Bath & North East Somerset Council

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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: 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, 16th March, 2012

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 16th March, 2012** at **2.00 pm** in the **The Carter Room - Fry Club and Conference Centre.**

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, 16th March, 2012

at 2.00 pm in the The Carter Room - Fry Club and Conference Centre

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 9 DECEMBER 2012 (Pages 7 - 18)

8. INDEPENDENT MEMBERS AND INDEPENDENT INVESTMENT ADVISOR (Pages 19 - 22)

9. SERVICE PLAN 2012-2015 (Pages 23 - 42) *15 minutes*

10. TREASURY MANAGEMENT POLICY (Pages 43 - 54) *10 minutes*

11. CLG CONSULTATION ON AMENDMENTS TO REGULATIONS - VERBAL UPDATE *15 minutes*

12. ADMISSION BODIES - TERMINATION POLICY (Pages 55 - 80) *10 minutes*

13. ACADEMIES - CLG/DOE GUIDANCE (Pages 81 - 94) *10 minutes*

14. REVISED STATEMENT OF INVESTMENT PRINCIPLES (Pages 95 - 124) *5 minutes*

15. INVESTMENT PANEL MINUTES (Pages 125 - 134) *5 minutes*

16. RECOMMENDATIONS FROM INVESTMENT PANEL (Pages 135 - 154) *15 minutes*

Members are invited to consider the reasons for and against disclosure as set out in the public interest test document attached to the report, and to pass the following resolution before discussing Appendices 1, 2 and 3:

"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 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."

17. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2011 (Pages 155 - 214) *20 minutes*

Members are invited to consider the reasons for and against disclosure as set out in the public interest test document attached to the report, and then to pass the following resolution before discussing Appendix 3:

"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."

18. PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 JANUARY 2012 & PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JANUARY 2012 & STEWARDSHIP REPORT (Pages 215 - 254) *20 minutes*

Members are invited to pass the following resolution before discussing Appendix 7 and its two annexes:

"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."

19. AUDIT PLAN 2011-2012 (Pages 255 - 274) *5 minutes*

20. WORKPLANS (Pages 275 - 286) *5 minutes*

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, 9th December, 2011, 2.00 pm

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) and Ann Berresford (Independent Member)

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

Advisors: John Finch (JLT Benefit Solutions) and Paul Middleman (Mercer)

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

39 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

40 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Carolan Dobson and Councillor Clive Fricker.

41 DECLARATIONS OF INTEREST

There were none.

42 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

A statement and two questions were received from Councillor David Willingham of Bristol City Council. A copy of these together with the Chair’s replies is attached as an Appendix to these minutes.

A Member thought that it was not acceptable for the Fund to delegate voting decisions to its external investment managers and that it should have a policy on executive pay. Another agreed. The Chair commented that the Fund had two managers who voted on the Xstrata remuneration package, one of whom had abstained. He said that the issue of delegation of voting would be picked up in the Committee's review of Socially Responsible Investment.

Statement and questions from Cllr David Willingham, Bristol City Council

44 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

45 MINUTES: 23 SEPTEMBER 2011

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

46 INTERIM ACTUARIAL VALUATION

Members had considered this item at the workshop that had immediately preceding the meeting.

A Member asked why gilt yields were used in the valuation process, as it was hardly likely that the whole fund would be sold in order to buy gilts. Mr Middleman replied that gilts were used as the basis to assess the value of the Fund in case of insolvency. At present gilt yields were driving up liabilities.

RESOLVED to note the information set out in the report.

47 RESPONSE TO CLG CONSULTATION ON SCHEME CHARGES

The Technical Development Manager presented the report.

The Department of Communities and Local Government had published a consultation paper on 7 October 2011 on achieving the savings required by the Comprehensive Spending Review of October 2010. The document covered scheme changes covering the period 1 April 2012 to 31 March 2015. In November 2011 the Treasury had released to Trade Unions basic proposals arising from the recommendations of the Hutton Review. Appendix 1 to the report contained a draft response to the DCLG consultation. It was also proposed that a letter be sent in response to the Treasury proposals highlighting a number of issues.

The Strategic Director of Resources and Support Services said that the DCLG consultation gave an opportunity to make a number of points clearly to the Government, namely that that public sector pensions should be sustainable and affordable and that the Local Government Pension Scheme was a funded scheme and so different from other public sector pension schemes.

