.3
Corporate Bonds (>15 yrs AA)	-0.4	0.2
Non-Gilts (>15 yrs)	-0.5	0.1

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.1	5.6
Price Inflation - CPI	1.3	5.2
Earnings Inflation *	-0.1	1.6

* is subject to 1 month lag

Economic statistics

	Quarter to 30 September 2011			Year to 30 September 2011		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.5%	-0.1%[2]	0.6%	0.5%	2.8%[2]	1.6%
Unemployment rate	8.1%[3]	9.7%	9.1%	8.1%[3]	9.7%	9.1%
Previous	*7.9%*	*9.5%*	*9.2%*	*7.7%*	*9.6%*	*9.7%*
Inflation change[4]	1.3%	0.3%	0.5%	5.2%	3.0%	3.8%
Manufacturing Purchasing Managers' Index	50.8	48.5	50.8	51.1	48.5	50.8
Previous	*51.3*	*52.0*	*50.9*	*51.3*	*52.0*	*56.9*
Quantitative Easing [5]	£200bn	€0	$2,654bn	£200bn	€0	$2,654bn
Previous	*£200bn*	*€0*	*$2,654bn*	*£200bn*	*€0*	*$2,054bn*

Source: Thomson Reuters, market, Institute for Supply Management. All figures to 30 September 2011 unless otherwise stated.

"Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) Figures as at 30 June 2011; (3) Figures as at August 2011; (4) CPI inflation measure; (5) Refers to amounts announced and therefore ignores changes due to debt maturing.

Statistical highlights

- The rate of CPI inflation rose from 4.2% in June to 5.2% in September. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter, and restarted its programme of quantitative easing and unveiled plans to increase the size from £200 billion to £275 billion.
- UK retail sales saw their worst performance for 16 months in September, according to the Confederation of British Industry ("CBI"), resulting from rising unemployment, low wage growth and the high rate of RPI inflation.
- The Office for National Statistics ("ONS") reported that the number of people unemployed rose by 114,000 in the 3 months to August to reach 2.57 million, the largest increase for nearly two years. Youth unemployment hit a record high of 991,000. The jobless rate now stands at 8.1%.
- The European Central Bank ("ECB") kept interest rates on hold at 1.5% and whilst the US Federal Reserve decided against increasing the existing $2.3 trillion quantitative easing programme, it introduced a programme to swap short-term for long-term government debt in a policy called "operation twist" that is it expects to produce a similar benefit.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Sentiment for the Euro still remains negative as many analysts fear a Greek default.
- Major uncertainty about the global economic outlook and the implications of the sovereign debt crisis in the Eurozone had a significant negative impact on the third quarter equity returns in all the major regions. In the developed economies, economic growth slowed partially in response to uncertainty regarding the extent of cuts in government spending and inflationary pressures in emerging markets. The financial markets experienced high levels of volatility and we have seen an increasing correlation both within and across major asset classes.

- The FTSE-All Share Index produced a return over the quarter of -13.5% and European equities performed particularly poorly, with a return of -24.4%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. Despite the US Federal Reserve implementing another version of quantitative easing, the political impasse regarding the measures needed to make a meaningful reduction in the government deficit led to the US equity market producing a return of -11.3%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -17.9% and -19.2% respectively.
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 14.4% over the quarter. Corporate bonds produced a return of 6.0%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 September 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	30 September 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	444,003	17.8	18.0
Overseas Equities	984,380	39.6	42.0
Bonds	614,086	24.7	20.0
Fund of Hedge Funds	194,537	7.8	10.0
Cash (including currency instruments)	50,490	2.0	-
Property	186,847	7.5	10.0
Reconciling differences and rounding	13,618	0.6	-
TOTAL FUND VALUE	**2,487,961**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets fell by £213m over the third quarter of 2011 to £2,488m, resulting from negative absolute investment performance from most funds. Equities were the largest negative performer in absolute returns, with UK and overseas equities producing returns of -13.9% and -15.8% respectively. Equities comprise approximately 57% of the Fund's investments.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - There were changes made to the Fund within the allocation to fund of hedge fund managers. The allocation to Lyster Watson was removed over the quarter. The allocation to Stenham and Signet was increased and the allocation to Man reduced. The changes implemented were previously agreed as part of the review of fund of hedge fund managers.
  - The appointment of the Fund's active currency hedging manager completed early in the quarter.
  - There was some further funding of property investments over the quarter.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2011		Net new money £'000	30 September 2011	
		Value £'000	Value £'000		Value £'000	Proportion of Total %
Jupiter	UK Equities	113,139	4.2	-	99,784	4.0
TT International	UK Equities	134,814	5.0	-	113,368	4.6
Invesco	Global ex-UK Equities	170,252	6.3	-	149,203	6.0
Schroder	Global Equities	150,254	5.6	-	122,025	4.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	92,493	3.4	-	77,595	3.1
Genesis	Emerging Market Equities	147,493	5.5	-	121,308	4.9
Lyster Watson	Fund of Hedge Funds	9,257	0.3	-8,449	819	0.0
MAN	Fund of Hedge Funds	97,554	3.6	-32,454	64,657	2.6
Signet	Fund of Hedge Funds	47,157	1.7	19,000	63,366	2.5
Stenham	Fund of Hedge Funds	11,436	0.4	22,000	33,283	1.3
Gottex	Fund of Hedge Funds	53,578	2.0	7	51,603	2.1
BlackRock	Passive Multi-asset	1,267,555	46.9	-736	1,180,349	47.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	77,531	2.9	-4,001	73,847	3.0
RLAM	Bonds	134,650	5.0	-	135,155	5.4
Schroder	UK Property	126,415	4.6	-	128,641	5.2
Partners	Property	54,692	2.0	4,844	63,606	2.6
Record Currency Mgmt		-	-	-	-4,754	-0.2
Internal Cash	Cash	12,597	0.5	1,489	14,105	0.6
Rounding		-1	0.0	-	1	0.0
TOTAL		**2,700,868**	**100.0**	**1,677**	**2,487,961**	**100.0**

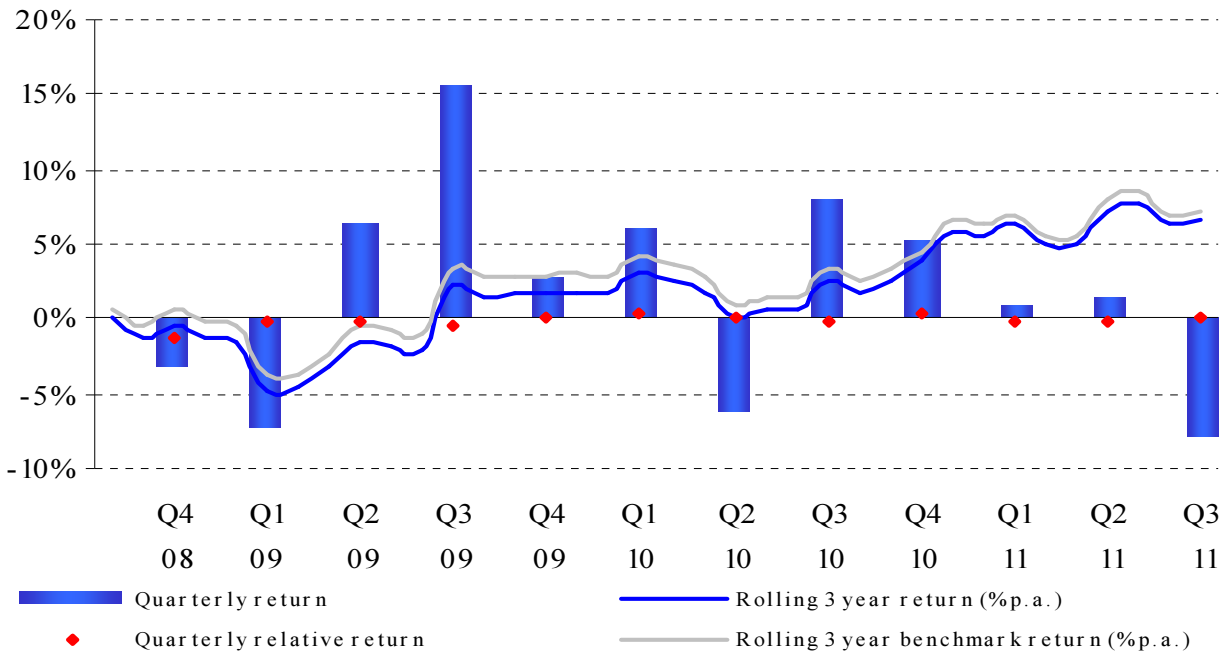
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter.

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 -7.9%, outperforming its customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a negative return of 0.8%, matching the customised benchmark.

Strategy performance

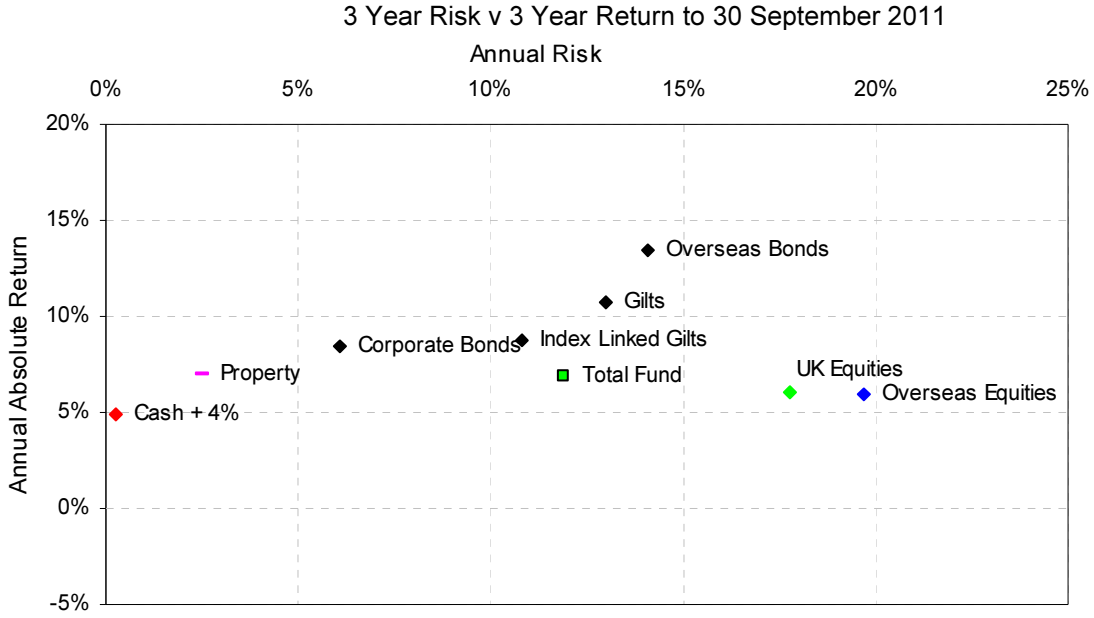
- The table on the next page shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 September 2011.

Asset Class	Weight in Strategic Benchmark	Q3 2011 (index returns)	1 year (index returns)
UK Equities	18%	-13.5%	-4.4%
Overseas Equities	42%	-17.4%	-7.6%
Index Linked Gilts	6%	7.8%	13.6%
Fixed Coupon Gilts	6%	14.4%	7.8%
UK Corporate Bonds*	5%	1.6%	-0.4%
Overseas Fixed Interest	3%	6.0%	6.2%
Fund of Hedge Funds**	10%	1.2%	4.8%
Property	10%	1.9%	8.7%
Total Fund	**100%**		

Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two. **The returns are based on the managers' targets rather a hedge fund or fund of fund index. The property and overseas equity indices also differ slightly from those in Section Two.

- **Market impact:** concerns in the Eurozone dominated the return of the Fund's strategy as equity markets fell and bonds rallied, particularly government bonds.
- UK and overseas equity markets produced returns of -13.5% and -15.1% respectively.
- Sterling depreciated against the US Dollar and the Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro denominated overseas equities in sterling terms. All the major equity markets produced negative returns for the quarter in local currency terms. The lowest return came from the Europe (ex UK) region whose return in local currency was -20.7%.
- Bonds produced a positive absolute benchmark return of 8.3% over the quarter. UK, UK Index-Linked and Overseas bonds returned 9.1%, 7.8% and 6.0% respectively.
- The allocations to fund of hedge funds and property contributed to the overall benchmark return relative to an equity benchmark, although hedge funds in general were negative over the quarter (as shown in Section Two), unlike the cash based target shown in the table above.
- **Benchmark performance** of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately -2.4% and -6.3% respectively to the strategic benchmark return.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) contributed 0.9% and 0.4% respectively.
- **Asset allocation**, relative to the strategic benchmark, was marginally overweight to both UK and overseas equities, which would have had a slight negative impact relative to the strategic benchmark.
- A slight overweight position to bonds and the cash allocation were marginally positive contributors to performance relative to the strategic benchmark return.
- **Overall** these effects did not have a significant impact on performance relative to the strategic benchmark but, when taken along with the manager impact described later, have resulted in an outperformance versus the strategic benchmark over the quarter by 0.5%.

- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2011 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark.
- This chart can be compared to the 3 year risk vs return managers' chart on page 15, showing that actual total Fund performance was more volatile than the benchmark total Fund Performance, due to greater volatility from some of the equity portfolios, the fund of hedge fund portfolios and RLAM compared to their respective benchmarks.



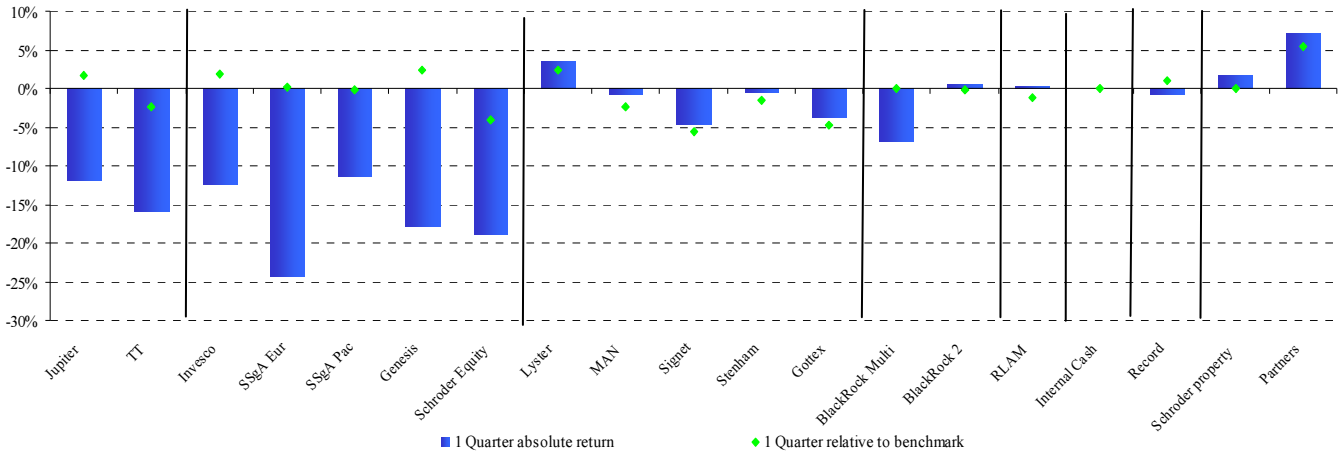
Source: Data provided by WM Performance Services

- All of the underlying benchmarks have produced a positive return over the period.
- Bond assets have outperformed the other asset classes. The greater volatility of gilts and index linked gilts compared to corporate bonds reflects the uncertainty surrounding the global economy.
- The "Cash +4%" category represents the objective of the fund of hedge fund portfolio but actual volatility of this portfolio is expected to be much more volatile than that shown above, which is the volatility of cash returns.

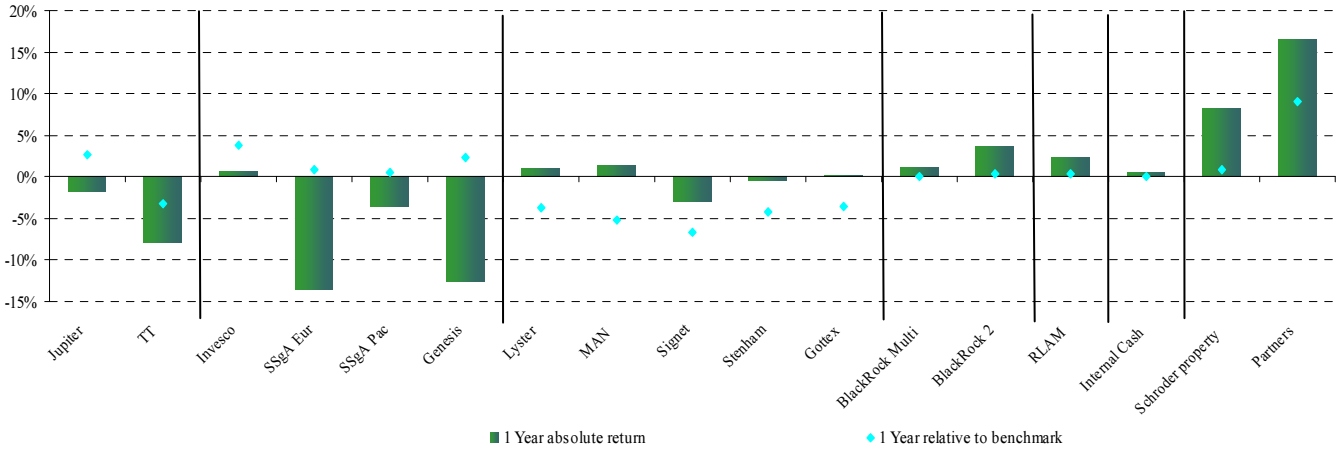
Aggregate manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of September 2011. The relative quarter and one year returns are marked with green and blue dots respectively.
- Please note that due to data timing issues, Partner's returns and values are lagged by a quarter.

Absolute and relative performance - quarter to 30 September 2011



Absolute and relative performance - year to 30 September 2011



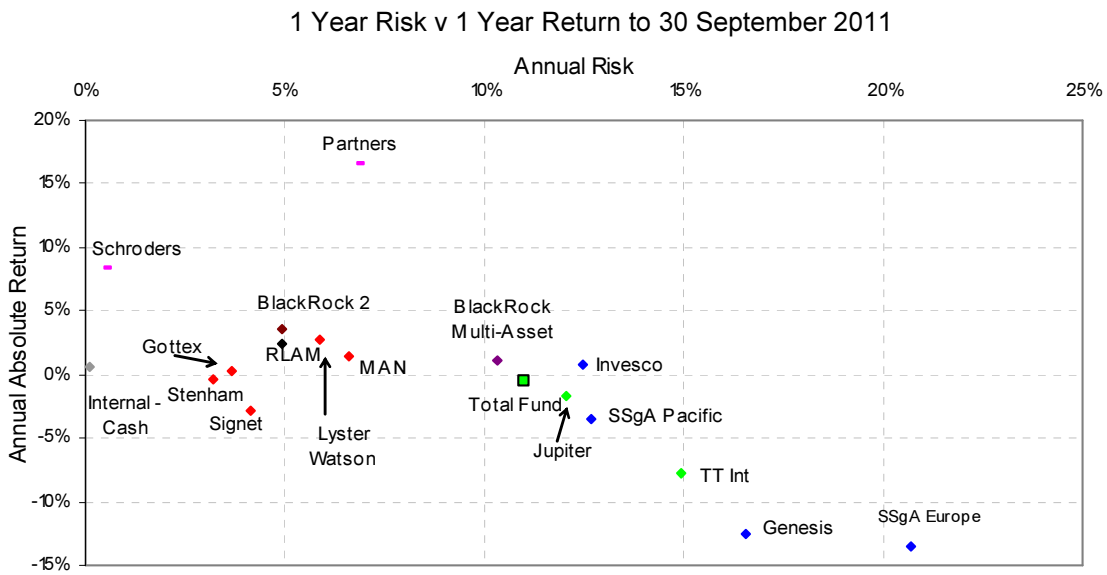
Source: Data provided by WM Performance Services

- Whilst Jupiter outperformed its benchmark over the quarter, TT underperformed resulting in the overall UK equity portfolio underperforming its benchmark and thus contributing negatively relative to the overall benchmark.
- Within overseas equities, outperformance from Invesco and Genesis over the quarter more than offset underperformance from Schroder thus meaning the overseas equity part of the portfolio contributed to performance relative to the benchmark.
- With the exception of Lyster Watson, the Fund's fund of hedge fund managers produced negative returns over the quarter and therefore underperformed their benchmarks and therefore contributed negatively to overall performance versus the benchmark.