A Member suggested that the Committee's response should accept an increase in the retirement age; this would be better than a rise in contributions or a decrease in benefits. Another Member, however, pointed out that if people worked longer, there would be fewer opportunities for young people to enter the work force and become Fund members. Another Member commented that while it was true that on average that people were living and remaining fit and healthy longer, it was difficult for pension schemes to cope with those who were below average.

A Member expressed concern that the changes in employees' contributions were being made to boost the revenue of the Treasury. The Chair pointed out that employers' contributions were being increased as well, and that in fact all contributions would be retained within the Fund. The Director of Resources and Support Services pointed out that while contribution levels were set by Government regulations, the LGPS was managed by the local government employers. There was no way the Treasury could take money out of the Fund.

The Director of Resources and Support Services suggested that access to pensions was an issue that should be emphasised in the response.

The Chair proposed that authority be delegated to him in consultation with officers to allow him to make presentational changes to the draft response and to incorporate points made by Members during the discussion. He also proposed that the words in paragraph 2.2 of the recommendation be deleted and replaced by

> "To copy the letter to the Fund employers and to invite them to consider whether they wished to respond to the consultation."

RESOLVED

1. To delegate to the Chair authority to amend the draft response letter to the DCLG consultation to include a summary of points made by Members during discussion and to incorporate presentational changes.

2. To copy the letter to the Fund employers and to invite them to consider whether they wished to respond to the consultation.

48 COMMUNITY ADMISSION BODIES

The Investments Manager presented the report. She pointed out that the Committee would need to go into exempt session before discussing Appendix 1.

It was noted that unguaranteed liabilities of Community Admission Bodies (CABs) is a legacy issue, because since December 2005 the Fund's policy has been only to admit a CAB if a guarantee has been put in place by a scheme employer.

A Member commented that it was reassuring that the liabilities of the CABs without guarantees and the consequent risk to the Fund were relatively low.

RESOLVED to note the information set out in the report.

49 INVESTMENT PANEL DRAFT MINUTES

RESOLVED to note the draft minutes of the Investment Panel meeting held on 22 November 2011.

50 REVIEW OF INVESTMENT STRATEGY

The Investments Manager presented the report. She said that the Investment Panel at their meeting on 22 November 2011 had received an update on the Eurozone situation from John Finch (contained in Appendix 2 of the report) and felt that Mr Finch's recommendation of a tactical switch from gilts to corporate bonds as a means of mitigating risk should be considered by the Committee at the earliest opportunity, as they felt they did not have sufficient information to make a substantive recommendation.

Mr Finch said that the situation in the Eurozone was changing by the day, if not by the minute. 18 months ago there had been talk of a downgrading of the UK's credit rating now the UK was the only major country whose AAA rating was not questioned. Gilt yields had fallen over the last 2-3 months, and could go lower. However, good companies had strong balance sheets. Though corporate bond yields had fallen, gilts had fallen even more and the gap between them had increased. A switch of 3.2% of the Fund's assets could be implemented quickly, giving flexibility in a volatile market.

Several Members spoke in favour of the proposal, but one Member expressed concerns about the desirability of switching in a highly volatile market.

[Councillor Batt left the meeting at this point.]

It was moved by Councillor Coombes and seconded by Councillor Gerrish and **RESOLVED** by 9 votes, with 1 abstention that 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 £80million (c. 3.2%) of the Fund's 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 officers, subject to current conditions prevailing.

51 RECOMMENDATIONS FROM THE INVESTMENT PANEL

RESOLVED to agree the recommendation from the Investment Panel.

52 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2011

The Assistant Investments Manager presented the report. He drew attention the information about cash management contained in paragraphs 7.5 and 7.6.

A Member suggested that the percentage of the Fund invested in emerging markets, which were likely to be the main drivers of world growth over the next five years, was quite low. The Investments Manager responded that the Investment Strategy had been reviewed in 2007 and the allocation to emerging markets had been increased. It was true that emerging markets were growth markets and that thought should be given to how the Fund could reflect this. However, there were issues in relation to emerging markets, such as the depth of the market for investors and how the growth potential translated into investment opportunities. A Member said that she recognised there was growth potential in emerging markets, but felt that because of volatility the Fund should not change any individual allocations without reviewing its whole strategy. Mr Finch suggested that the key was to look at the exposure of the global companies in which the Fund was invested; much depended on how these companies are exposed to emerging markets. A Member said that he had been surprised to learn of some of the countries in which the Fund was involved; what mattered was the quality of the companies invested in, not the countries. The Member who had raised the issue of emerging markets acknowledged that they could be volatile markets, but thought the Fund could benefit from growth in these markets while spreading its exposure. Another Member felt that there was a need to be careful about corporate governance issues in these markets.

RESOLVED to note the information set out in the report.

53 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO OCTOBER 2011 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 30 OCTOBER 2011

The Finance & Systems Manager (Pensions) presented the budget report. He asked Members to note the increased forecast underspend for investment managers' fees, which reflected current market conditions.

The Pensions Manager presented the performance reports. He drew attention to the paragraph 5.5 (performance against target), noting that performance was acceptable, although marginally below target in some areas. Customer satisfaction was good. The level of opt-outs from the Fund had been low. Paragraph 8.2 gave information about how administration processes were amended in June 2011 to identify opt-outs in a reportable field; the current annual opt-out rate was only 0.29%, which was reassuring. There had been no complaints about service in the period.

Before the discussion of Appendix 7, which summarised the performance of Scheme Employers during the first 2 quarters of 2011, the following resolution was passed by 6 votes with 5 abstentions:

> *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.*

Summarising the discussion on Appendix 7, the Chair said that the Committee's views should be communicated to underperforming employers when officers next met them, and that they should be told that it might be necessary to discuss their performance in open session if there was no improvement. The Pensions Manager observed that under the Administration Strategy there was a power to charge employers for any disproportionate work they caused for Pensions staff in comparison with other Fund employers.

The meeting returned to open session.

A Member congratulated Pensions staff for an excellent quarter's work, with costs significantly below budget. However he was concerned about outstanding workload being so close to target, and wondered whether this was due to failure to fill a staff vacancy. The Pensions Manager said that the post had not been deliberately left unfilled, but there had been recruitment difficulties.

Members noted the list of Academies given in Appendix 8. The Investments Manager said that the pensioner and deferred liabilities and sufficient assets to cover these liabilities are retained by the Unitary Authority employers. A Member asked the Investments Manager to report back to the Committee how the "old" Academies were treated on leaving the UAs.

RESOLVED to note 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 the first two quarters 2011.

54 ANNUAL REVIEW OF INTERNAL CONTROL REPORTS OF EXTERNAL SERVICE PROVIDERS

The Investments Manager presented the report. She said that no issues had been identified and that these reports are also reviewed by the external auditors. The issue identified last year in relation to RLAM had been remedied.

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

55 WORKPLANS

The Pensions Manager drew attention to the strategy for communicating the proposed changes to LGPS benefits resulting from the Hutton review and the increase in contribution rates proposed by the Treasury (Appendix 2). The Chair asked that copies of communication plans be distributed to Members.

A Member asked what the timescale was for moving to electronic delivery of information to Fund members (Appendix 2). The Pensions manager said that every Fund member would be given three opportunities to state that they wished to continue to receive paper documents; it would take a couple of years to complete this process.

The Investments Manager agreed to include a review of investment strategy in the workplans, to be undertaken once the impact of the new scheme on the investment strategy can be assessed. This review will include infrastructure.

RESOLVED to note the workplans.

The meeting ended at 4.00 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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AGENDA ITEM 5: ITEMS FROM THE PUBLIC

Statement and questions from Cllr David Willingham, Bristol City Council, with responses to the questions from the Chair, Cllr Paul Fox

Statement – Avon Pension Fund Committee 2011-12-09

I am making this statement both as a member of the Avon Pension Fund, and as a Councillor on Bristol City Council.

I would like to start by thanking Officers at Bath & Northeast Somerset Council for their help and for providing me with information about voting activity of the fund, and to apologise that due to a prior Council commitment, I am unable to be present in person to present this statement.

I doubt that any member of this committee can be unaware of the Occupy protest in Bristol and the current zeitgeist against corporatism. This pension fund holds investments in many of the companies that have allowed their directors' remuneration packages to buck the current economic trend towards austerity.

Whilst in general there is little that Local Authorities can do to tackle corporate irresponsibility and excessive boardroom remuneration; through engagement with these companies, and by voting against excessive director remuneration, this pension fund does have some influence and could voice the frustration of its ordinary members at the extraordinary inflated remuneration packages of directors. The decision is whether you will choose to direct our pension fund to use that influence, or whether the status quo will be allowed to continue by inaction on this matter.

I suspect that most modestly salaried members of the Avon Pension Fund would be extremely angry if they were to discover that their pension fund voted in favour of a directors' remuneration report that saw a director's remuneration package soar to £18,426,105, but this has been allowed to happen!