- RLAM detracted slightly from relative performance over the quarter by underperforming their benchmark.
- The property portfolio outperformed over the quarter, due to strong outperformance from Partners, and contributed to performance relative to the benchmark return.
- Over the quarter the combined effect of the managers' performance was expected to have detracted 0.3% from the overall return once the impact of currency hedging was removed.
- The impact over the year of the managers' performance also detracted slightly. Similarly to over the quarter:
  - within UK equities Jupiter outperformed whilst TT underperformed;
  - Invesco and Genesis both outperformed within overseas equities;
  - the Fund of Hedge Fund portfolio underperformed due to underperformance from all managers; and,
  - Partners provided strong outperformance.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2011 of each of the funds, along with the total Fund.



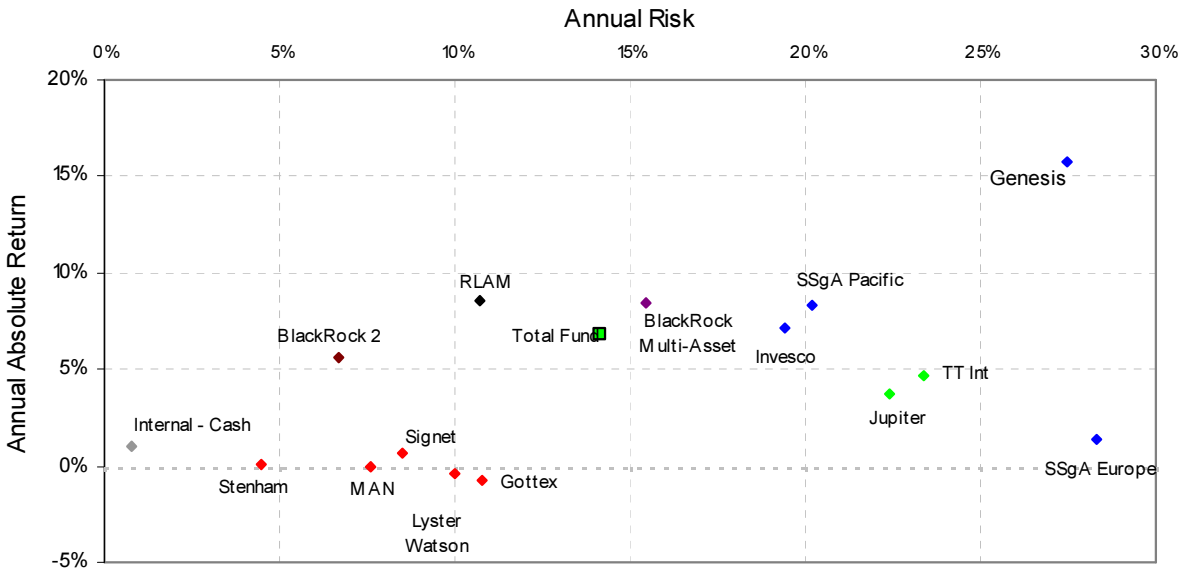
Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:

  - Green: UK equities
  - Red: fund of hedge funds
  - Maroon: multi-asset
  - Grey: internally managed cash
  - Green Square: total Fund
  - Blue: overseas equities
  - Black: bonds
  - Brown: BlackRock No. 2 portfolio
  - Pink: Property

- The volatility of returns over the year has broadly increased from the previous quarter. This is not surprising given the increase in volatility over the most recent quarter. The fund whose volatility increased the most was SSgA Europe, again as expected given the volatility within this market.
- The returns have also fallen significantly from the previous quarter (Partners being the exception due to lagged data) as a positive Q3 2010 falls out of the analysis and is replaced by a negative Q3 2011. Positive returns from gilts will have reduced this impact somewhat for the BlackRock Multi-Asset portfolio.

3 Year Risk v 3 Year Return to 30 September 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

- Both the returns and the volatility are similar to last quarter as the new quarter, Q3 2011, was similar in profile to Q3 2008, the period falling out of the analysis.
- SSgA Europe is one exception to this, as this region has fared worse than other regions and therefore the return has fallen and volatility has increased.
- Fund of hedge funds are the other exception, with an improvement in return and reduction in volatility compared to last quarter as, whilst negative, fund of hedge funds have performed in line with expectations than in Q3 2008 when they were badly affected by the liquidity crisis and investors rushing for the exit.
- Compared to the one year chart, many of the returns are still positive, albeit exhibiting higher volatility.

Section Five – Individual 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.

Key points for consideration

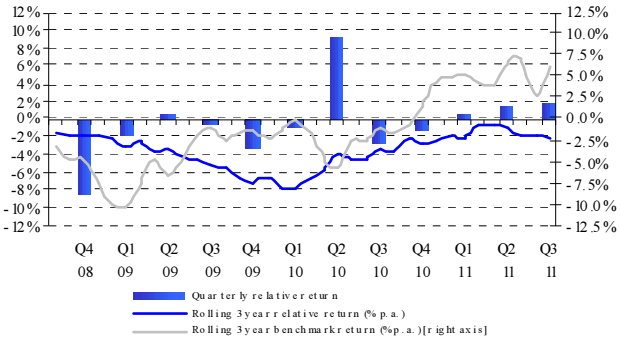
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. The changes to the fund of hedge fund allocation is now complete following the review which took place. Following the implementation of the global unconstrained equity manager, Schroder in Q2 2011, we have included a qualitative assessment until reasonable data has built up to produce a quantitative assessment. The implementation of the active currency hedging manager was also completed in Q3 2011. New investment with Jupiter should continue to be subject to discussion whilst the review of the Fund's policy to SRI and ESG issues is under review.
- UK and global equity funds:
  - Jupiter outperformed their benchmark over the quarter by 1.7%. The Fund produced strong risk-adjusted returns for the year ended 30 September 2011.
  - TT International underperformed its benchmark over the quarter and over the one year to 30 September 2011. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions to Financials and Utilities.
  - The newly appointed unconstrained global equity manager, Schroder, produced a negative absolute and relative return during quarter.
- Non-UK Enhanced Indexation Funds: The SSgA Europe ex UK Fund marginally outperformed its benchmark and the SSgA Pacific incl. Japan equity fund performed in line with its benchmark over the quarter. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds.
- Enhanced Indexation: Invesco outperformed its benchmark over the quarter by 1.8%. Over the one year performance was ahead of the benchmark by 3.8%. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis outperformed their benchmark over the quarter. Performance over the longer 1 and 3 years also remains positive in relative terms.
- Fund of Hedge Funds:
  - The allocation to Lyster Watson was removed over the quarter. From 30 June 2011 to the point of disinvestment, the Fund outperformed its benchmark by 2.3% and produced a positive absolute return.
  - Man produced a negative relative return of -0.7%, producing an absolute return of -2.3%. The allocation to Man was reduced over the quarter in line with the decision made following the review of the fund of hedge fund managers.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 5.6%. In absolute terms, Signet produced a return of -4.6%.

- Stenham Asset Management produced a negative relative return for the quarter, 1.5% behind their benchmark, with an absolute return of -0.5%. As part of the review of fund of hedge fund managers, its was agreed that the allocation to Stenham would be increased. This was completed over the quarter.
- Gottex underperformed their benchmark over the quarter by 4.7%, producing an absolute return of -3.7%.
- Hedge funds outperformed equities over the third quarter of 2011, breaking the run of underperformance versus equities, which had occurred for the previous four-calendar quarters.
- Of the five fund of hedge fund managers, none were ahead of their cash plus benchmarks over the year to 30 September 2011.

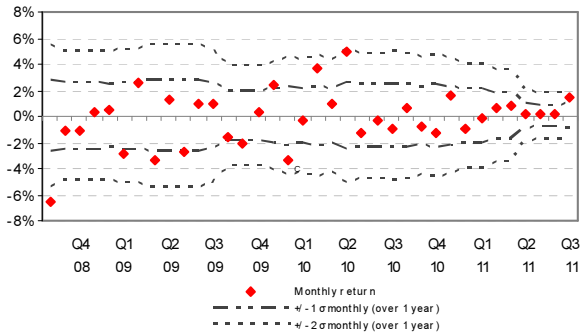
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios.
- Fixed Interest: RLAM underperformed the benchmark in the last quarter by 1.2%. In absolute terms, RLAM produced a return of 0.4%. There are no notable changes in the risk profile of this fund.
- Record, the Fund's newly appointed active currency hedging manager produced a return of -0.7% which was ahead of the return of a 50% passive hedge benchmark of -1.7%.
- Property: Performance of the Schroder property fund over the quarter was positive in absolute terms and was in line with its benchmark return. This quarter, we have introduced a quantitative assessment of Schroder for the first time, as there is now sufficient data available to draw a reasonable conclusion. Last quarter saw a change in the performance reporting of Partners, which is now lagged by 1 quarter. As such, over the second quarter of 2011, Partners outperformed their benchmark by 5.4%, producing an absolute return of 7.2%. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for this manager, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

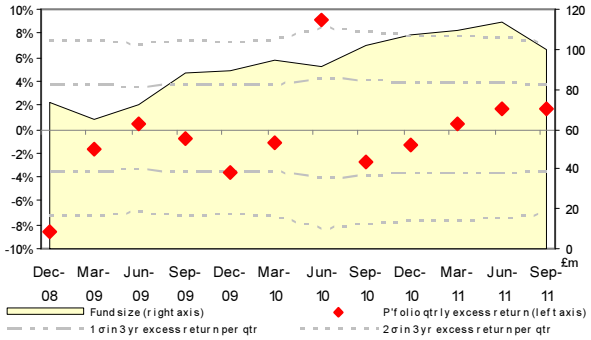
Relative returns #1



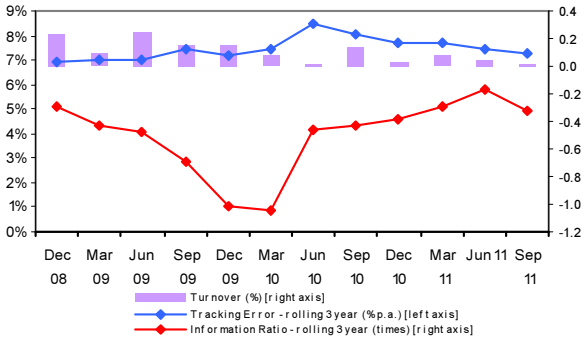
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



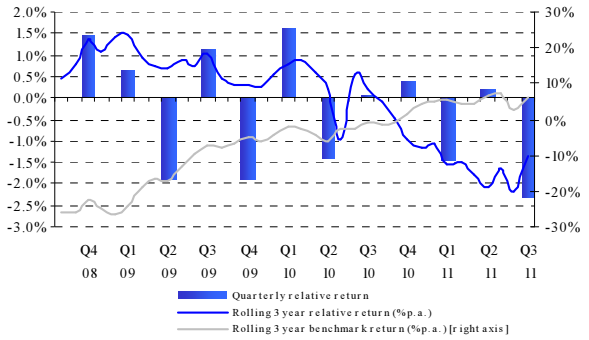
Source: Data provided by WM Performance Services, and Jupiter

Comments:

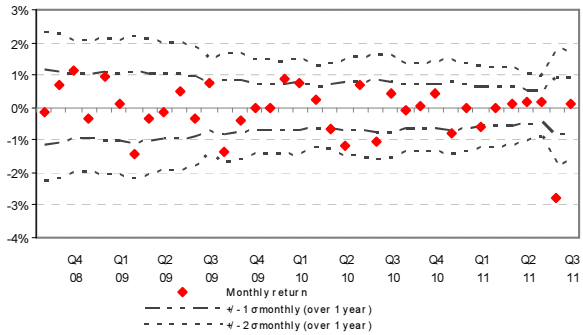
- Over the last quarter, the Fund outperformed the benchmark by 1.7%, producing an absolute return of -11.8%.
- Over the last year, the Fund outperformed the benchmark by 2.7%, producing an absolute return of -1.7%. Over the last 3 years, the Fund underperformed the benchmark by 2.3% p.a., producing an absolute return of 3.7% p.a.
- The Fund's allocation to Cash (6.5%) increased compared to the preceding quarter (5.2%).
- 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 Q3 2011, Jupiter was significantly underweight Oil and Gas, Basic Materials, Financials and Consumer Services, with significantly overweight positions in Industrials, Utilities and Consumer Goods.
- These positions have led to the recent outperformance as Financials and Mining stocks in particular underperformed the index.

TT International – UK Equities (Unconstrained)

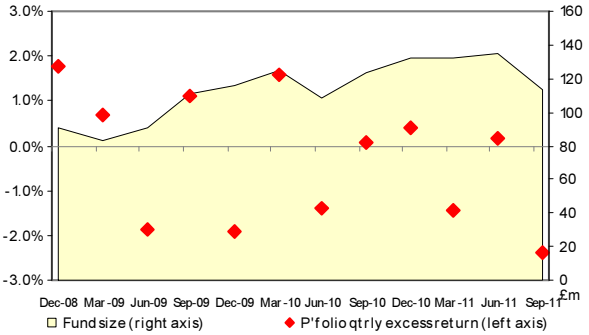
Relative returns #1



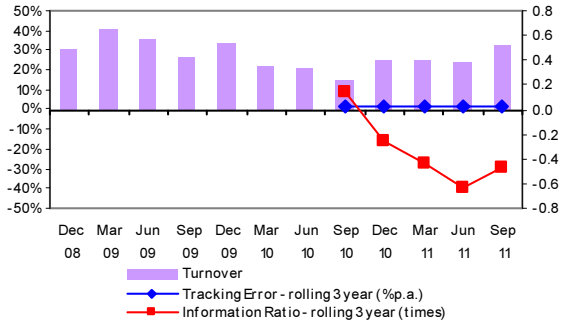
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



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

Comments:

- Over the last quarter the Fund underperformed the benchmark by 2.4%, producing an absolute return of -15.9%.
- Over the last year, the Fund underperformed the benchmark by 3.4%, producing an absolute return of -7.8%. Over the last three years, the Fund underperformed the benchmark by 1.3% p.a., producing an absolute return of 4.7% p.a.
- The Fund continues to maintain its overweight position in Basic Materials and Consumer Services by 3.4% and 2.8% respectively, and is underweight to Financials and Utilities by 8.5% and 4.4% respectively.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 32.9% has increased significantly compared to the previous quarter turnover of 24.2%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the quarter. The 3 year information ratio (risk adjusted return), improved very slightly from -0.6% to -0.5%.
- Performance relative to the benchmark has been less volatile than Jupiter despite TT taking a more unconstrained approach. This is due to TT's sector positions being more reflective of the benchmark whilst Jupiter is constrained from investing in certain sectors due to the socially responsible criteria.
- TT's negative relative performance has been driven both by its sector positioning relative to the index and, to a greater extent, its stock selection within those sectors.
- Recently TT have been reducing their allocation to less cyclical stocks in light of uncertain economic conditions.
- Given TT's outperformance target and high conviction investment style, periods of underperformance are expected, although they should be monitored closely during these periods to ensure underperformance is not due to any unexpected reason (a change in investment style, for example).

Schroder – Global Equity Portfolio (Unconstrained)

- The mandate awarded to Schroder by the Fund commenced in April 2011.
- The Fund appointed Schroder to manage Global Equities on a segregated basis. The Manager's portfolio objective is to outperform the benchmark, the MSCI All Countries World Index, by 4% per annum over a rolling three year period.
- In order to achieve the objective, the investment approach is designed to add value relative to the benchmark through stock selection and sector allocation decisions.
- We provide here a qualitative update and assessment of the manager.

Portfolio update and performance over Q3 2011

The portfolio fell in value over the quarter by £28m, or 18.8%, underperforming the benchmark return of -14.8% by 4.0%.

The third quarter of 2011 saw one of the worst quarters for equity returns for nearly 3 years as concern over the health of the global economy intensified. Extreme risk aversion and a crisis of confidence gathered pace through August due to a political gridlock in the US over the discussions to raise the debt ceiling and failure of the Eurozone leaders to agree a viable solution to some countries ongoing problems.

Disappointingly, the portfolio returned -18.8%, versus a benchmark return of -14.8%. The negative return was driven by the sharp increase in risk aversion in September, as equity markets moved rapidly towards a "risk off" stand and "growth investing" was heavily penalized in the short term. The worst performing sector in the benchmark was materials, which declined over 23%, and the best was consumer staples which declined by less than 5%. Investors' focus remained very much on the attention of short-term defensiveness.

It was the defensive sectors which helped performance of the portfolio most, good performances from names such as Beijing Enterprises and Rolls Royce. However, the portfolio did underperform the benchmark. Cyclical sectors such as financials (Ping An Insurance, AXA SA) and energy (QEP Resources) detracted the most from performance. Macro factors also hurt the performance of the stocks in these sectors, in particular, financials were hurt as concern over the effect of a possible Greek default continued.

From a regional perspective, the UK and Africa / Middle East helped performance the most. Performance in the UK was boosted by an overweight position relative to the benchmark in defensive sectors. United Utilities and health care holding GlaxoSmithKline helped performance. In Africa / Middle East, Check Point Software performed well. The Israeli internet security company is benefitting from higher corporate spending, due to IT threats and data breaches significantly increasing.

Elsewhere in the portfolio, North America and emerging markets detracted the most. The performance in North America was hurt by the combination of Schroder's underweight and performance in a sharply rising dollar environment. An underweight position relative to the benchmark to the US staples sector detracted from performance. Emerging markets suffered disproportionately from the reduction in expectations for global demand, as well as currency weakness.

The most underweight country weightings in the portfolio are North America (-8.3%) and Continental Europe (-3.8%). The portfolio is overweight to the Pacific ex Japan region (+6.0%) and the United Kingdom (+3.0%).

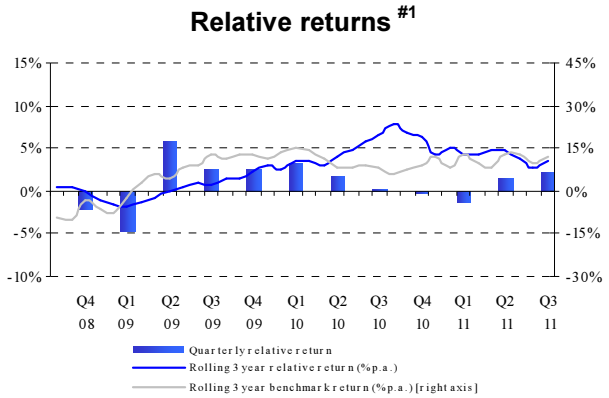
In terms of sector weightings, the most underweight positions are to Telecoms (-3.0%), Utilities (-2.1%) and financials (-1.9%). Overweight positions are in Health Care (+3.7%), Information Technology (+2.8%) and Consumer Staples (+1.8%).

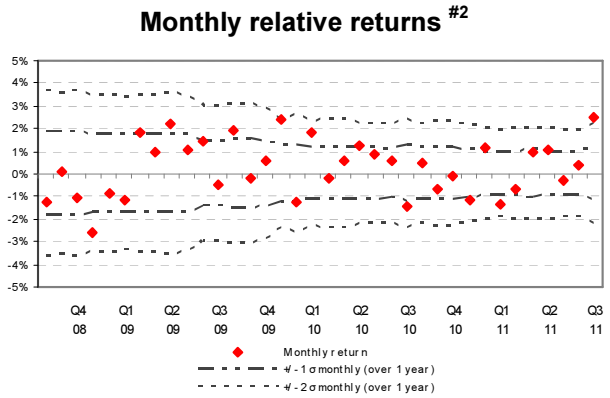
Conclusion

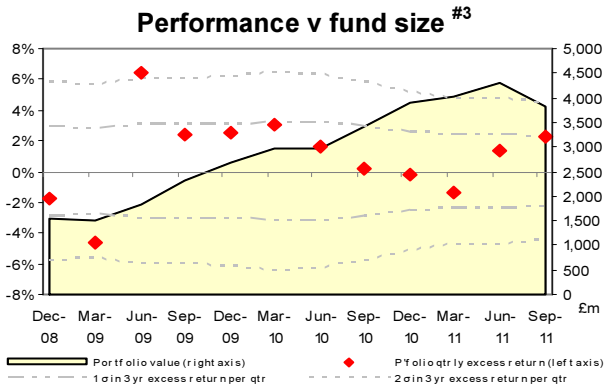
The Schroder global equity portfolio has been implemented for a very short space of time over an extremely turbulent period. It is therefore too early to draw any firm conclusions regarding Schroder's performance. The portfolio is diversified by both country and sector and we remain confident that Schroder has a robust investment philosophy which is being adhered to.