Questions – Avon Pension Fund Committee 2011-12-09

Question 1 *It was reported by the BBC that Mick Davis of Xstrata received a remuneration package worth £18,426,105; it also appears that through TT International, the Avon Pension Fund voted to approve the Xstrata directors' remuneration report of 4.5.11. How does the Chair think that ordinary members of the Avon Pension Fund, on ordinary salaries will feel about their pension funds' involvement in approving this astronomical remuneration package?*

Response:

I recognise this is an important issue and whilst not knowing how all members feel, I can imagine some members would be very concerned about this level of remuneration and would want to know the Avon Pension Fund (APF or Fund) is looking after their interests as members of the Fund.

The Fund's voting policy is to delegate the voting decision to the Fund's external investment managers. These managers have the knowledge, skills and resources to fully understand the context in which a company operates and therefore are better placed to be able to vote in the best interests of shareholders. In the UK, we request that managers vote in line with the UK Corporate Governance Code issued by the Financial Reporting Council and explain where they don't vote in line with it.

When deciding how to vote on the remuneration report, managers take into account how the remuneration policy is aligned with shareholder interests and the context in which the company operates (i.e. the business model and competitive environment in which it operates). APF's investment managers have voted against remuneration reports proposed by various companies on several occasions.

In addition to voting, the APF can also seek to influence corporate behaviour through engagement with companies. The APF is a member of the Local Authority Pension Fund Forum (LAPFF) which actively engages with companies on behalf of local authority pension funds and uses the combined asset holding to influence company boards.

You will appreciate that the knowledge, skills and resources required to make informed decisions on every voting decision and to undertake effective engagement are considerable and that when the Committee decides on how to allocate its own resources it must take into account the best way of effectively influencing company behaviour whilst fulfilling its fiduciary duty to scheme employers to meet the financial obligations of the Fund.

Specifically in the case of Xstrata, TT provided a response to the Fund explaining that the remuneration report did not contain anything outside their voting guidelines and therefore they voted in favour. The Fund is looking into this as part of the current review of the Fund's Responsible Investment Policy.

The Fund's other investment manager with a holding in Xstrata abstained when voting on the remuneration report because the manager was (and still is) actively engaging with the company on this issue.

Question 2 *Could the Chair please advise what actions the Avon Pension Fund will take to ensure that its voting record on director remuneration looks less like a corporate love-in, and instead reflects the "efficiency savings", "austerity measures" or cuts, that Councils and their Officers are being forced to make?*

Response:

The Fund believes that by having a voting policy that seeks to maximise company value and returns, and by delegating this decision to those who are best placed to make it, it is acting in a way that minimises the potential financial burden on Employer bodies of meeting future pension benefit payments and therefore fully reflects the current drive for efficiency savings and austerity measures at Councils.

The Fund is also undertaking the following actions:

- The Fund has recently put in place a vote monitoring service that seeks to analyse voting activity at the aggregate Fund level, increasing disclosure and transparency and enabling better analysis of the voting activity undertaken by the managers on the Fund's behalf.

- The Fund is currently reviewing its Responsible Investment Policy including how the Fund can maximise its influence through voting and engagement with management on issues that affect shareholder value. For a Fund of our size, our ability to influence corporate behaviour is limited, thus greater collaboration on issues (for example via LAPFF) could be the most effective way for the Fund to influence corporate behaviour. It is anticipated this review will report to Committee during 2012 and any decision by the Committee will be taken within the context of the fiduciary duty of the Fund to employers to meet future benefits payments.

- You may be aware that there are a number of initiatives that are looking at the issues surrounding executive remuneration such as the Department for Business Innovation and Skills' discussion paper which provides a range of proposals to link executive pay more closely to company performance. LAPFF (of which the Fund is a member) is actively involved in this issue and will be submitting a response on behalf of members. In addition, LAPFF will continue to engage with individual companies on this issue.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 March 2012**	**AGENDA ITEM NUMBER**
TITLE:	**INDEPENDENT MEMBERS & INDEPENDENT INVESTMENT ADVISOR**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1		

1 THE ISSUE

1.1 Independent Members have been appointed to the Avon Pension Fund Committee following changes to the Committee's constitution in 2006. The current four year term of the Independent Members will expire in 2013.

1.2 The Independent Investment Advisor was appointed in 2009 for a three year term that expires in 2012.

1.3 This report sets out the process for re-appointment to both roles.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the arrangements for the appointment of the Independent Members set out in paragraph 4.6.

2.2 Agrees to extend the current term for the Independent Investment Advisor to November 2013.

3 FINANCIAL IMPLICATIONS

3.1 The three year budget includes the cost of the Independent Members and Independent Investment Advisor. Also included are the recruitment costs that may arise at the end of the set terms.

4 INDEPENDENT MEMBERS

4.1 Since 2006 the Avon Pension Fund Committee's constitution provides for two Independent Members with voting rights on the committee.

4.2 The rationale for appointing Independent Members is:

(1) To provide continuity on the committee over the electoral cycle

(2) To bring broader financial / investment knowledge and experience to the committee

4.3 The current Independent Members were initially appointed for 2½ years to June 2009 (in order for the next four year term to end in the middle of the electoral cycle) and then reappointed for a second term which ends in June 2013.

4.4 The Fund faces significant challenges in the next 1-2 years, including the introduction of the new scheme, the 2013 valuation, and the review of investment strategy (to begin in 4Q12). Therefore to maintain continuity of knowledge over this period the Independent Members will be permitted to sit for a further term.

4.5 Officers have canvassed the incumbent Independent members as to whether they would consider standing for a further term. One has confirmed they are interested in continuing and the other intends to stand down once the current term expires.

4.6 Therefore, the Chair and Vice-Chair, in consultation with officers, will arrange for the appointment process to recruit a new Independent Member which will commence later in 2012.

5 INDEPENDENT INVESTMENT ADVISOR

5.1 The role of the Independent Advisor is to advise Committee Members to ensure that they are given full and relevant investment advice and, when required, to assist the Committee in challenging the advice received from investment consultants and officers.

5.2 The current three year term of the Independent Investment Advisor will end 31 October 2012. The contract is then due for renewal. However, due to the challenges outlined in 4.4 above, it is recommended that the current term is extended for one year to 31 October 2013 before the contract is formally reviewed.

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, which includes ensuring that expert advice is provided where required. It discharges this responsibility by ensuring the Fund has appropriate investment and funding strategies that are regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

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

Contact person	Tony Bartlett, Head of Business Finance & Pensions 01225 477302; 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		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	16 MARCH 2012	
TITLE:	2012-15 SERVICE PLANAND BUDGET	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Annex: 2012 – 2015 Service Plan and Budget (including 3 Appendices)		

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3-Year Service Plan and Budget for the period 1 April 2012 to 31 March 2015.

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

2 RECOMMENDATION

2.1 That the Committee approves the 3-Year Service Plan and Budget for 2012-15 for the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

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

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

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

4 SERVICE PLAN 2012/15

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

4.2 Full details of the 2012/15 Service Plan are included in the Appendices. Appendix 3 shows progress of the 2010/13 plan as well as the new medium term targets for 2012/15

5 BUDGET FOR 2012-15

5.1 The Service Plan includes details of the proposed budget over this period. A three-year budget commencing 1 April 2012 is included as **APPENDIX 3** to the Service Plan.

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

5.3 The budget approved for Administration in 2011/12 was £2,078,300. In the proposed budget for 2012/13 this has had to be increased to £2,149,100 in order to provide the necessary resources to meet the increased administrative pressures on the Fund. Wherever possible the increased demand for resources has been met by savings in other areas. The Service Plan includes explanations of any growth and savings in the budget and any variations resulting from expected developments shown in the Service Plan.

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 Are detailed in the report.

10ADVICE SOUGHT

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

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

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THE AVON PENSION FUND

SERVICE PLAN

2012 - 2015

PREPARED BY:

TONY BARTLETT, STEVE MCMILLAN, MARTIN PHILLIPS and LIZ FEINSTEIN

FEBRUARY 2012

Service Plan 2012-15

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Service Plan 2012-15

1. INTRODUCTION

The Local Government Pension Scheme is facing some of its most significant changes for many years that will impact financially and operationally on all areas of the Avon Pension Fund and its Employing Bodies. The Hutton Report on Public Sector Pensions set out a range of principles to shape future public sector pension schemes and proposals for the LGPS will affect contributions, benefits and accessibility to pensions.

Increasing longevity pressures together with a prolonged economic downturn has pushed affordability to the top of the agenda and a new scheme which balances the relative affordability of employers and members is scheduled to come into effect in April 2014. This change coupled with the government's objective of making all employees save for a future pension through auto enrolment will put severe pressure on the administration of both the Fund and Employer. Whether the new scheme has the desired effect on costs remains to be seen, but this will be taken account in the 2013 Valuation process at which point the Fund will need to reconsider its Investment Strategy.