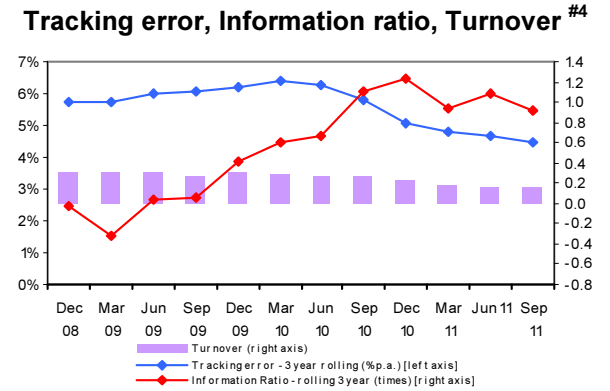
We have no concerns with Schroder.

Genesis Asset Managers – Emerging Market Equities







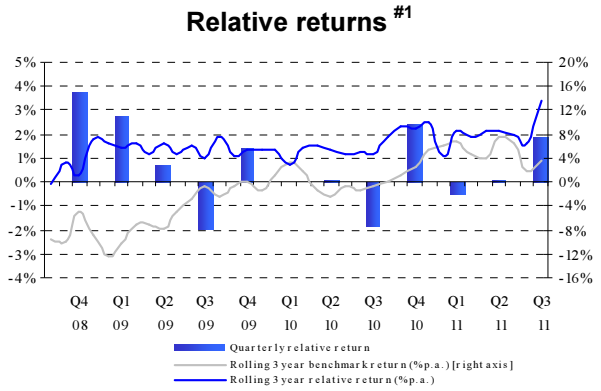


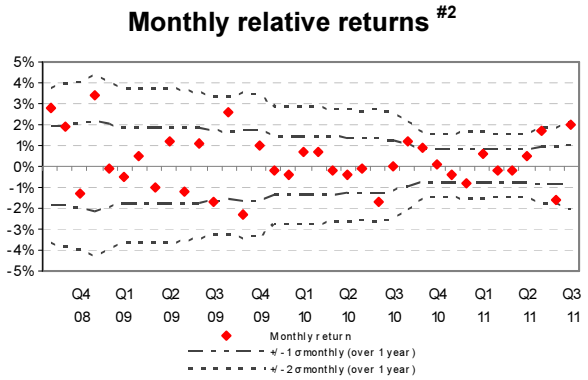
Source: Data provided by WM Performance Services, and Genesis

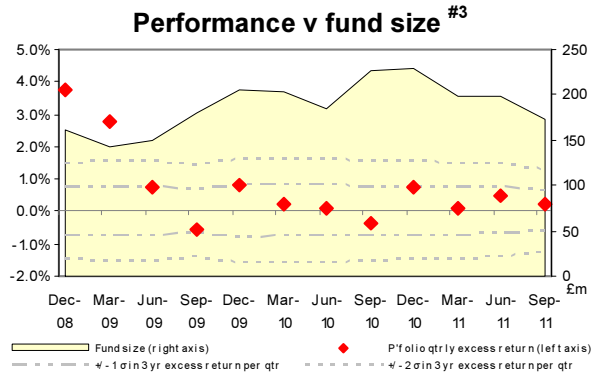
Comments:

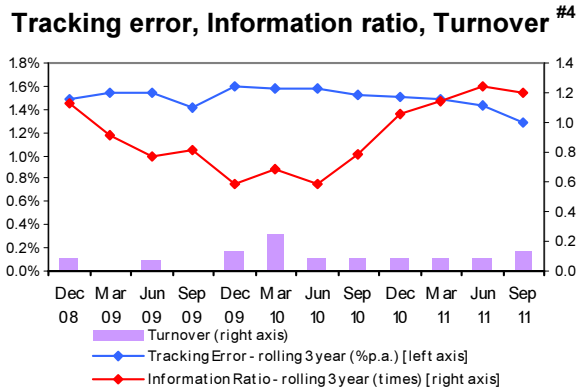
- Over the last quarter the Fund outperformed the benchmark by 2.3%, producing an absolute return of -17.8%.
- Over the last year, the Fund outperformed its benchmark by 2.3%, producing an absolute return of -12.6%. Over the last 3 years, the Fund outperformed the benchmark by 4.2% p.a., producing an absolute return of 15.7% p.a.
- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. 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) remained broadly consistent over the latest quarter. The 3 year information ratio (risk adjusted return), decreased slightly from 1.1 to 0.9.
- The allocation to Cash (0.9%) has been the lowest in the last six quarters for this manager.
- On an industry basis, the Fund is now overweight Consumer Staples (+6.9%), Healthcare (2.6%) and Information Technology (+2.4%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.3%) and Telecom Services (-2.3%).
- Genesis have consistently added value relative to the benchmark, including over the most recent period which was difficult for equities and particularly so for emerging markets.
- Despite the fall in the information ratio, Genesis' performance remains pleasing.

Invesco – Global ex-UK Equities (Enhanced Indexation)









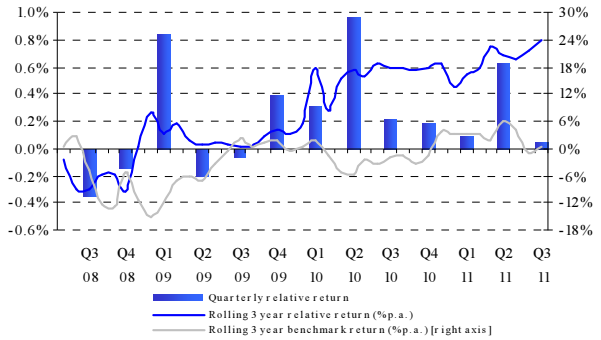
Source: Data provided by WM Performance Services, and Invesco

Comments:

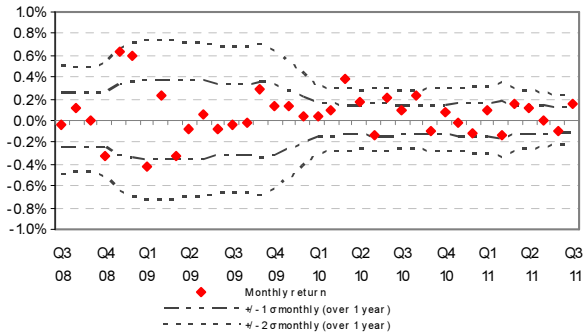
- Over the last quarter the Fund outperformed its benchmark by 1.8%, producing an absolute return of -12.4%.
- Over the last year, the Fund outperformed its benchmark by 3.8%, producing an absolute return of 0.7%. Over three years, the Fund outperformed, by 2.7% p.a., producing an absolute return of 7.1% p.a.
- Over the last quarter, all strategies were positive contributors except for Sector selection. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The absolute volatility has increased for the first time since the third quarter of 2010 which is to be expected.
- The turnover for this quarter of 12.3% increased from 9.0% in the previous quarter. The number of stocks continued to reduce over the quarter from 412 to 399.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio is significantly more than is typical for a global equity portfolio but remains appropriate for the enhanced indexation approach.
- Whilst part of the recent positive relative performance is due to the difference in timing of the pricing of the Fund versus the benchmark, Invesco's performance continues meet objective.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

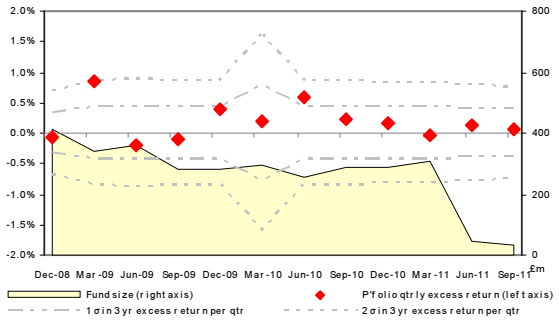
Relative returns #1



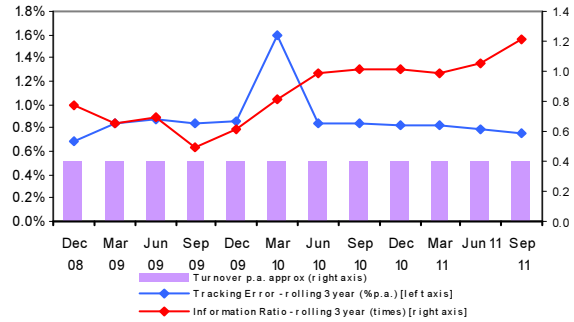
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



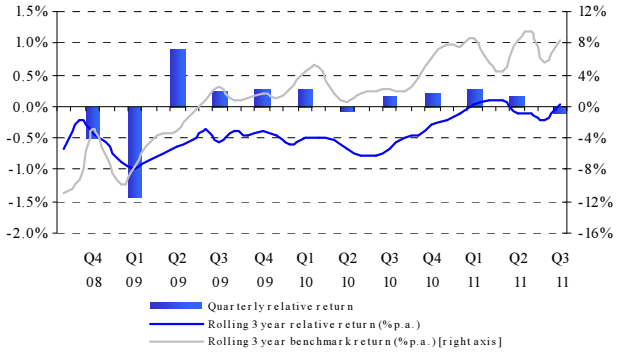
Source: Data provided by WM Performance Services, and SSgA

Comments:

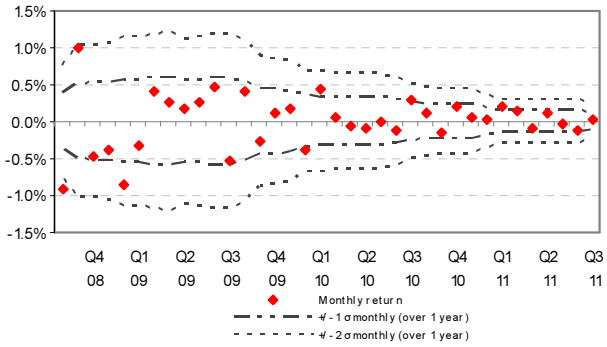
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of -24.2%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of -13.5%. Over the last 3 years, the Fund outperformed the benchmark by 1.5% p.a., producing an absolute return of 1.4% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. There has been a further fall this quarter of £16.51million which has brought the size of the pooled fund to £30.34million. This was due to one of SSgA's largest investors in this fund withdrawing their assets as part of a strategic review.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. 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 marginally increased over the quarter. The tracking error has slightly decreased over the last quarter.
- This has typically been seen as a suitable fund for contributions or investment if rebalancing is required into active overseas equities. However, performance should be monitored closely in light of the recent large drop in the size of the pooled fund. There is no reason to suggest this in itself will lead to a deterioration in performance, and Avon's share of the pooled fund is now similar to that for the Pacific enhanced indexation fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

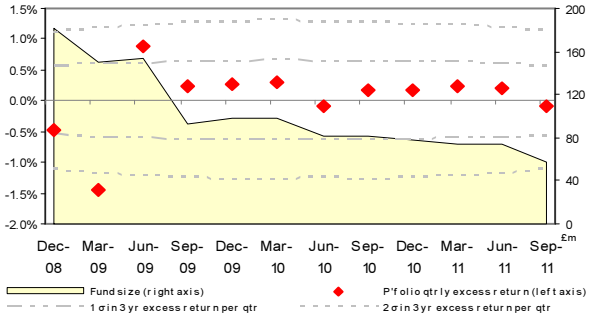
Relative returns #1



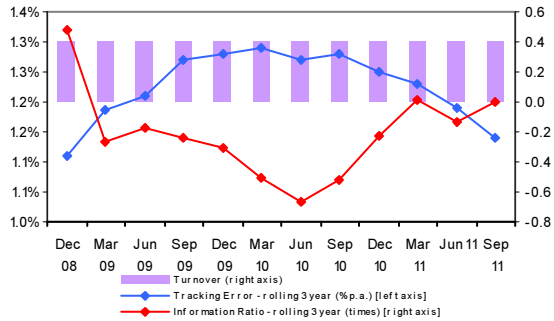
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



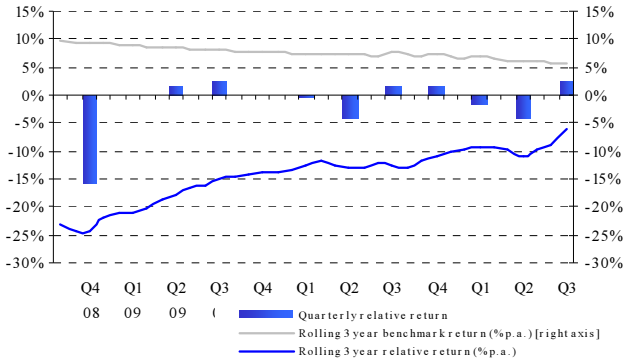
Source: Data provided by WM Performance Services, and SSgA

Comments:

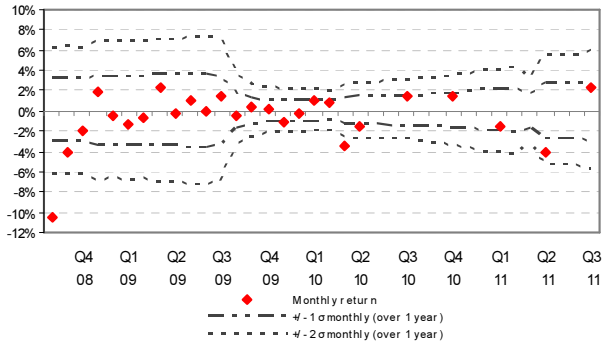
- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -11.4%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of -3.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.4% p.a.
- 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.

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.

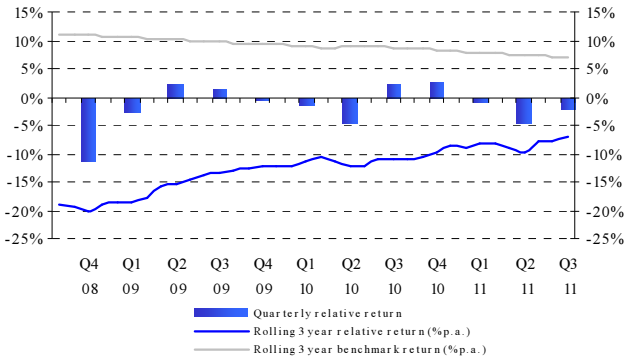
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

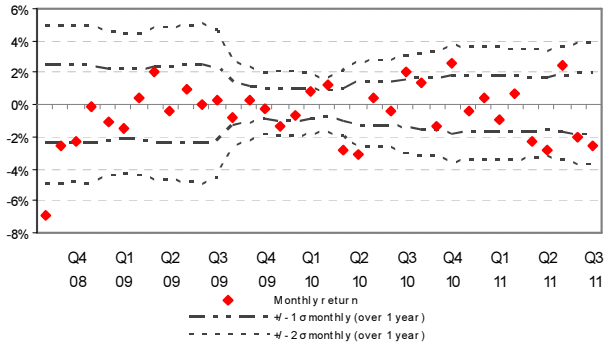
- From 30 June 2011 to the point of disinvestment from Lyster Watson, the Fund outperformed the benchmark by 2.3%, producing an absolute return of 3.5%.
- Over the last year (to the point of disinvestment), the Fund underperformed the benchmark by 3.7%, producing an absolute return of 1.1%. Over the three year period (to 31 July 2011), the Fund underperformed the benchmark by 9.8% p.a., producing an absolute return of -4.2% p.a.
- The allocation to Lyster Watson was removed over the third quarter of 2011. The returns seen in the charts above are therefore not representative of a full quarter of investment.

MAN – Fund of Hedge Funds

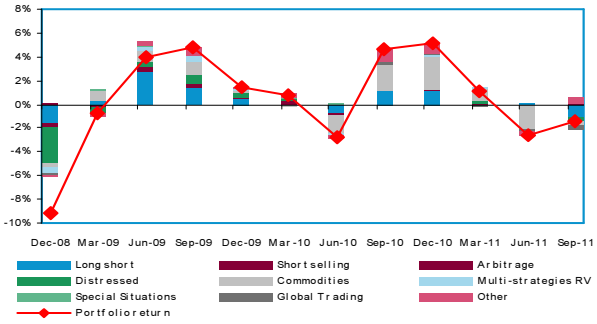
Relative returns #1



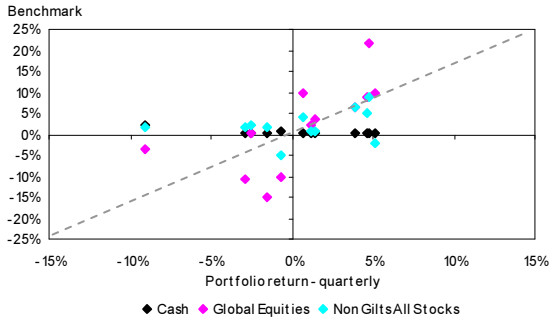
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



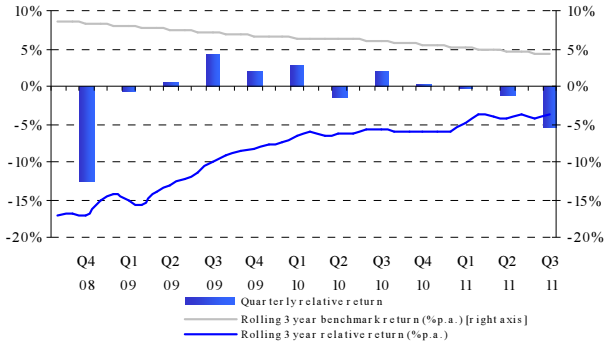
Source: Data provided by WM Performance Services, and MAN

Comments:

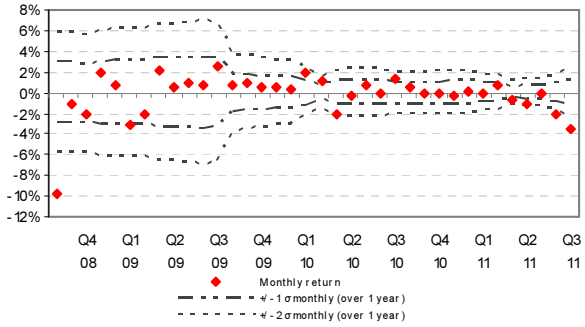
- Over the last quarter, the Fund underperformed the benchmark by -2.3%, producing an absolute return of -0.7%.
- Over the last year, the Fund underperformed the benchmark by 5.3%, producing an absolute return of 1.3%. Over the last 3 years, the Fund underperformed the benchmark by 7.1% p.a., producing an absolute return of -0.1% p.a.
- The key drivers of the negative performance were the allocations to Emerging Markets and Long / Short strategies, which produced negative returns, except for the Long / Short Japan strategy, which produced, positive returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 63.2% of the fund.
- 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 would be reduced. This was completed in Q3 2011.
- As discussed during the review, Man have begun to reduce the number of underlying manager holdings in the portfolio.

Signet – Fund of Hedge Funds

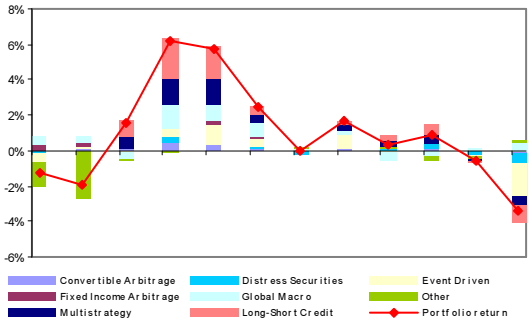
Relative returns #1



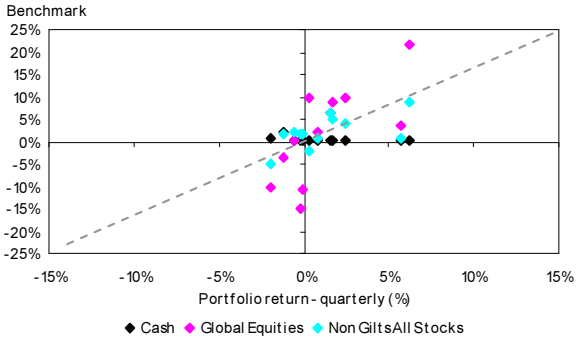
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



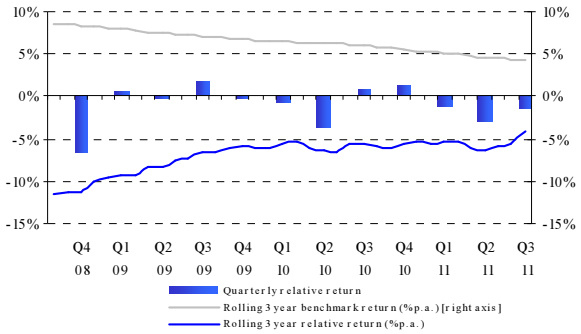
Source: Data provided by WM Performance Services, and Signet

Comments:

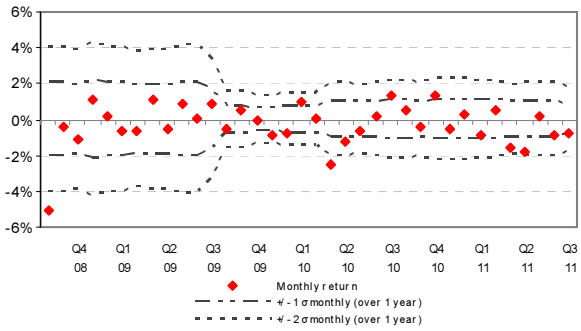
- Over the last quarter, the Fund underperformed the benchmark by 5.6%, producing an absolute return of -4.6%.
- Over the last year, the Fund underperformed the benchmark by 6.7%, producing an absolute return of -2.9%. Over the 3 year period, the Fund underperformed the benchmark by 3.6% p.a., producing an absolute return of 0.6% p.a.
- Despite positive contributions from a number of strategies, the allocation to event driven strategies and distressed securities led to the negative return 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Stenham – Fund of Hedge Funds

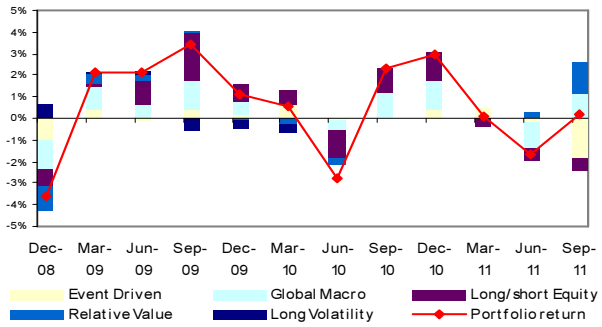
Relative returns #1



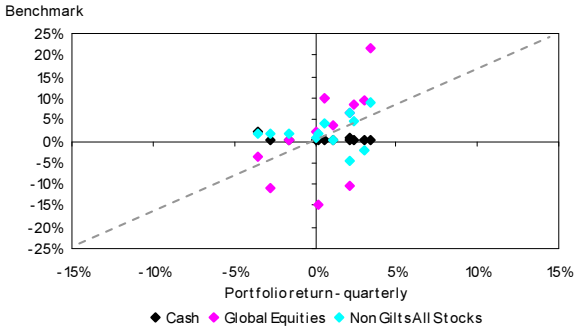
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



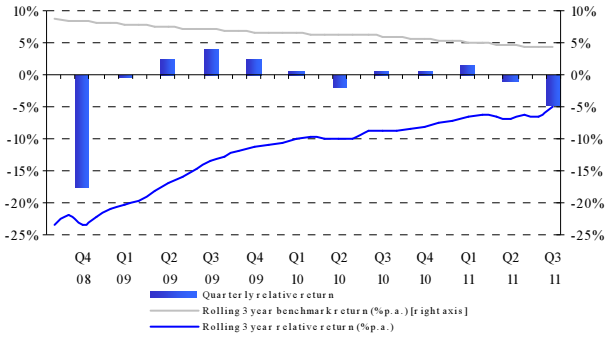
Source: Data provided by WM Performance Services, and Stenham

Comments:

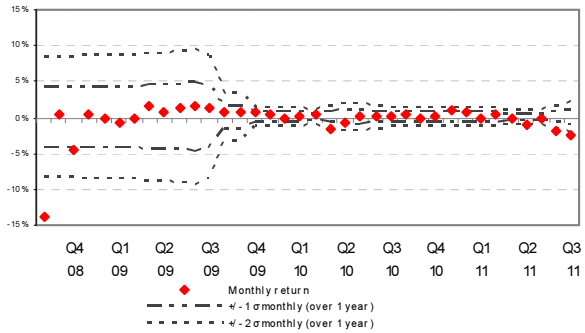
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.5%.
- Over the last year, the Fund underperformed the benchmark by 4.2%, producing an absolute return of -0.4%. Over the last 3 years, the Fund underperformed the benchmark by 4.1% p.a., producing an absolute return of 0.1% p.a.
- Relative value strategies provided strong absolute returns over the quarter of 17.3% while negative absolute returns of 9.6% from Event Driven strategies affected the total portfolio return.
- The allocation to the Global Macro and Long / Short Equity strategies made up 66.0% of the total Fund allocation. The allocation to Cash rose from 2.0% to 8.0% 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Gottex – Fund of Hedge Funds

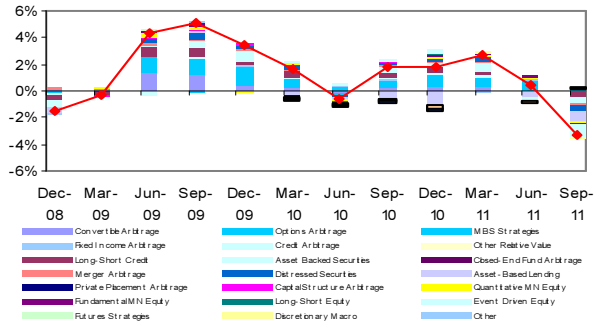
Relative returns #1



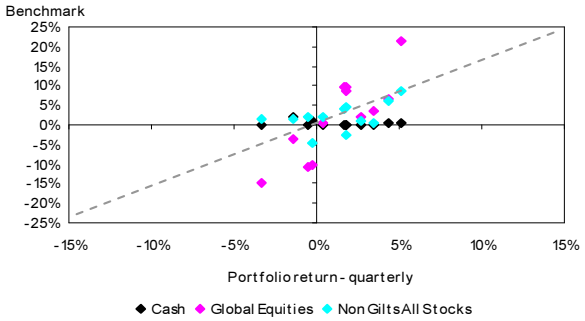
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7

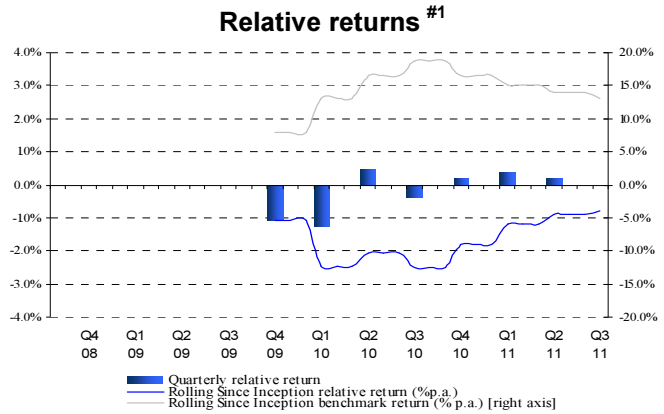


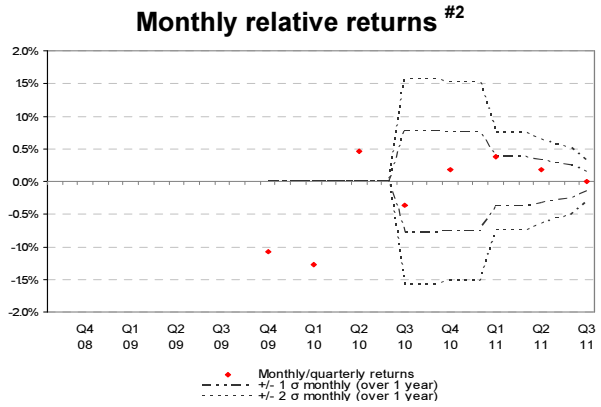
Source: Data provided by WM Performance Services, and Gottex

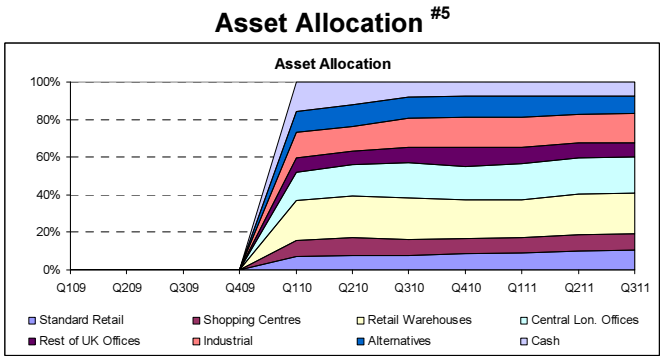
Comments:

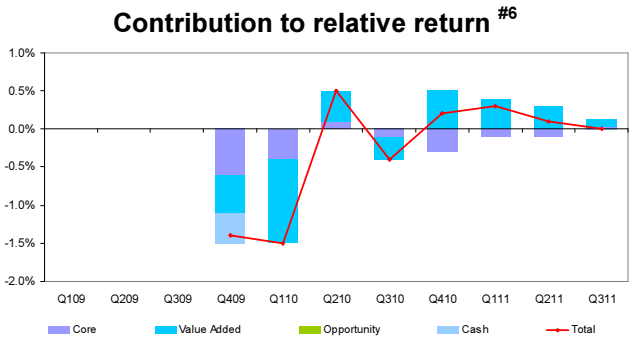
- Over the last quarter, the Fund underperformed the benchmark by 4.7%, producing an absolute return of -3.7%.
- Over the last year, the Fund underperformed the benchmark by 3.5%, producing an absolute return of 0.3%. Over the last 3 years, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of -0.6% p.a.
- The Fund generated a negative return during the quarter. This was primarily led by Event Driven Equity, Asset-Backed lending and Asset Backed Securities. Negative performance was marginally offset by positive contribution from Options Arbitrage, Short credit and Cash.
- The Fund has a diverse range of strategy exposures, with the major exposures to MBS, ABS, Fundamental MN Equity and Fixed Income Arbitrage Strategies. There were no significant changes to the strategy asset allocations in the fund.
- 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.

Schroder – UK Property









Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 1.8%.
- Over the last year, the Fund produced a return of 8.4%, outperforming the benchmark by 0.8%.
- Over the third quarter of 2011, the strongest contributor to performance came from the value add funds, which comprise 39% of the portfolio. The value add funds have also been the strongest contributor over the last 12 months.
- The Fund retains an overweight position, relative to the benchmark in central London offices. The West End of London PUT, which specialises in central London offices, was the strongest performer at the stock level.
- Schroder were appointed 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.

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 £60 million, or approximately 44.5% of the Fund's intended commitment of approximately £134 million. A total of £5.58 million was drawn down over the quarter. The draw downs commenced in September 2009.

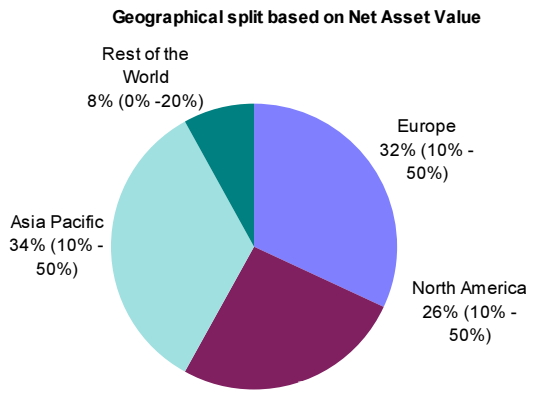
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

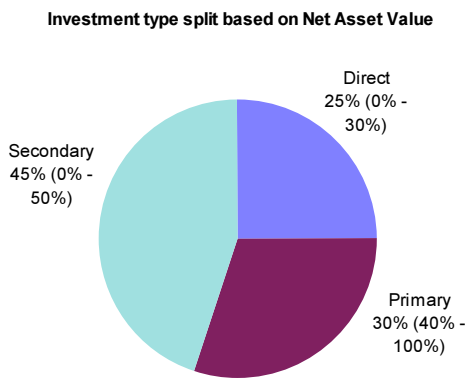
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.69	11.13
Direct Real Estate 2011	2.69	2.63
Distressed US Real Estate 2009	10.87	11.01
Global Real Estate 2008	23.62	25.61
Global Real Estate 2011	5.57	5.22
Real Estate Secondary 2009	7.11	8.52
Total (£)	**59.76**	**64.12**

Source: Partners. Please note, whilst the valuation on page 14 is as at 30 June 2011 (adjusted for cash flows), the above is Partners' valuation as at 30 September 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 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

Changes to the geographical allocation to the portfolio over the quarter include an increase to Europe from 31% to 32%, to North America from 25% to 26% and the rest of the world from 4% to 8%. The exposure to the Asia Pacific region has reduced from 40% to 34% as a result of growth in assets in other geographies.

In terms of the portfolio allocation by investment type, the exposure to direct investments has increased from the position last quarter from 24% to 25%. The exposure to primary investments has decreased from 33% to 30%, and the exposure to secondary investments has increased from 43% to 45%.

The exposure to Primary is currently below the guidelines, but 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. In total, 53% of the commitments are allocated to primary investments.

Performance over Q32011

Please note that due to data timing issues, Partners' returns and values will be lagged by a quarter, except those shown on this and the previous page, and therefore reflect the previous quarter's returns and values.

Distributions since inception total £4.61m, with £0.61m distributions over the most recent quarter.

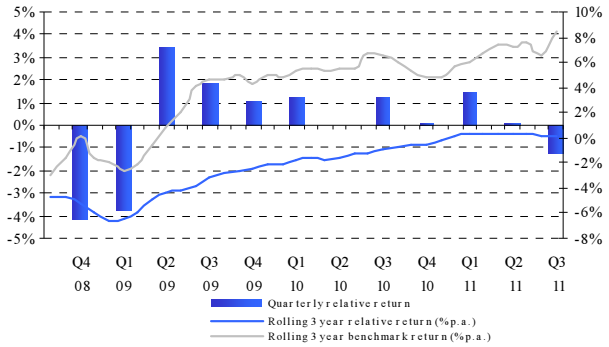
Conclusion

Over the quarter, Partners increased the amount drawn down by £5.58 million. There have been some changes to the asset allocations and the geographical split; however, these are at present due to the draw-downs from the amounts committed. There have been no further changes to the guidelines, and those implemented in October 2010 remain in place.

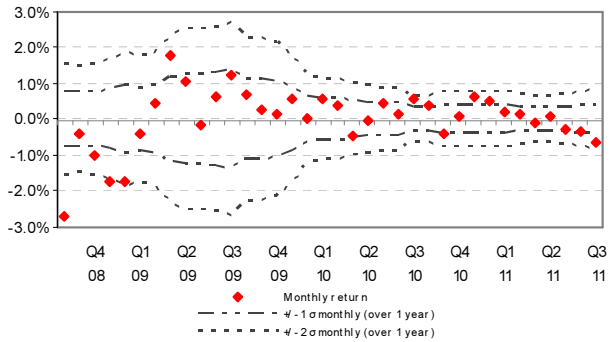
We have no concerns with Partners.

Royal London Asset Management – Fixed Interest

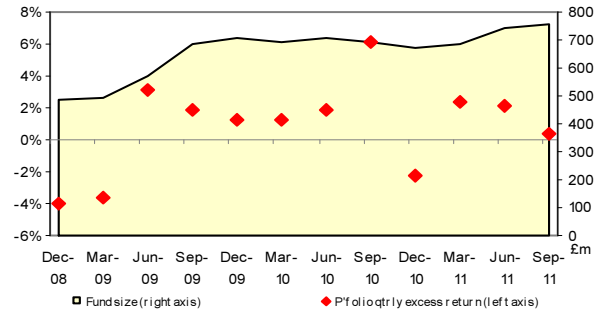
Relative returns #1



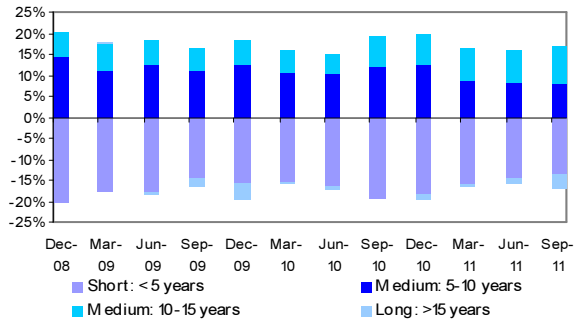
Monthly relative returns #2



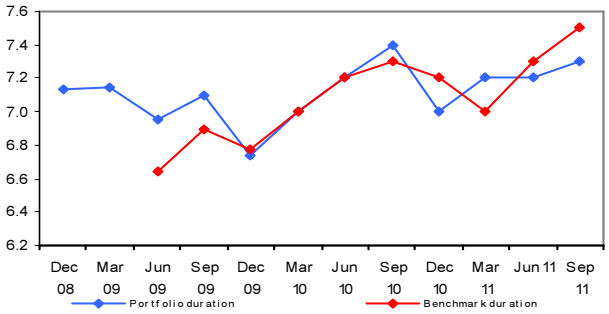
Performance v fund size #3



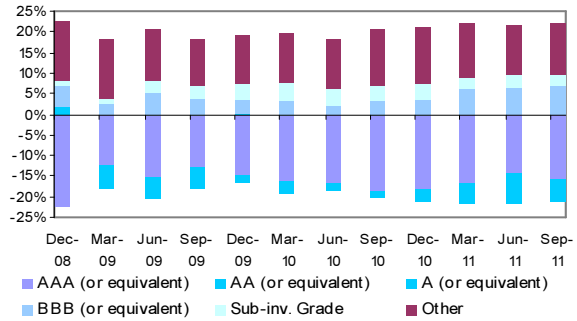
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



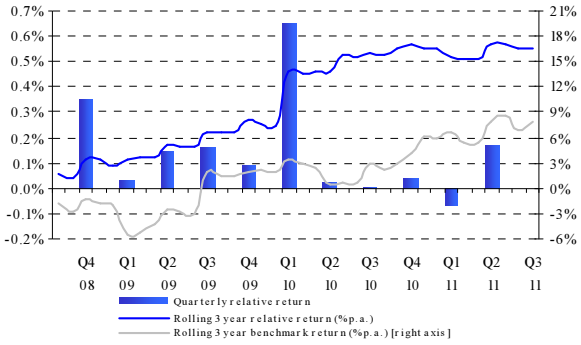
Source: Data provided by WM Performance Services, and RLAM

Comments:

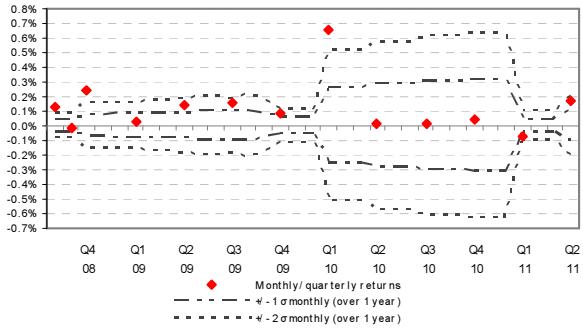
- Over the last quarter, the Fund underperformed the benchmark by 1.2%, producing an absolute return of 0.4%.
- Over the last year, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 2.4%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.6% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset

Relative returns #1

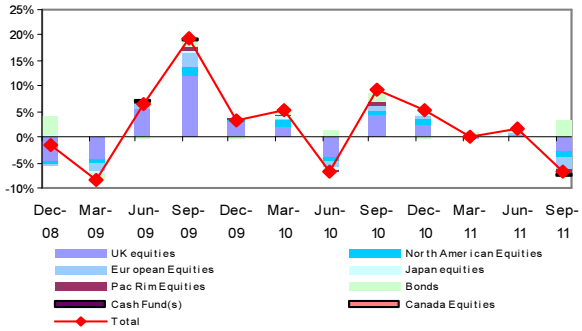


Monthly/Quarterly relative returns #2

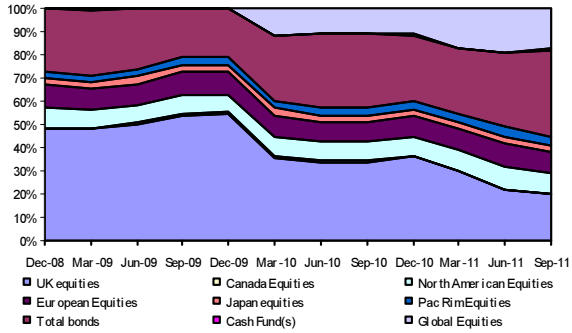


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5



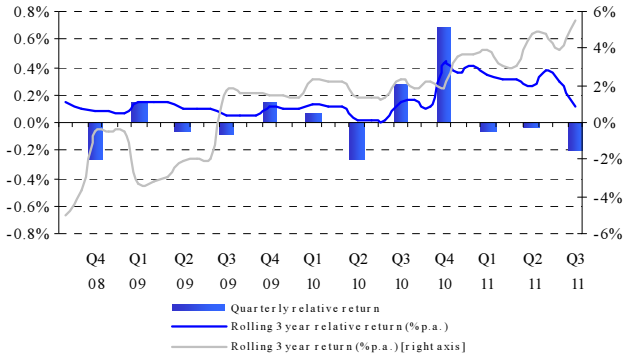
Source: Data provided by WM Performance Services, and BlackRock

Comments:

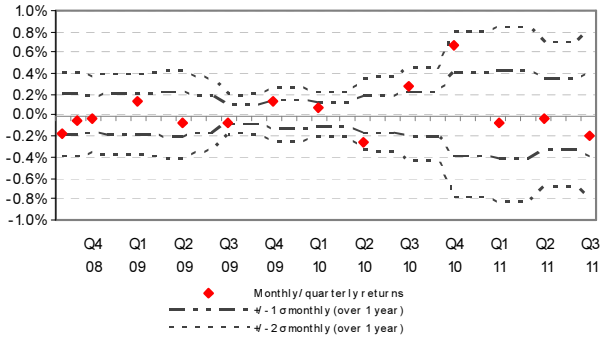
- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -6.8%.
- Over the last year, the Fund outperformed its benchmark by 0.1%, producing an absolute return of 1.1%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 8.4% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- This is the fourth consecutive quarter where the allocation from UK equities has declined and allocation to UK Gilts and UK Corporate bonds has increased. Bond allocation now stands at 38.0% These changes are in line with the changes made to the total Fund strategic asset allocation and market movements.