These changes come on top of existing pressures; the number of employers is increasing exponentially as Local Authorities divest themselves of services through outsourcing and the creation of academies removes schools from LEA control, virtually doubling in less than a decade; the number of Fund members has similarly increased by two-thirds in the last decade; the level of diversification within the Fund, as a result of Investment Strategy changes, has increased the number of fund managers to three times its level in 2006, a period during which the level of scrutiny of the Fund through regulation and our own governance arrangements has also increased significantly. Now during one of the worst recessionary periods in the UK's history the Fund is dealing with the financial difficulties faced by some of its smaller Employers, dealing with the surge in demand for information as employers downsize and divest themselves of services which in turn gives rise to a new investment issue, that of disinvestment as the Fund moves into negative cash flow.

In the main, the Fund has coped extremely well with all the challenges it has faced to date but does now need to change in recognition of the new world ahead. In some areas the resources will need to be strengthened and in others changed whilst continuity issues and employer relations will need to be addressed. It is against this background that the Service Plan for 2012 – 2015 has been developed.

2. KEY OBJECTIVES 2012 -15 (See APPENDIX 2: Key Objectives & Targets for detail)

The Funds two core Strategies, Investment and Administration are both designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in these turbulent times but has proved resource and governance intensive; the Pensions Administration Strategy has set a direction of travel which is perfectly aligned to the developing environment but more work needs to be done with the Fund's' key employers to fully realise the benefits for all parties.

The Principles established between government and unions in developing the new scheme include a review of the Administrative and Fund Management arrangements to improve efficiency. The implications for the Avon Fund are unclear but the diversity in size and value of funds across the country indicate some rationalisation will be considered post the introduction of the new scheme.

The **Key Objectives** for the Fund during the Service Plan period will be as follows:

1. To fully engage in all activity relating to the design, development and communication of a new Local Government Pension Scheme ("LGPS") proposals ensuring all stakeholders are fully informed of the developing situation
2. To plan for and implement all necessary changes to the administration to ensure a seamless transition to the new LGPS in 2014, including systems enhancements and training for both the fund and its employers
3. To work with employers to plan for and implement robust procedures for successful implementation of auto-enrolment (Employer legal responsibility)
4. To progress electronic member information updating by the introduction of the availability of on-line updating of member information to employers through *Employer Self Service* and to work with the unitaries to develop bulk interfaces
5. To undertake the Fund valuation including the review of the Funding Strategy Statement in light of scheme changes and Fund experience??)
6. Review the Investment Strategy in light of the new LGPS and actuarial valuation and make any necessary changes before 2014 to maintain compliance with the Fund's Statement of Investment Principles
7. To develop and implement policy in relation to Responsible Investing and Treasury Management by 2013
8. To review the Pensions Administration Strategy and in particular strengthen the working relationship and process efficiency with key employers
9. To make a number of changes in 2012 to the Pensions organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose
10. To embrace partnership opportunities as they arise at both a local and regional level.
11. To review the Governance and training arrangements for the Committee in view of the emerging changes

3. RESOURCE IMPLICATIONS

The full cost implications of implementing a new scheme cannot be quantified at present, but there are likely to be significant IT, Communication and training costs. This will be reported to the Committee in due course. In the meantime there are some immediate costs arising from the need to manage the impending retirements of a number of staff and strengthen resource within the Investments section to manage the increased volume of work.

The Investments section currently employs a part time (semi-retired) investments officer who deals with valuation matters and scheme employers' exiting the Fund, supported by the Employer Relationship Team. It is proposed to consolidate all actuarial issues under a new post (Valuation Accountant), allowing the investments officer to fully retire. The new post-holder will be the primary contact for actuarial issues, supporting the Investments Manager on valuation, financial and funding issues with employers.

It is also proposed to strengthen the investment team to cope with workload arising from the investment strategy and investment management arrangements with an additional post

(Investments Officer) and plan for the retirement of the Custody officer by employing an understudy. The net impact of these changes post officer retirement will be an increase of 2.5 posts by end 2013 with a short period of overstaffing in the interim.

Once the extent of the Scheme changes is understood, proposals will be brought forward to make changes to the benefits section. These will include recognising the impact of the growing number of employers and ensuring the information flows are timely and accurate, preparing for auto–enrolment and the impact on standards and quality of data as well as increases in reconciliation, enhancing systems capability and dealing with management transition.