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 underperformed the benchmark by 0.2%, producing an absolute return of 0.5%.
- Over the last year, the Fund produced a return of 3.6%, outperforming the benchmark by 0.2%. Over a rolling 3 year period, the Fund produced an absolute return of 5.6% p.a., and tracked the benchmark return.
- Over the quarter the Fund's holding in cash increased by approximately 9% as assets were liquidated to allocate to property investments.
- Over the quarter, the positive absolute return contribution to the total portfolio returns from UK Gilts (7.4%) was offset by negative absolute return contribution from the European, UK and US equities.

Appendix A – Market Events

UK market events – Q3 2011

- **Quantitative Easing:** The Bank of England announced plans of restarting its quantitative easing programme, injecting more money than market expectation. Bank of England policymakers have discussed pumping more electronic money into the economy than the £75 billion they agreed in October 2011.
- **Government Debt:** At the end of September 2011 UK national debt stood at £966.8 billion, or 62.6% of Gross Domestic Product.
- **Unemployment:** The number of people unemployed in the UK increased by 114,000 over the three months to August to reach 2.57 million - a 17 year high according to official figures. The unemployment rate for the three months to August 2011 was 8.1%. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 17,500 in September 2011 to 1.60 million according to the ONS.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey increased to a seasonally adjusted figure of 51.1 in September after declining to 49.4 in August. The 50-level being the point at which 'contraction' is deemed to become 'growth'. The average PMI reading in Q3 2011 (50.0) was well below on those of Q1 2011 (59.4) and Q2 2011 (52.7).
- **Inflation:** CPI annual inflation of 5.2% in September 2011 was highest since September 2008, up from 4.5% in August 2011. RPI annual inflation of 5.6% was the highest reading since June 1991, up from 5.2% in August 2011. The largest upward pressures to the change in CPI inflation came from an increase in gas and electricity charges. Bills for gas and electricity have risen 9.9% in the past month and are up 18.3% on the year. There were large upward pressures also from air transport and communication services.
- **Gross Domestic Product ("GDP"):** In the third quarter of 2011, GDP increased by 0.5%. Britain's economy grew faster than expected in the third quarter but the decline in the manufacturing sector has accelerated and economists are warning the UK is on the verge of recession. Much of the growth in the third quarter was down to a jump in output from the service sector, which makes up just over three quarters of the economy.
- **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.

Europe market events – Q3 2011

- **European sovereign debt crisis:** European leaders said they secured a deal to reduce Greece's debt after they managed to arrive at an agreement on what they had billed as a blockbuster package to stem the Continent's debt crisis. The leaders had reached an agreement with private banks on a voluntary 50% reduction of Greece's debt in the hands of private investors. The leaders had also agreed to expand the firepower of the euro zone's bailout vehicle, known as the European Financial Stability Facility, by four - or five-fold — suggesting it could provide guarantees for around €1 trillion, or about $1.4 trillion, of bonds issued by countries such as Spain and Italy.

- **Italy:** Italian bonds came under renewed pressure on 31st October 2011 as investors continued to question Europe's debt crisis plan and the willingness of the European Central Bank to keep up its bond purchasing programme. The yield on Italy's benchmark 10-year bond rose more than 15 basis points to 6.18%, with the spread over German bonds widening above 400 basis points. Italy's debt costs have steadily climbed back close to the levels of early August, when the ECB started intervening on the open market following a commitment by Silvio Berlusconi's centre-right government to implement structural reforms and cut public sector debt.
- **Greece:** The Greek prime minister's high-risk decision on 31st October 2011 to call a national referendum on the country's second international bail-out rattled global investors and left politicians reeling, amid doubts over the deal agreed at the previous week's Brussels summit. George Papandreou shocked both his own Pan-Hellenic Socialist Movement (Pasok) and the opposition conservatives by opting for a plebiscite in a move aimed at defusing mounting pressure from his party to hold an early election. The Premier's move reinforced concerns that Greece's fraught domestic politics are spiralling out of control amid growing popular anger over public sector job cuts and tax increases. Strikes and violent demonstrations have become frequent in Athens and other cities. Shares slumped on fears that a "no" vote by the Greek people could lead to a messy default by Athens triggering sovereign debt contagion though the financial system.
- **Spain:** Spain saw its credit rating cut by two notches on 19th October 2011 with a negative outlook on the new rating, as Moody's warned that the country risked being sucked deep into the European debt crisis. The agency raised the pressure on EU leaders prior to this weekend's crucial summit by cutting Spain's credit rating to A1, its fifth highest rating, from Aa2. Moody's pointed to Spain's low growth prospects and high levels of debt. Spain's government is aiming to cut its deficit to 6% in 2011, from 9.0% in 2010. The Spanish unemployment rate has soared to 21.0%, with 4.2 million people now officially out of work. This has led to an increase in bad debts across Spain's banking sector, as people find they are unable to meet repayment costs. The previous week, both S&P and Fitch cut their rating on Spain, leaving the country at AA-, their fourth-highest rating.
- **France:** In mid September 2011, Credit rating agency Moody's has downgraded two French banks after reviewing their exposure to Greek debt. Credit Agricole was cut from Aa1 to Aa2 and Societe Generale from Aa2 to Aa3. A third bank, BNP Paribas, was kept on review for a possible downgrade. European stocks tumbled and the euro dropped against the dollar on 14th October 2011, after France was given a warning over its AAA rating by Moody's. The rating agency said the country's financial strength had weakened and the deterioration in government debt meant it was now among the weakest countries with the top rating. Finance Minister Francois Baroin said the government would do everything to make sure France was not downgraded.
- **Unemployment:** The EU27 unemployment rate was at 9.5% in August 2011, unchanged compared with July 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (3.7%), the Netherlands (4.4%) and Luxembourg (4.9%), and the highest in Spain (21.2%), Greece (16.7% as at June 2011) and Latvia (16.2% as at June 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI fell to 47.2 in October 2011 from 49.1 in September 2011. Manufacturing PMI fell to 47.3 from 48.5 in September 2011 while services PMI declined to 47.2 from 48.8 in September 2011.
- **Inflation:** The inflation rate in the Euro area was reported at 3.0% in September 2011.
- **GDP:** GDP growth for the third quarter was not available at the time of writing, although for the second quarter of 2011, this was 0.2%.

- **Interest Rate:** The European Central Bank's base rates remained unchanged at 1.5% in October 2011.

US market events – Q3 2011

- **Unemployment:** The rate of unemployment in the US decreased from 9.2% in June 2011 to 9.1% in September 2011. Nonfarm payroll edged up by 103,000 in September 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.2% in September 2011, being unchanged since August 2011. For the second quarter as a whole, total industrial production increased at an annual rate of 5.1%. In the manufacturing sector, output moved up 0.4% in September 2011 after having gained 0.3% in August 2011.
- **Inflation:** The US CPI rate increased from 3.6% in June 2011 to 3.9% in September 2011.
- **GDP:** US real GDP increased by 2.5% over the third quarter of 2011, against a 1.3% increase in the second quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q3 2011

- The performance of emerging market equities was driven by global growth and fears over the world economy. This caused the stocks of those economies most exposed to the West, such as China, Korea and Taiwan, to suffer the biggest losses during the quarter. Sentiment in the Chinese stock market was also hurt by signs of weakness in the country's economy, as well as further interest rate increases as the government battled to get inflation under control. Similarly in India, the central bank has raised interest rates 13 times since March 2010 amid inflation fears.
- India's inflation rate accelerated to a 13-month high of 9.8% in August 2011, highlighting the dilemma facing policy-makers as they wrestle with the twin woes of rising inflation and slowing economic growth. The higher-than-expected inflation figures up from 9.2% came just two days after data showed that India's industrial production growth slowed sharply in July to a mere 3.3%, down from 8.8% in June 2011. The industrial production growth for the month of August 2011 stands at 4.1%.
- Thailand's prime minister has warned that it will take the country three months to recover from the worst floods in decades, even though the capital's central districts have thus far escaped being inundated. Nearly 400 people have been killed by the flooding in the country since July, when heavy monsoon rains began pounding the region. More than 1,000 factories have been closed, leading to global shortages of hard-disk drives and car parts, and a quarter of the rice crop has been destroyed in the world's biggest rice-exporting nation. The Thai central bank slashed its gross domestic product growth forecast for this year to 2.6% from 4.1% and warned that output could be downgraded again.
- The International Monetary Fund cut its China growth estimates for this year and next and indicated that a stronger yuan would help to contain inflation and rebalance the economy. Gross domestic product will grow 9.5% this year, less than a June estimate of 9.6%; the 2012 forecast was lowered to 9.0% from 9.5%. China is also battling inflation which stood at 6.1% in September 2011, well above the government's 4.0% target for the year.

Global summary – 1 year

Economy

- The rate of inflation, as measured by the Consumer Prices Index ("CPI") rose from 3.1% in September 2010 to 5.2% in September 2011. Although the Bank of England's Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% over the year it restarted its programme of quantitative easing in Q3 2011 and unveiled plans to increase the size from £200 billion to £275 billion. The extension is the first change to the programme since November 2009 and provided the clearest signal yet that the Bank of England is concerned the UK is on the brink of a double-dip recession.
- Gross Domestic Product (GDP) grew at an annualised rate of 0.5% over the year to 30 September 2011. GDP turned negative in the fourth quarter of 2010 but fears of a double recession has begun to return despite the first three quarters of 2011 seeing positive economic growth. Analysts expect conditions in the UK economy to remain challenging over Q4 2011 and into 2012 as the crisis in the Eurozone poses a danger to economic growth.
- The Office for National Statistics ("ONS") reported that the unemployment rate had risen to 8.1% with the number of people unemployed reaching 2.57 million, a 17 year high. Youth unemployment is a particular problem with the total of 16 to 24 year olds unemployed reaching a record high of 991,000 in the quarter, which equals 21.3% of that age group. The number of people out of work and claiming benefits rose to 1.6 million in September.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets. The ECB is becoming increasingly concerned about the rate of inflation, which has risen from 2.2% to 3.0% during 2011, and inflation will not fall back. However at its November meeting the ECB has announced a 0.25% reduction in interest rates back down to 1.25% citing the ongoing financial crisis in the Eurozone.
- The US Federal Reserve announced a new stimulus programme, dubbed "operation twist", which involves the Federal Reserve selling $400 billion of Treasury bonds with maturities of 3 years or shorter and purchasing an equivalent amount of Treasury bonds with maturities of between 6 and 30 years. In addition the central bank decided to reinvest principal payments from its holdings of agency debt and MBS into agency mortgage backed securities, rather than into Treasuries in an effort to support the housing market.
- Concerns that Greece will default intensified in the third quarter as fears that many major banks would suffer serious losses because of their holdings of Greek government debt. These fears were exacerbated by the problems at the Franco-Belgian bank, Dexia, which has a €3.4bn exposure to Greek debt, a problem which has led to the French and Belgian governments stating that they would prevent a collapse of the bank. The downgrade of Italian government debt by Moody's also reignited fears that a Greek default might have a domino effect on other sovereign bond markets.
- The Portuguese government followed their Greek and Irish counterparts cap in hand to the ECB to request a bailout. The Greek government passed stringent austerity measures despite fierce protests from its citizens and narrowly avoided defaulting by managing to roll over its current debt into longer term obligations. Commentators fear that the current measures have just moved the default of Greece "down the road" were realised in the third quarter of 2011. After the 30 September 2011, a further bailout package has been announced for Greece, which includes a 50% hair cut on government debt.

- The pound depreciated against the US Dollar and Yen over the year but strengthened against the Euro. The sovereign debt crisis facing the Eurozone was the main driver in the depreciation of the Euro against Sterling.
- Economic Growth has slowed in Emerging Markets following tightening monetary policies against the background of increasing inflationary pressures. Rising finished goods inventories and falling export orders in Emerging Market countries such as South Korea and China, are likely to force companies to reduce further levels of production. The "knock-on" impact may lead to slower growth over 2011. However Emerging Market governments such as the Chinese Government have invested billions into infrastructure programmes to stimulate its economy. Meanwhile, the government has made a major effort to transform the economy away from its reliance on exports and towards stronger domestic consumption. Emerging Market countries have a more than manageable debt to GDP ratio, unlike certain Western economies such as Greece and Italy.

Equities

- The performance of equities over the year has been dominated by events in Q3 2011, with political differences in the US and the sovereign debt crisis in the Eurozone. The global equity markets fell sharply in late July and early August and were extremely volatile over the third quarter.
- The performance of global equities over the year to 30 September 2011 has been extremely volatile, with the UK equities producing a return of -4.4% and Europe ex UK equities performing poorly with a return of -13.6%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. In Sterling terms US equities have produced a return of 2.1% and Japan achieved a return of 1.9%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -11.7% and -15.3% respectively.

Fixed Interest

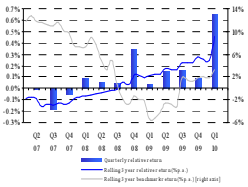
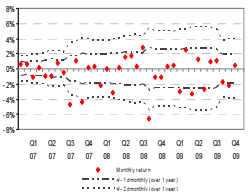
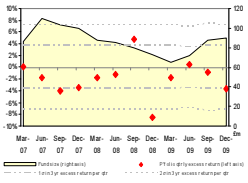
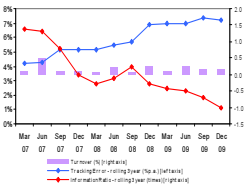
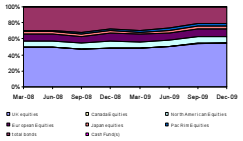
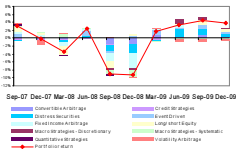
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 11.2% over the year. Corporate bonds produced a return of 3.3%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.
- Gilt yields fell amid the "flight-to-quality", caused by the continued uncertainty in the European bond markets. Italian bond yields have reached a record level in Q3 2011 and the sovereign debt crisis in Greece has continued to dominate headlines in over Q2 and Q3.
- Index-linked fixed interest assets produced a return of 13.6% over the year. Annual inflation rose above 5% as at 30 September 2011, a result of rising utility bills and the rising cost of household goods. However the Bank continues to believe annual inflation will fall sharply next year and could dip below the 2% target.
- The European debt crisis continues to dominate the headlines and the two major ratings agencies have downgraded Greece to junk bond status. The ECB's decision to keep interest rates at 1.5% is a blow to the southern European peripheral economies, which shows the ECB is more concerned about fighting inflation than holding down borrowing costs for embattled governments. Portuguese government bonds have also been cut to "junk bond" status and the yields on Italian government bonds has reached a record level.

Alternative Asset Classes

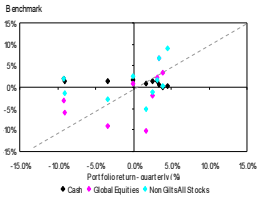
- Commodities produced a 4.1% return over the year. The price of gold has increased dramatically over the year, however has been volatile over Q3, peaking toward the end of August and significantly falling over the month of September on hopes that the European Finance Ministers were making progress towards solving the Eurozone sovereign debt crisis.
- Commercial property continued its upward trend over the year producing a return of 8.7%, with rental income the main driver of performance.
- Hedge funds produced a positive absolute return over the year but lagged certain equity regions.

Appendix B – Glossary of Charts

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

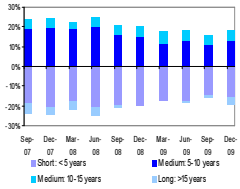
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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



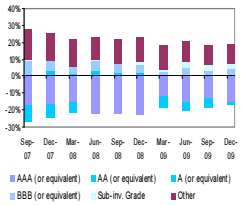
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



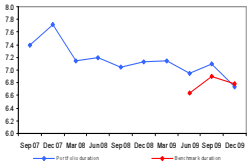
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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 C – 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%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+3.5-4.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-019

Meeting / Decision: Avon Pension Fund Committee
Date: 9 December 2011

Author: Liz Feinstein
Report Title: Review Of Investment Performance For Periods Ending 30 Sept 2011 Exempt Appendix Title: Appendix 3 - Summaries of Investment Panel meetings with Investment Managers

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

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the investment managers which is commercially sensitive to the investment managers. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

Weighed against this is the fact that the exempt appendix contains the opinions of Council officers and Panel members. It also contains details of the investment processes/strategies of the investment managers. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

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

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

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Appendix 4

Euro and European Financials exposure

Estimated exposure to Euro Denominated assets at 30 September 2011

	£m	% of Fund assets
Overseas Bond portfolios	21.6	0.9%
Equity portfolios	137.4	5.5%
Global Property Funds (units priced in Euro)	45.8	1.8%
Total Euro denominated exposure	204.8	8.2%

The Overseas Bond Portfolio has no exposure to Sovereign bonds issued by Greece, Ireland and Portugal. It has an estimated £2.1m invested in Spanish Government Bonds and £5.4m in Italian Government Bonds.

Some of the Global Property Fund units are priced in Euros. However the underlying assets are not necessarily in the Euro area. At 30 September 2011, on a look through basis, 32% of the global property portfolio investments were in Europe.

Estimated exposure to European Banks and Insurance Companies at 30 September 2011

	£m	% of Fund assets
Equities		
UK Banks	38.7	
European Banks	22.4	
UK Insurers	17.6	
European Insurers	15.9	
Total	**94.6**	**3.8%**
Corporate Bonds		
Financial companies	38	
Total	**38**	**1.5%**

Note: this excludes hedge funds; European banks includes Eurozone, Swiss, Swedish, Danish and Norwegian banks

Stock Price performance since 30 June 2011 (Sterling returns)

	Approx % of index at 30/9/11	Price change 30/6/11 to 12/11/11
HSBC	5.7%	-18.6%
Barclays	1.3%	-30.5%
Lloyds	0.9%	-41.2%
Royal Bank Scotland	0.3%	-41.5%
Banking Sector	10.0%	-22.5%
Life Insurance Sector	3.7%	-14.4%
FTSE All Share		-7.7%
European Bank Sector	8.7%	-37.6%
European Insurance Sector	5.3%	-30.5%
FTSE AW Europe		-21.0%

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**9 DECEMBER 2011**		
TITLE:	**PENSION FUND ADMINISTRATION - EXPENDITURE FOR YEAR TO 31 OCTOBER 2011 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 OCTOBER 2011 AND EMPLOYER/FUND PERFORMANCE FIRST 2 QUARTERS 2011**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 Summary Financial Account: financial year to 31 October 2011
Appendix 2 Summary Budget Variances: financial year to 31 October 2011
Appendix 3A Balanced Scorecard : 3 months to 31 October 2011 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 October 2011 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 October 2011 *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 31 October 2011 *(Pensions Clinics)*
Appendix 5 Active membership statistics over 24 months to October 2011 (*graph*) included as Graph 8 in Appendix 3B

Appendix 6 Joiners & Leavers (statistics & *graph*) included as Graph 9 in Appendix 3B

Appendix 7 Summary Performance Report on Scheme Employers performance (to be taken in exempt session) first 2 Quarters 2011
- **Annex 1 Deferreds / Annex 2 Retirements**

Appendix 8 List of Academies

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 October 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 31 October 2011.

1.3 A new Summary report on the performance of employers and the Fund is also included.

2. RECOMMENDATION

That the Committee notes

2.1 the expenditure for administration and management expenses incurred for the year to 31 October 2011 and Performance Indicators for the 3 months to 31 October 2011 and Summary Performance report for first two quarters 2011.

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4. COMMENT ON BUDGET

4.1 The summary Financial Accounts have been prepared to cover the period 1 April 2011 to 31 October 2011 and are contained in **Appendix 1**.

4.2 The variance for the year to 31 March 2012 is forecast to be £85,000 under budget. Within the directly controlled Administration budget it is forecast that expenditure will be £65,000 below budget as a result of reduced expenditure on salaries and general communications and an increased net recharge of compliance costs.

4.3 A summary of variances to 31st October 2011 and forecast for the full year is contained in **Appendix 2** to this Report.

5. ADMINISTRATION PERFORMANCE: BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR 3 MONTHS TO 31 OCTOBER 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 **Performance against target:** Appendix 3A shows the Fund's performance in processing tasks as measured against targets in the new SLAs. Although *Employer Self Service* targets Retirements, estimates and death processing at 80%, 88% and 89% were acceptable against their targets of 90%. Deferreds were also slightly below their target of 75% at 70%. Transfer in at 76% and transfers out at 69% were acceptable against their target of 75%.

5.3 In other areas shown in selected Graphs the Fund:

5.3.1 The Fund had excellent feedback on the service to member at clinics *(Chart 1)*

5.3.2 The trend in use of the Avon Pension Website continues as pensions remain high profile I the media (*Chart 2)*

5.3.3 A reduction in short term sickness and no long term sickness ; the use of temporary staff is within target *(Chart 3)*

5.3.4 The trend in new cases created continues to decline while the outstanding workload trend Is marginally increasing. These are relatively small numbers I comparison to total cases processed each month and is therefore not a cause for major concern. (*Charts 6 & 7))*

5.35 The level of **work outstanding** (Item C5 and charts 5-7) In the 3 month period, 3,399 tasks were created and 3,082 cleared (90.67%), leaving an outstanding workload of 9.33% which is within the APF target of 10%.

5.3 COMPLAINTS: There were **no** complaints received in the period.

6. MAJOR EVENTS DURING THE PERIOD

6.1 ACTIONS FROM THE NEW ADMINISTRATION STRATEGY

6.1.1 Service Level Agreements ("SLAs") All employers are expected to sign SLAs . To date 55 have been received out of a possible 120 and the remaining 65 are being followed up. The majority of the medium to larger employers have signed up. New employers will sign up of an SLA as part of the induction process.

6.1.2 EDI: Employers must be delivering information on changes starters and leaver by specified dates in 2012. For the smaller employers this will be achieved by using *Employer Self Service* but the Fund is working with medium to larger employers to do this on a bulk basis.

6.1.3 Employer Self Service This new facility was reported on at the last meeting. It allows employers to have on line access to selected areas of their employees' pension information. .There was a phased roll-out to those employers who elected to have it during November 2011. In view of the potential for misuse of data accessed by employers, stringent Terms and Conditions for use of the facility are in place and employers must accept these *each time* they log in. These Terms and Conditions were approved by B&NES legal, data protection and Audit departments before issue.

6.1.4 **Employer training**: A questionnaire to identify areas of the pension administration process where employers wanted training was sent to employers in the summer. There was a high response (71%) from employers. Although no major areas of need were identified by employers many require training for new staff and in areas of where changes to the Scheme have resulted in changes to process. A program of training is therefore being developed for early 2012.

6.2 2011 YEAR END / MEMBERS ANNUAL BENEFIT STATEMENTS ("ABSs")

6.2.1 **2011 YEAR END:** All Fund employers have now submitted their year-end salary and member contribution information and this has been posted to members' records and reconciled (***See Stewardship Report for more detail (Appendix 7).***

6.2.2 **MEMBERS ABSs:** Although no Annual Benefit Statements **("**ABS") were sent out in the reportable period those for active and deferred members have started to be rolled out in November 2011. All statements including deferred and councillor members will be sent by the calendar year end. As last year those for active members will be sent with the autumn edition of *Avon Pension News* to secure significant postage savings.

7. SUMMARY PERFORMANCE REPORT TO THE COMMITTEE

7.1 As part of the Administration Strategy which came into effect in April 2011 a new **Stewardship Report** is to be sent to all employers to report of both their and the Avon Pension Fund's administration performance against targets in the new SLAS. The frequency will depend on the size of the employer and frequency/level of

processes. Reports will be sent quarterly to the larger employers quarterly and follow up review meetings held as appropriate.

7.2 A Summary report to the Pensions Committee is also included as a requirement of the Strategy. The first report is included as **Appendix 7.** This is to be taken in ***exempt session*** as employers' names and performances in a league table format are included. The Report will disclose any poor performing employers which need to improve. It is important that the Committee are aware of these going forward.

7.3 **Appendix 7** contains:

- Graphs for each of the largest employers *(viz. 4 unitaries) showing performance on processing leavers ***(retirements and deferred*** at this stage). **Graphs 8 & 9 on Appendix 3B**

- Report on late **pension contributions** by employers to the Fund

- **Year-end information** from employers and **ABS** despatch will reported once a year only and because of timing the following is included in this report:

  - List of employers showing the dates in order they submitted information split on or before the due date by each employer and the overall percentage of employers received on or before the due date

  - Annual Benefit Statement - report on progress in production/despatch

**** Smaller Employers***: *Performance of the remaining employers is not included in this report this time. This is a difficult area as in many cases there is little or no movement in membership and where for example there is only one leaver in the period their performance will either be 0% or 100% which is not very helpful information. The best way to report their performance is therefore being investigated and the intention is to include information in future reports to Committee. Any particular smaller employers' performance against target where there is cause for concern will be specifically reported to the Committee from next report.*

8. LEVEL OF OPT OUTS FROM THE SCHEME

8.1 The Committee has asked that the level of opt outs from the Scheme be monitored in view of recent events affecting public pensions and the trend reported back to each Committee meeting.

8.2 APF's Administration processes were amended in June 2011 to identify opt outs in a reportable field. Reports run indicate that only 40 members with more than 3 months service opted out over the 5 month period to the end of October 2011. This equates to an annual amount of only 96 members. When expressed as percentage of the total membership of 33,519 this is only **0.29 per cent** per annum and is an encouraging sign that significant numbers of members are not leaving the Scheme in advance of knowing what the increase to pension contributions and benefits will be.

8.3 Although the standard members Opt Out form has been amended to ask them to specify ***why*** they have chosen to opt out using 4 simple to use tick boxes very few members have indicated why however those few that have done so have indicated cost as the reason for leaving the Scheme.

The position on opt outs will continue to be monitored and reported to the Committee at each of its Meeting.

9. TRENDS IN MEMBERSHIP/ JOINERS AND LEAVERS

The active membership statistics are shown in graph format in ***Appendix 3B Graph 8*** and the numbers of joiners and leavers feeding into this also in graph format in ***Appendix 3B Graph 9.***

The overall membership has **remained fairly constant** over the last few years around the 33-34,000 mark but there has been a noticeable fall in joiners over the same period which is perhaps to be expected with the on-going recruitment freeze in local authorities. A similar fall in leavers (which would include opt outs) has mirrored the downward trend.

10. NEW ACADEMIES

10.1 Since the change in government policy establishing academies, devolved from local authority control, the Fund has experienced a significant increase in employing bodies. The current list of new academies can be found in Appendix 8 (includes those schools that are in the process of converting to academy status).

10.2 This has generated a significant amount of additional work that is being absorbed by the Employer Relationship team (manages new employers into the Fund) and the Systems Team that amend the member records.

10.3 The new academies have a deficit at the outset. This arises because the liabilities of the active members are transferred to the academy whereas the assets transferred are reduced to ensure that the pensioner and deferred liabilities that remain with the unitary council are fully funded. In the future the academies will accrue liabilities relating only to the active members.

11. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 OCTOBER 2011

11.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on 73 questionnaires returned from ***active*** members retiring. On average 85% received their lump sum and their first pension payments within “10 day” target *(See chart).*

Appendix 4B reports on the customer satisfaction based on a small sample of 28 questionnaires returned from *former* active members retiring from ***deferred*** status. 86% received their lump sum and 87% their first pension payments within “10 day” target *(See chart).*

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

11.2 ***Clinics*** In this period 3 clinics were held 53 members gave feedback with a good/excellent rating of 98% for the service provided by APF staff. The venue and location was slightly less well-rated scoring a good/excellent rating of 89%. (See **Appendix 4C)**

12. RISK MANAGEMENT

12.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an

appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

13. EQUALITIES

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

14. CONSULTATION

14.1 None appropriate.

15. ISSUES TO CONSIDER IN REACHING THE DECISION

15.1 This report is for noting only.

16. ADVICE SOUGHT

16.1 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 (*All except budgets*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR TO 31 OCTOBER 2011

	YEAR TO 31 OCTOBER 2011			FULL YEAR FORECAST AT 31 /10/2011		
	ACTUAL £	BUDGET £	VARIANCE £	FORECAST £	BUDGET £	VARIANCE £
Investment Expenses	56,245	64,863	(8,618)	101,026	101,026	0
Administration Costs	48,946	51,387	(2,441)	78,319	78,319	0
Communication Costs	81,477	93,070	(11,593)	158,117	168,117	(10,000)
Information Systems	165,104	157,399	7,705	166,956	166,956	0
Salaries	725,319	760,340	(35,021)	1,273,440	1,303,440	(30,000)
Central Allocated Costs	231,347	241,778	(10,430)	394,420	394,420	0
Miscellaneous Recoveries/Income	(80,132)	(83,367)	3,235	(139,200)	(139,200)	0
Total Administration	**1,228,306**	**1,285,470**	**(57,164)**	**2,033,078**	**2,073,078**	**(40,000)**
Investment Governance & Member Training	118,453	169,849	(51,396)	291,170	291,170	0
Members' Allowances	23,555	23,592	(37)	40,443	40,443	0
Independent Members' Costs	12,674	10,943	1,730	18,760	18,760	0
Compliance Costs	194,920	145,655	49,265	294,575	269,575	25,000
Compliance Costs recharged	(128,623)	(52,000)	(76,623)	(102,000)	(52,000)	(50,000)
Governance & Compliance	**220,979**	**298,039**	**(77,062)**	**542,948**	**567,948**	**(25,000)**
Global Custodian Fees	85,236	83,417	1,819	143,000	143,000	0
Investment Manager Fees	4,776,018	4,985,721	(209,703)	8,526,950	8,546,950	(20,000)
Investment Fees	**4,861,254**	**5,069,138**	**(207,884)**	**8,669,950**	**8,689,950**	**(20,000)**
NET TOTAL COSTS	**6,310,539**	**6,652,647**	**(342,109)**	**11,245,976**	**11,330,976**	**(85,000)**

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Summary of main budget variances: Forecast for year, as at 31st October 2011 APPENDIX 2

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

Expenditure Heading	Amount of Variance *	Most Significant Reasons for Variance
Salaries	(30,000)	Staff vacancies have been temporarily left unfilled and superannuation budget cost was higher than required. This has not currently affected the level of service provided.
Compliance Costs	25,000	The forecast increase of £25,000 in expenditure against budget is a combination of £50,000 increase in Actuarial charges which is partly offset by an audit requirement to recognise the cost of the triennial valuation in the year the valuation was performed (2010/11) and not to the years in which it would apply as was assumed in the budget. This is a change in policy. Increased expenditure on actuarial fees is offset by increased recharging of fees to employing bodies.
Compliance Costs Recharged	(50,000)	Increased recharges of actuarial fees as per above.
General Communication Costs	(10,000)	Greater use of freely available software has allowed savings to be made on the cost of developments in this area.
Investment Manager Fees	(20,000)	The budget was prepared prior to the appointment of the currency hedging manager. The full year cost of this is currently forecast to be £605,000. This is more than offset by the reductions in fees as a result of the markets lagging the return assumed in the budget.
Total Underspend	**(85,000)**	

***-ve variance represents an under-spend or recovery of income over budget**
+ve variance represents an over-spend or recovery of income below budget

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PENSIONS SECTION ADMINISTRATION

APPENDIX 3A to Budget Monitoring Report at 31st Oct 2011

Key Performance Indicators

INDICATOR	Green Red Amber	Reporting Dept	2010/11 Actual	Target for 2011/12	Actual - 3 months to 31/10/2011	Comment	
Customer Perspective							
General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	98%	3 clinics held during period.	Graph 1
General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	96%	Generally good from response from retirees	
Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future See separate appendix	
Level of Equalities Standard for Local Government	G		100%	100%	100%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
Service Standards - Processing tasks within internal targets (SLA)							
Deaths [12 days]	G	Admin	76%	90%	90.00%	17 of 19 tasks were completed within target.	
Retirements [10 days]	G	Admin	82%	90%	80.00%	389 of 486 tasks were completed within target.	
Leavers (Deferreds) [10 days]	A	Admin	62%	75%	70.00%	352 of 500 tasks were completed within target.	
Refunds [5 days]	G	Admin	85%	75%	77.00%	33 of 43 tasks were completed within target.	
Transfer Ins [25 days]	G	Admin	64%	75%	76.00%	126 of 165 tasks were completed within target.	
Transfer Outs [20 days]	G	Admin	74%	75%	69.00%	61 of 88 tasks were completed within target.	
Estimates [10 days]	G	Admin	94%	90%	88.00%	903 of 1022 tasks were completed within target.	
Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
Number of complaints	G	Admin	2	0	0	No complaints received in the period	
Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	on time	100%	100%	due next quarter	
Number of hits per period on APF website	G	Admin	49256	36000p/a 3000p/q	16009	5336 per calendar month for reporting period	Graph 2
Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	n/a	none this quarter	
Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	N/A	due next quarter	
Annual Benefit Statements distributed by year end	G	Admin	70%	100%	N/A	due next quarter	

People Perspective

Health & Safety Compliance			G	All	100%	100%	100%		
% of staff with Investor in People Award (IIP)			G	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
% of new staff leaving within 3 months of joining			G	All	0%	4%	0%		
% of staff with up to date Performance Reviews			G	All	97%	100%	n/a	Duelater this year	
% Sickness Absence	a) Short Term	b) Long Term	G	All	2.50%	a) 3% b) 3%	a) 2.33 b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
% of staff with an up to date training plan			G	All	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2011 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.	

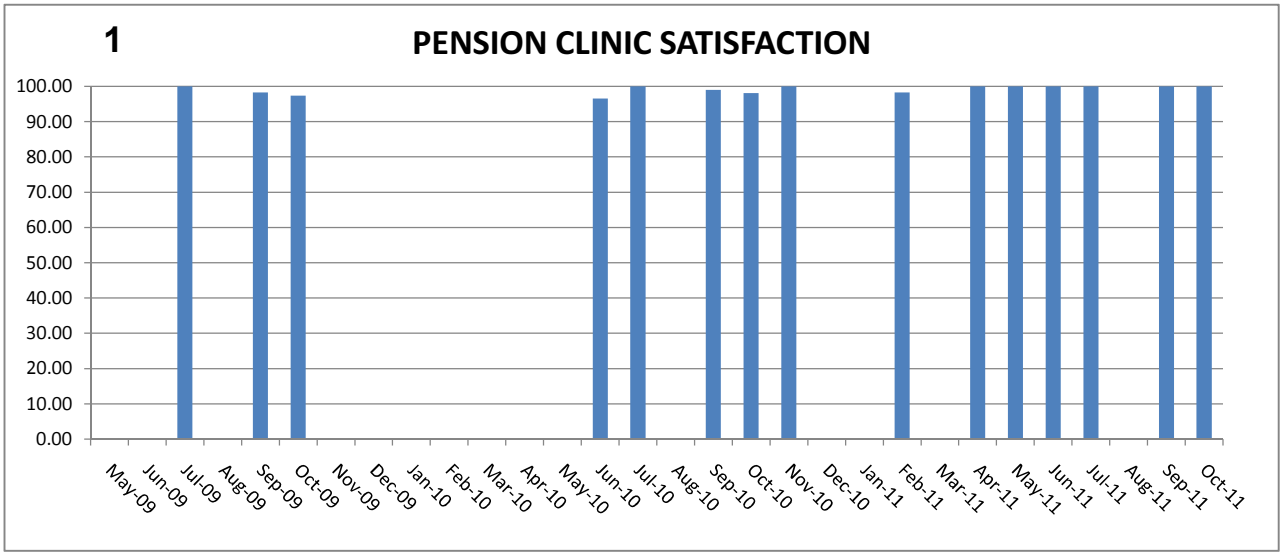
Process Perspective

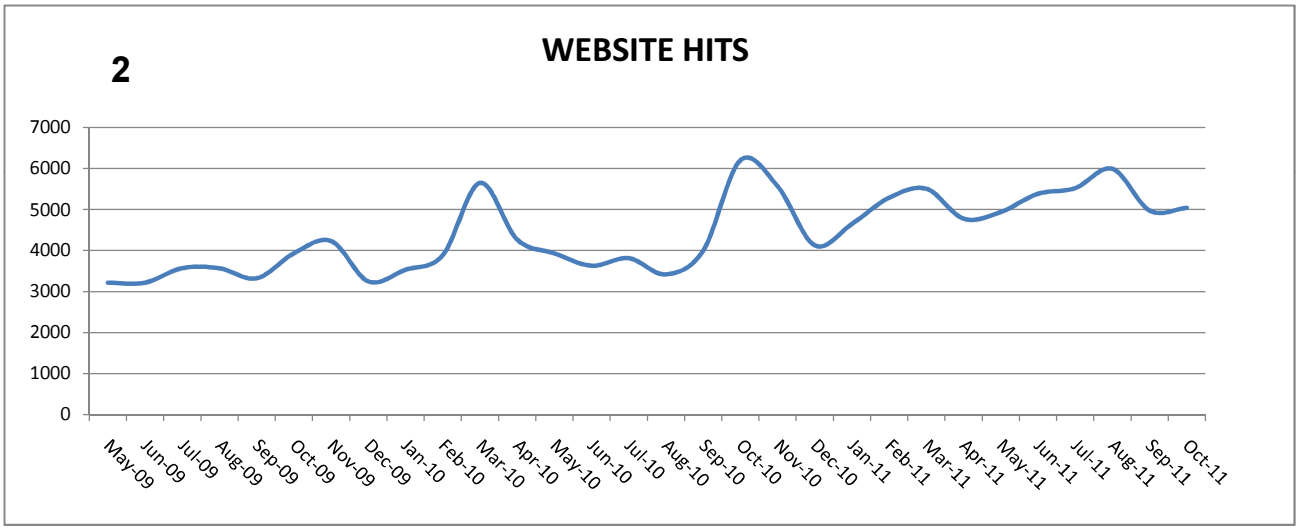
a) Services actually delivered electronically	b) Services *capable* of delivery to members	A	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 2000 members are happy to receive info electronically b) Section able to deliver all targeted services electronically (See Admin Report)	
% Telephone answered within 20 seconds		G	Admin	99%	98%	98.6%	8292 calls, 8179 answered within 20 seconds	**Graph 4**
% Complaints dealt with within Corporate Standards		G	Admin	100%	100%	100%		
Letters answered within corporate standard		G	Admin	95%	95%	100%	Ahead of target	
Maintain work in progress/outstanding at **below 10%**		G	Admin	5.77%	10%	9.33%	3399 Created, 3082 cleared (90.67.% leaving 9.33% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions		G	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 4.6% b) 0.11%	6 out of 130 employers sent their contributions in late. **No persistent late-payers.** Employers are reminded regularly of their legal obligations to pay on time and the possibility (under the 2007 Admin Regs) of billing them for extra charges if unnecessary additional work is created for APF.	
Year End update procedures (conts & salaries to be received by 31/08/2011)		G	Admin	81%	100%	100%	All Pen Conts and Pen Rems now received	
No. of customer errors (due to incomplete data)		G	Admin	2%	3%	2%	Acceptable error level	