4. BUDGET 2012-15

The three year budget plan also includes provision for the Triennial Valuation with work starting in 2012 and the recruitment of Independent Members and Advisors if required. The Investments budget reflects the anticipated 6% growth in asset values and will clearly be lower if this is not the case. Full details of the budget movements between 2011/12 and 2014/15 are given in **APPENDIX 3A.** A commentary on the budget is given in **APPENDIX 3B.**

The table below summarises the main changes in the budget resources over the next three years:

	2012/13	**2013/14**	**2014/15**
	£'000	**£'000**	**£'000**
Administration			
Previous Budget less one off items	2,078	2,149	2,161
Growth	135		
Savings	-66	-20	-8
One off items	-24	24	
inflation	26	8	43
Proposed Budget	**2,149**	**2,161**	**2,196**
Governance & Compliance			
Previous Budget less one off items	563	568	532
Growth	90		
Savings	-125	-112	
One off items	29	71	-70
inflation	11	5	10
Proposed Budget	**568**	**532**	**472**
Investments			
Previous Budget less one off items	8,690	10,173	10,780
Growth	1,485	607	644
Savings	-2		
One off items			
inflation			
Proposed Budget	**10,173**	**10,780**	**11,424**
Total Proposed Budget	**12,890**	**13,473**	**14,092**

END

SCOPE OF THE AVON PENSION FUND

As at 31st March	2009	2010	2011
STAFF ESTABLISHMENT			
Investment & accounting	6.6	7.8	9.4*
Benefits administration	32.2	31.0	29.6*
Total staff	38.8	38.8	39.0
2 staff were deemed to part of Investment area after establishment of an *Employer Relationship team.*			
AVON PENSION FUND Membership			
▪ Active	35,264*	34,800*	33,810*
▪ Deferred	22,579	24,544	26,868
▪ Pensioners	20,361	21,313	22,541
Total membership	78,204	80,657	83,219
**Fell following continuous data cleansing exercises*			
No. of Participating Employers	94	102	107 *(137 at 28/2/12)*
Employers common contribution rate (*% of employees pensionable pay)*	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)
Fund Assets	£1.82bn	2.46bn *(£2.66bn at 28/2/11)*	2.67bn
Funding Level	83%	82%	83%
2. **FIRE-FIGHTERS PENSION SCHEMES** Total Membership in 2 Schemes			
▪ Active	743	744	771
▪ Deferred	50	65	72
▪ Pensioners	748	744	751
Total	1,541*	1,554*	1,594*
*(*inc New Scheme set up in 2006)*			
3. **Teachers Compensatory Added Years** – number of pensions in payment	2,919	2,877	2,822

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Key Objective	Tasks	Target Date
1. To fully engage in all activity relating to the design, development and communication of new scheme proposals ensuring all stakeholders are fully informed of the developing situation	• Develop a comprehensive communications package for dissemination of information in accordance with the Communication Policy • Upgrade the website, improve accessibility and functionality • Regular engagement with LGA Technical Group and South West APOG to maintain situation knowledge • Engage in further consultation in accordance with the Government timetable for new scheme implementation	Summer 2012 Summer 2012 On-going Autumn 2012
2. To plan for and implement all necessary changes to the administration to ensure a seamless transition to the new scheme in 2014, including systems enhancements and training for both the fund and its employers	Continued implementation of the Administration Strategy to • improve electronic information transmission through roll out of Employer Access • improve skills of administrative staff • improve Employer Performance Project plan the implementation of the new scheme including technology development	March 2013 Autumn 2012
3. To undertake the Fund triennial valuation as at 31/03/2013 and the review the Funding Strategy Statement in light of scheme changes and actuarial findings	• Commission the Valuation process and review of actuarial assumptions • Data Cleanse project • Structural changes to support this process	Commence Jan 2013 Autumn 2012 Summer 2012
4. Review the Investment Strategy in light of the new scheme and make any necessary changes to maintain compliance with the Funds Investment Principles and Policy	• Commission review in light of new scheme and valuation expectations • Review to consider ○ Consider alternative asset classes including infrastructure and asset allocation given in alternative scenarios ○ Strategic aspects of Responsible Investing Policy	Commence Autumn 2012
5. To develop and implement policy in relation to Responsible Investment and Treasury Management	• Agree revised SRI Policy • Implement policy across fund investments and in particular ?consider impact on existing SRI mandate • Report back to committee on implementation • Agree revised Treasury Management Policy and implement	June 2012