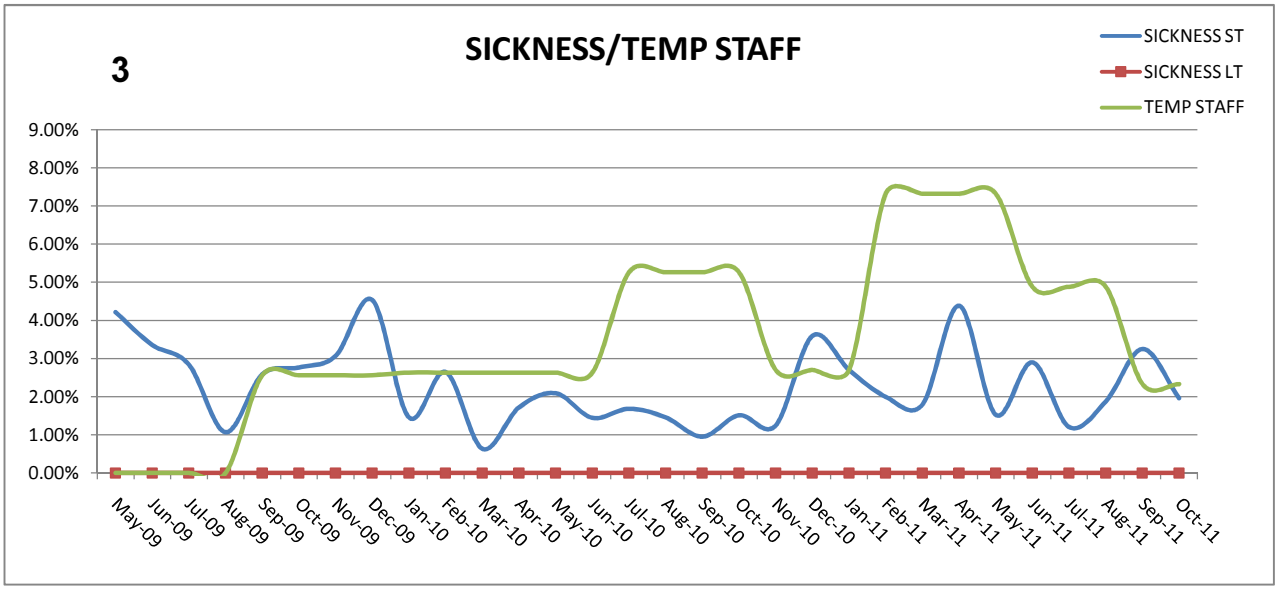
Resource Perspective

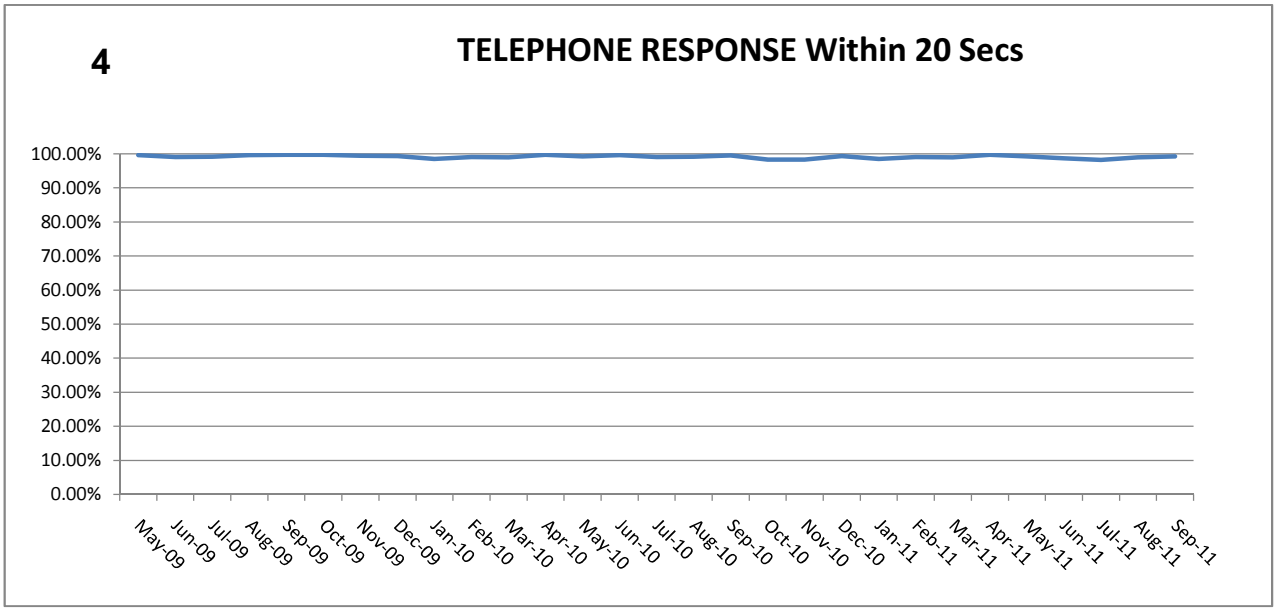
% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	98.00%	Business Financial Services (inc Pensions) figure is marginally below target
Temp Staff levels (% of workforce)	G	All	0.40%	3%	2.33%	Below target
% of IT plan achieved against target	R	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow. The new Admin Strategy is being used to encourage employers to provide information electronically as the norm. New Empoyer Access module twas rolled out in October 2011 at no cost to employers. . In the next Altair release in early 2012 employer swill be able to go on line to key information electronically into the pensions database.
% 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. A Training Plan for staff is being developed for 2012.

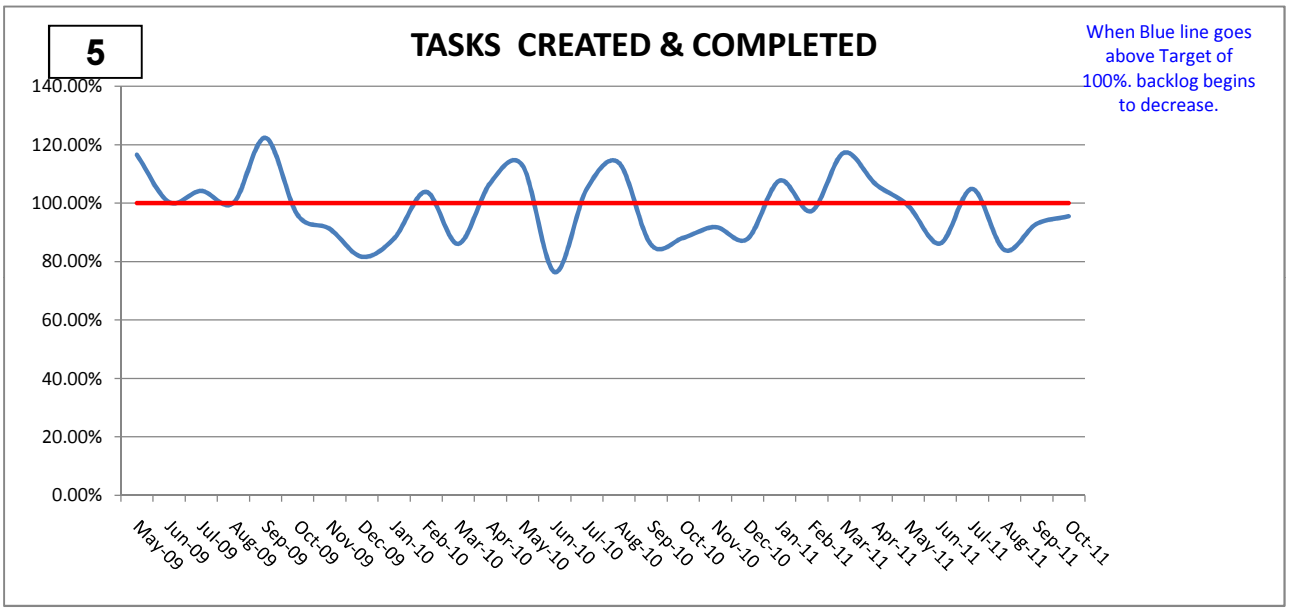
APPENDIX 3A to Budget Monitoring Report at 31st Oct 2011 **GRAPH FORMAT**

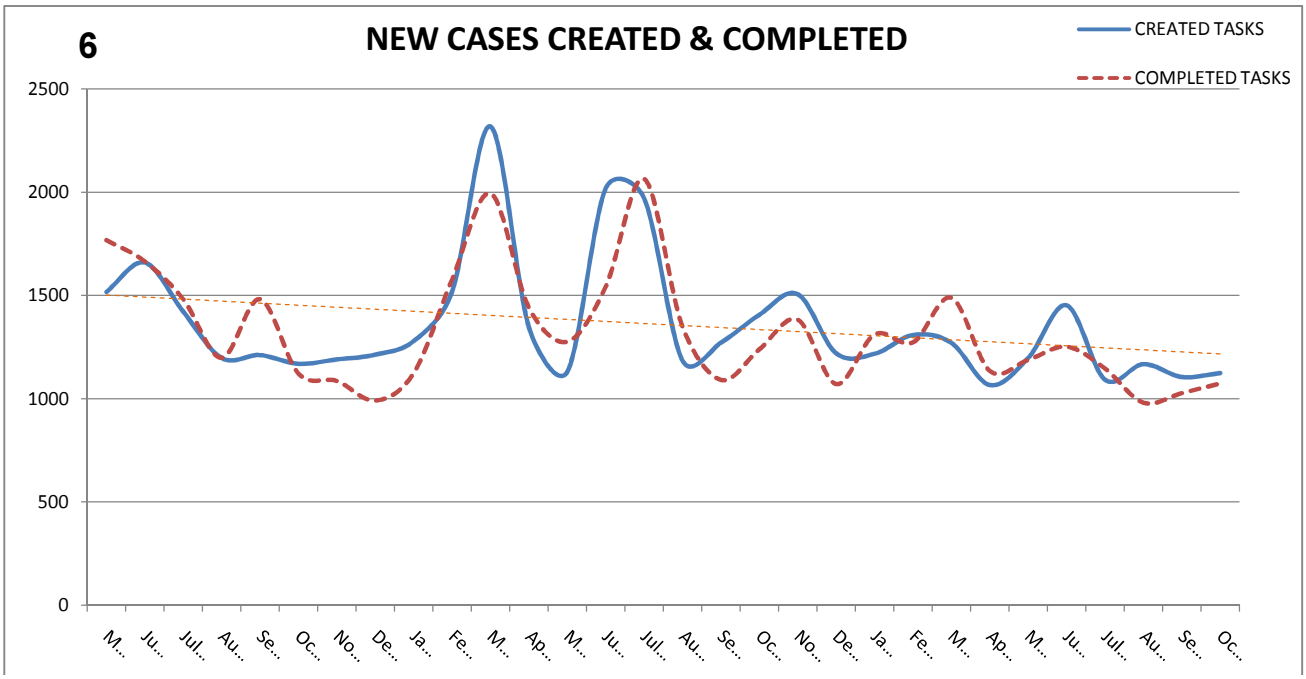


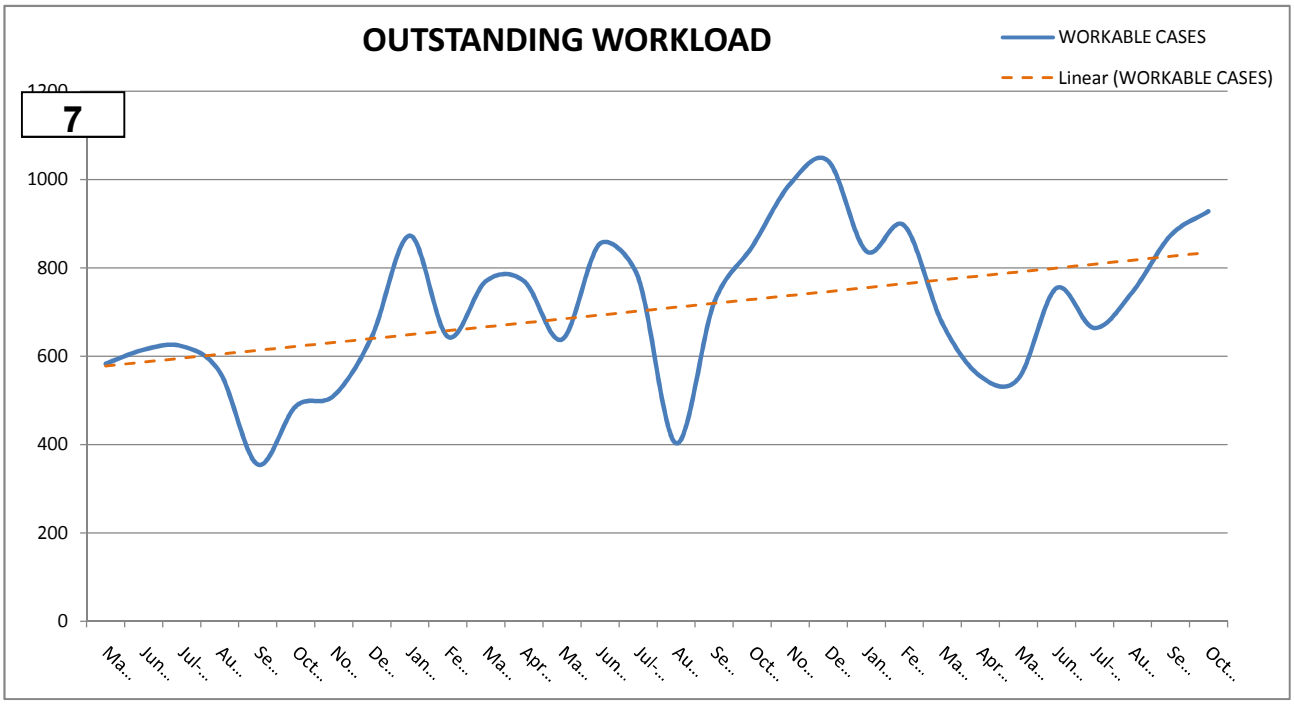





4
TELEPHONE RESPONSE Within 20 Secs
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11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


6
NEW CASES CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
2500
2000
1500
1000
500
0
M... Ju... Jul... Au... Se... Oc... No... De... Ja... Fe... M... Ap... M... Ju... Jul... Au... Se... Oc... No... De... Ja... Fe... M... Ap... M... Ju... Jul... Au... Se... Oc...


OUTSTANDING WORKLOAD
WORKABLE CASES
Linear (WORKABLE CASES)
7
1200
1000
800
600
400
200
0
Ma...
Jun...
Jul-...
Au...
Se...
Oct...
No...
De...
Jan...
Fe...
Ma...
Apr...
Ma...
Jun...
Jul-...
Au...
Se...
Oct...
No...
De...
Jan...
Fe...
Ma...
Apr...
Ma...
Jun...
Jul-...
Au...
Se...
Oct...

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Active Retirements August - October 2011

Responses to Retirement Questionnaire

	Number of Questionnaires in this period		73		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	72	99%
			NO	1	1%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	43	59%
		B	Within 10 working days after R'ment date	18	25%
		C	Later than 10 days after R'ment date	12	16%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	39	91%
			Later than 10 days after R'ment date	4	9%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	14	78%
			Later than 10 days after returning Opt Form	4	22%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	9	75%
			Later than 10 days after returning Opt Form	3	25%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	62	85%
			Later than 1 month after R'ment date	11	15%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	47	64%
			Good	22	30%
			Average	5	7%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	9	12%
			No	64	88%
7	Were you treated with sensitivity & fairness?		Yes	71	97%
			No	2	3%

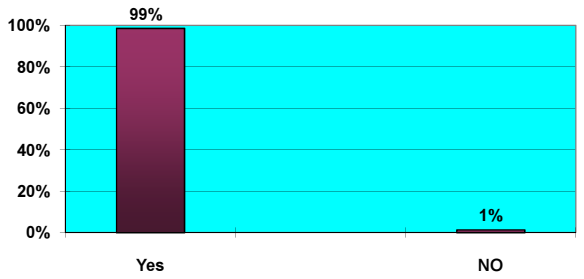
Deferred Retirements August - October 2011

Responses to Retirement Questionnaire

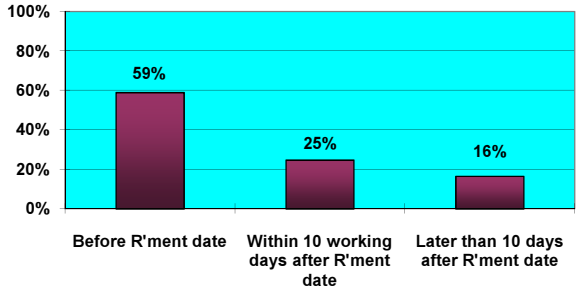
	Number of Questionnaires in this period		28		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	27	96%
			NO	1	4%
2	Did you receive your LGPS Retirement Benefits Option Form.....	A	Before R'ment date	24	86%
		B	Within 10 working days after R'ment date	2	7%
		C	Later than 10 days after R'ment date	2	7%
3A	Did you receive your Lump Sum Payment.....		Within 10 days after R'ment date	19	79%
			Later than 10 days after R'ment date	5	21%
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	0%
3C	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	1	50%
			Later than 10 days after returning Opt Form	1	50%
4	Did you receive your first Pension Payment....		Within 1 month after R'ment date	24	86%
			Later than 1 month after R'ment date	4	14%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	21	75%
			Good	7	25%
			Average	0	0%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	2	7%
			No	26	93%
7	Were you treated with sensitivity & fairness?		Yes	28	100%
			No	0	0%

Active Retirements August - October 2011

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

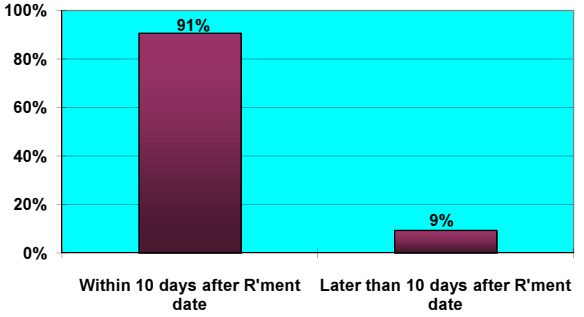


2. Did you receive your LGPS Retirement Benefits Option Form…...?

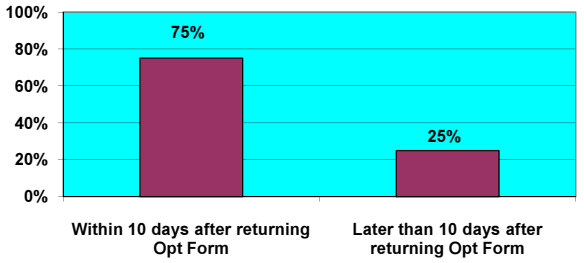


From Question 2 above (column 1)

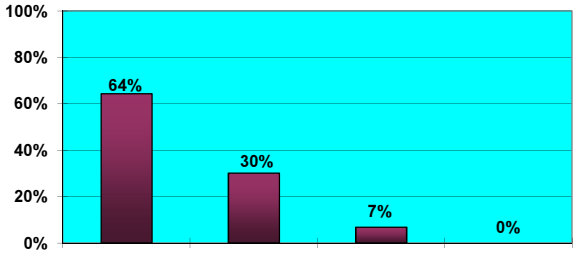
3A. Did you receive your Lump Sum Payment…..?



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

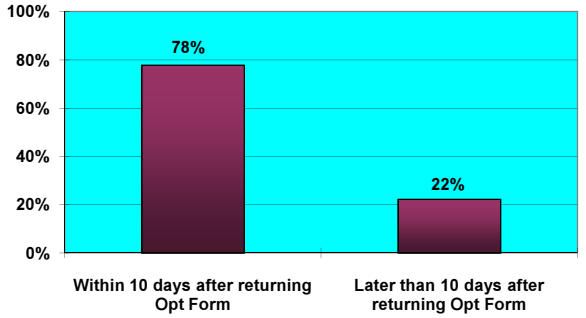


5. Overall, how would you rate the service you received from Avon Pension Fund?

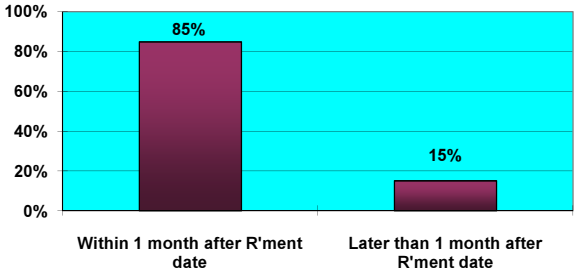


From Question 2 above (column 2 & 3)

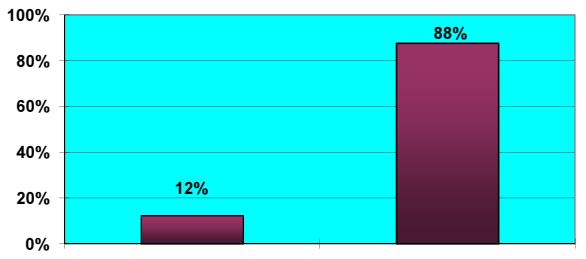
3B. Did you receive your Lump Sum Payment...?



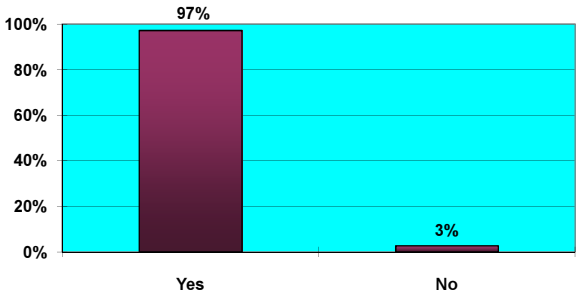
4. Did you receive your first Pension Payment...?



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



7. Were you treated with sensitivity & fairness?



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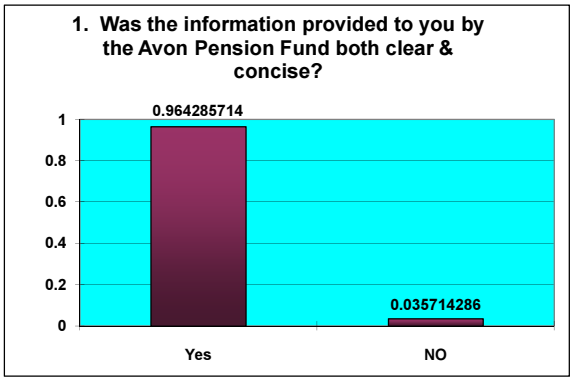
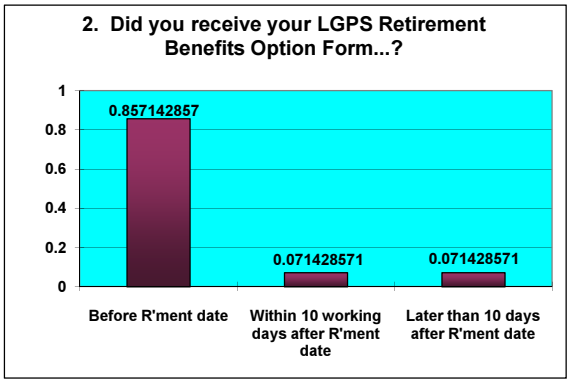
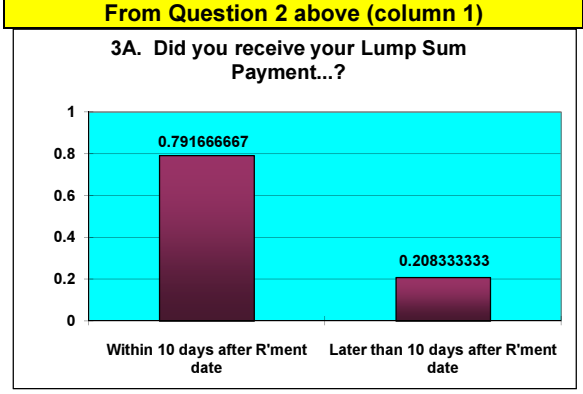
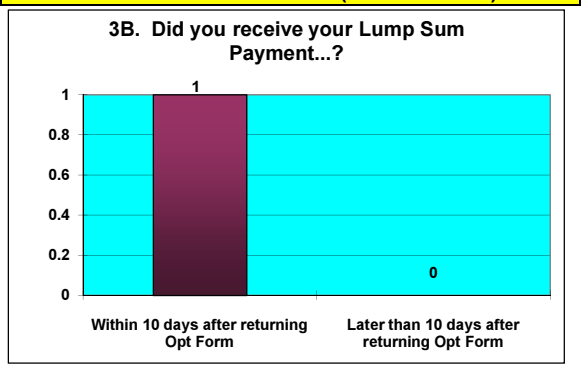
Deferred Retirements August - October 2011 **APPENDIX 4B**

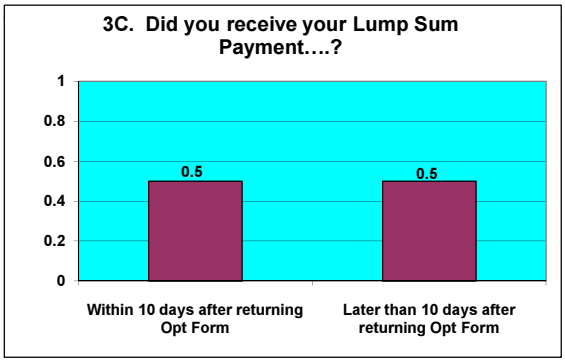


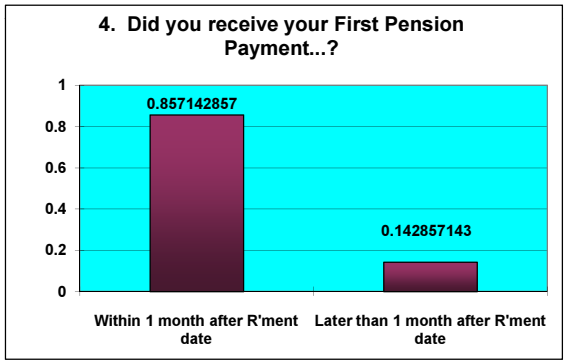


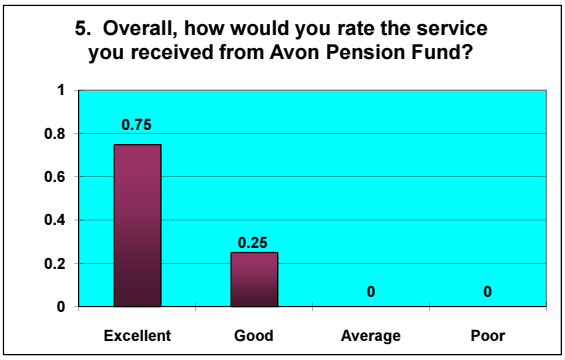
From Question 2 above (column 1) | **From Question 2 above (column 2 & 3)**

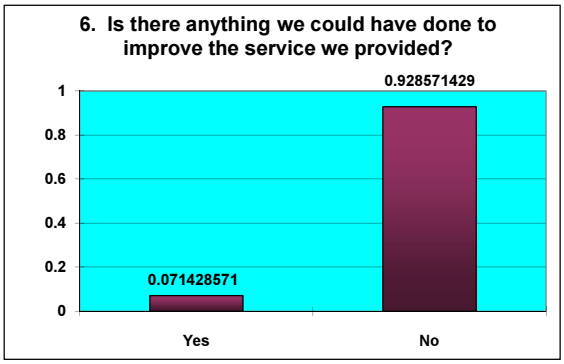


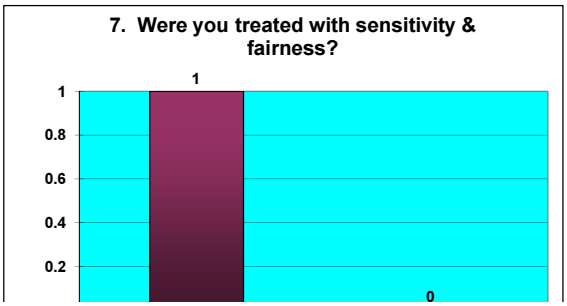










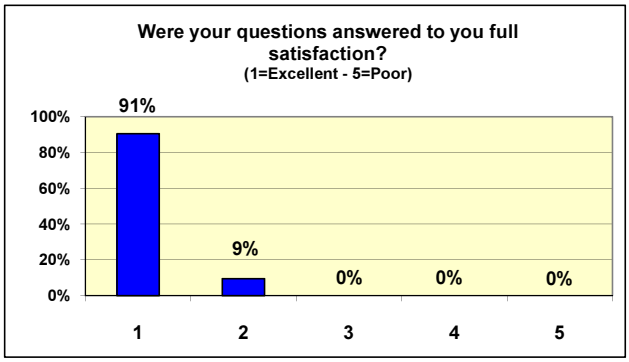


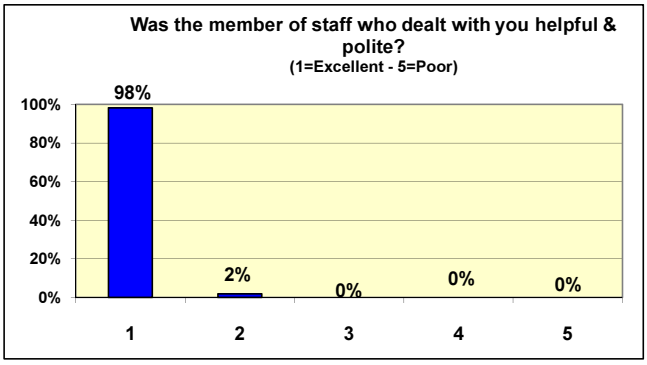
Clinic Feedback Results Aug - Oct 2011

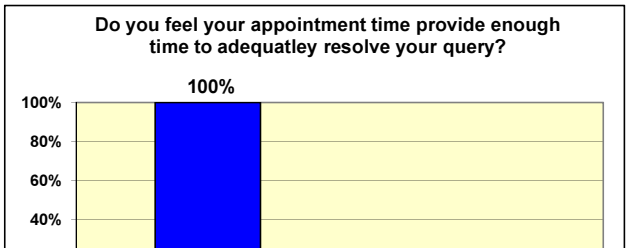
Bristol City Council (Pavillion) 6 - 9 - 11
Banes (Guildhall) 21 - 9 - 11
South Glos (Yate) 18 - 10 - 11

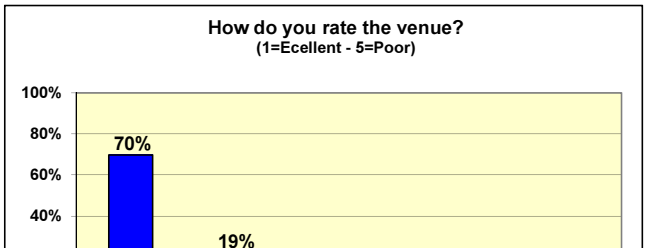
Number of questionnaires 53

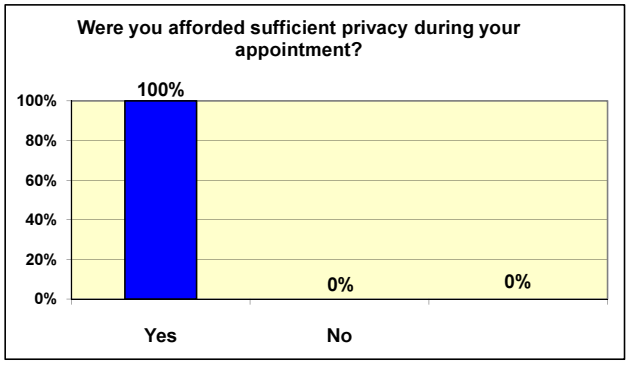
		No.	%
Were your questions answered to your full satisfaction?	1	48	91%
	2	5	9%
	3	0	0%
	4	0	0%
	5	0	0%
Was the member of staff who dealt with you helpful and polite?	1	52	98%
	2	1	2%
	3	0	0%
	4	0	0%
	5	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	53	100%
	No	0	0%
How do you rate the venue?	1	37	70%
	2	10	19%
	3	4	8%
	4	2	4%
	5	0	0%
Were you afforded sufficient privacy during your appointment?	Yes	53	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	51	96%
	No	2	4%
	No response	0	0%
Was this location convenient for you?	Yes	47	89%
	No	6	11%

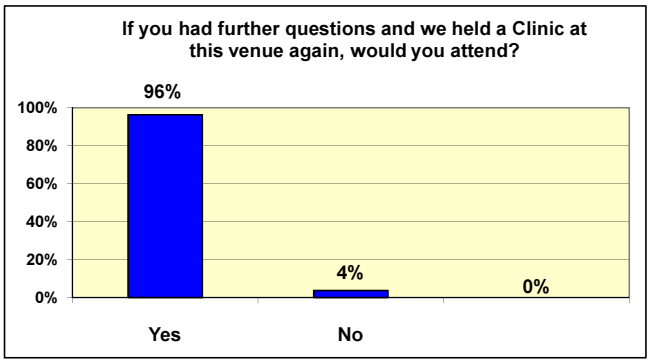


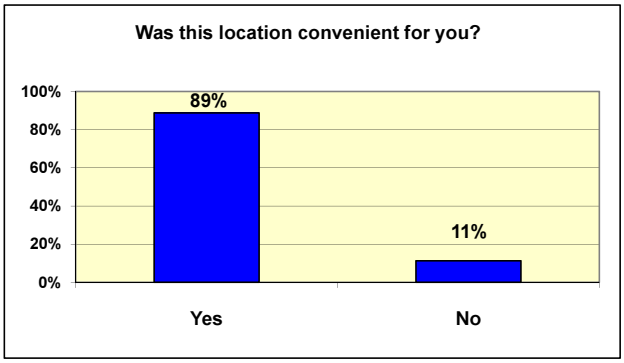







Were you afforded sufficient privacy during your appointment?
100%
80%
60%
40%
20%
0%
100%
0%
0%
Yes
No


If you had further questions and we held a Clinic at this venue again, would you attend?
100%
80%
60%
40%
20%
0%
96%
4%
0%
Yes
No


Was this location convenient for you?
100%
80%
60%
40%
20%
0%
89%
11%
Yes
No

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

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**REVIEW OF INTERNAL CONTROL REPORTS OF INVESTMENT MANAGERS & FUND CUSTODIAN**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

1 THE ISSUE

1.1 As part of the risk management process the Fund's Officers annually review the internal control reports of the investment managers and the custodian.

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

2 RECOMMENDATION

The Committee is asked to:

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

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 BACKGROUND

4.1 As part of the risk management process, the Fund's Officers annually review the internal control reports prepared by the investment managers and the custodian, which describe their internal control environment. These reports are externally audited, but the format and content is not prescribed and therefore they vary in content and the level of detail. Generally, the company's management identifies the controls needed by the organisation to achieve the control objectives. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the control objectives or not.

4.2 In the UK, it is best practice for investment managers and custodians to produce an AAF 01/06 Report (Technical Release 01/06 of the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales). The US equivalent is a SAS 70 Report (Statement of Auditing Standards), however for examination periods ending after June 2011 the SAS 70 standards have been superceded by new standards – SSAE No 16 (Statement on Standards for Attestation Engagements). The new standards are similar, but tighten requirements for disclosure. The Fund's Custodian BNY Mellon has reported against the updated standards ahead of time.

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

4.4 Additional work has been undertaken this year to support the external audit on assessing the risks around the valuation of assets by investment managers and ensuring in particular that investment managers have adequate valuation policies in place.

5 REVIEW OF INTERNAL CONTROL REPORTS

5.1 In October 2011 the Officers reviewed the internal control reports for the year ending 31 December 2010 for all of the investment managers and the custodian.

5.2 In each case the external auditor's report stated that the controls were in place and achieved the control objective. Last year's only exception (regarding logical access to IT systems at RLAM) has been remedied by RLAM and confirmed by their auditor's report for the current year.

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

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

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

6 RISK MANAGEMENT

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

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

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES CONSIDERED REACHING THE DECISION

9.1 None as for information only.

10 ADVICE SOUGHT

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

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395306)
Background papers	AAF 01/06, SAS 70 & SSAE 16 reports from investment managers, custodian and administrators. Audited Financial Statements of Fund of Hedge Funds.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 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 At this stage the primary focus of the Panel is monitoring the investment managers as no investment projects are currently delegated to the Panel

4.4 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.

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.

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	On-going
Review of investment strategy	Investment Panel to make recommendations to Committee – see Investment Panel workplan for projects	On-going
Review manager performance	Officers to formally meet managers annually See IP workplan for Panel meetings	2011/12 dates confirmed
SRI Review	Workshops to be planned for September-December to review SRI policy	December 2011/March 2012
Interim valuation	Report to committee and employers on outcome of interim valuation.	December 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.	On-going
Budget and Service Plan 2012/15	Preparation of budget and service plan for 2012/15	March 2012
Investments Forum	Organise forum meeting expected to be held in 2Q12 and 4Q12	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for employing bodies	

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WORKPLANPOSITION AS AT 31 OCTOBER 2011 APPENDIX 2

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2012

Project	Proposed Action	Report
Employer Self Service	*Employer Self Service* a heywood software application). Next release will allow employers to go on line and do starters and leavers electronically. Expected roll out to employers early in 2012.	N/A
Administration Strategy(SLA) Agreements	The Pensions Administration Strategy effective from April 2011. important areas to be progressed: 1. Employer staff training - plan being drawn up to give training in early 2012 2. Electronic reporting of member data changes either by bulk Electronic Data Interface *or* via Employer Self Service (*see above*) by April or October 2012, depending on employer's size.	N/A
Electronic Delivery of information to members	Devise a Strategy to move to electronic delivery to all members (other than those who choose to remain with paper) Provide members with the 2 further notices of the Fund's intention to cease to send them paper copy communication in favour of electronic delivery (unless they opt out from this).	N/A
Strategy to communicate proposed government changes to LGPS benefits (Post Hutton and H M Treasury proposed increase in members' contributions)	To put in place a workable strategy/timetable to effectively communicate the proposed changes (Post Hutton and H M Treasury proposed increase in members' contributions) to the Scheme and what it will mean for members/employers utilising electronic (website) paper and face to face meetings with employers' and their staff.	N/A
Respond to recently issued HM Treasury papers	Put in a response to the Consultation Document on increasing pension contributions from April 2012 and changing the benefit structure for possibly 2 years from 2013 to 2015 issued by HM Treasury. Closing date 6th January 2012 *(copy of draft response being considered at this meeting).* Respond to HM Treasury on their paper (not yet a consultation document) presented to Parliament in November 2011 *"Public Service Pensions: good pensions that last"* which set out significant proposed reform to design of all Public Sector pension schemes	Dec 2011
Member opt out rates	Monitor and report on these to Committee each meeting	N/A
AVC Strategy	Finalise new AVC Investment Strategy for approval by Committee	March 2012

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Appendix 3

Committee Workplan to 31 March 2012

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
Review of SRI Policy – Stage 1& 2 reports
Review Statement of Investment Principles
Workplans
Planned Workshop – SRI Policy Review 1Q12 Stage 2

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2012

Panel meeting / workshop	Proposed reports	Outcome
22 Nov 2011 Workshop and Meeting	• Review mangers performance to Sept 2011 • SSgA Pooled Funds • Meet the managers workshop (Genesis)	• Agree any recommendations to Committee
22 Feb 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Partners, Schroder equity, Jupiter)	• 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

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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 2012***
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	2Q2012

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	Interim Valuation workshop 4Q11 Refresher for 2013 valuation in late 2012

Planned Committee Workshops 2011/12

Workshop	Content	Timing
SRI - Stage 1	Overview and Direction of Policy	4Q11
SRI – Stage 2	Implementation options	1Q12
Hutton Proposals	***Implications of Hutton proposals will be covered in Interim Valuation Workshop***	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	2012
Private Equity	introduction to the asset class	2013

Note – changes since last meeting in bold italics