6. To review the Administration Strategy and in particular strengthen the working relationship and process efficiency with key employers	• Complete roll out of self service (ESS) to smaller employers • Complete EDI for large employers and online updating for smaller employers from ESS • Implement staff training programme • Retender legal Framework Agreement	Sept. 2012 Sept. 2012 Commence June 2012
7. To make a number of changes in 2012 to the organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	• Concentrate valuation activity in a new professional post • Enhance investments function to achieve resilience and manage staff changes • Re-organise benefits area to develop quality control function to improve data management	Sept. 2012 Sept. 2012
8. To embrace partnership opportunities as they arise at both a local and Regional level.	• Pilot communications opportunities within region to support new scheme implementation	September 2012
9. To review the Governance and training arrangements for the Committee in view of the emerging changes	• Review the appointments of Independent Advisor and Independent members of the Committee • Implement any changes necessary arising from the new scheme • Committee Training (in-house provision) o SRI workshop (April 2012) o Investment Review (initial workshop Oct 2012) o Valuation workshop to discuss funding level and assumptions for FSS(1Q13) o New Scheme	June 2012 June 2013 Ongoing

SERVICE PLAN **APPENDIX 3A**

	Budget for 2011/12 per £	Forcast 2011/12 £	Budget 2012/13 per 2011/12 3 year budget £	Budget 2012/13 £	Budget 2013/14 £	Budget 2014/15 £
Investment Expenses	76,000	74,100	78,300	75,300	76,200	78,500
Administration Costs	72,800	72,800	77,600	75,500	69,300	71,200
Communication Costs	70,100	55,100	97,100	81,000	81,000	80,900
Payroll Communication Costs	95,500	100,300	98,500	79,500	81,700	84,200
Information Systems	169,500	169,500	166,700	216,300	221,900	227,700
Salaries	1,303,500	1,273,400	1,301,600	1,372,300	1,386,100	1,413,700
Central Allocated Costs	399,900	399,900	400,100	395,200	395,300	395,200
Recharges Admin	- 134,000	- 134,000	- 137,400	- 166,000	- 171,000	- 176,100
Total Administration	**2,078,300**	**2,036,100**	**2,108,300**	**2,149,100**	**2,161,100**	**2,196,500**
	-	-	-	-	-	-
Governance Costs	291,200	291,200	193,400	307,900	210,800	214,800
Members' Allowances	40,400	40,400	41,700	40,500	41,700	43,000
Independent Members' Costs	18,800	18,800	19,300	48,800	19,300	19,900
Compliance Costs	294,500	319,400	302,700	340,500	435,400	375,200
Compliance Costs recharged	- 57,200	- 107,200	- 58,900	- 150,000	- 154,500	- 159,100
Governance & Compliance	**562,700**	**537,600**	**472,400**	**567,700**	**532,100**	**472,600**
	-	-	-	-	-	-
Global Custodian Fees	143,000	143,000	121,500	120,000	123,600	127,300
Investment Manager Fees	8,547,000	8,527,000	9,059,800	10,053,000	10,656,100	11,295,500
Investment Fees	**8,690,000**	**8,670,000**	**9,181,300**	**10,173,000**	**10,779,700**	**11,422,800**
	-	-	-	-	-	-
NET TOTAL COSTS	**11,331,000**	**11,243,700**	**11,762,000**	**12,889,800**	**13,472,900**	**14,091,900**

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A three year budget for 2012 to 2015 is included as **APPENDIX 3A.** The proposed budget includes the variations resulting from expected developments shown in the Service Plan.

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

The budget approved for Administration in 2011/12 was £2,078,300. In the proposed budget for 2012/13 this has had to be increased to £2,149,100 in order to provide the necessary resources to meet the increased administrative pressures on the Fund. Wherever possible the increased demand for resources has been met by savings in other areas. A detailed analysis of the necessary growth, savings and one-off items is given below:

Scheme Administration

1. **Salaries**

There is an increase in salary costs of £95,000 partly offset by a saving of £24,000 mainly as a result changes in National Insurance bands. The growth is due to the creation of three new posts in order to increase capacity and resilience within the Investments team. Over time the headcount will reduce by 1.5 posts (giving a net increase of 1.5 posts) but in the interim there will be a period of higher costs.

The need to increase resource has arisen from two drivers. Firstly, there has been a significant proliferation of employers in recent years due to outsourcing by scheme employers and as a result of government policy e.g. academies. In addition, the risks associated with the funding of pension liabilities and financial budgeting for employers have become more material and as a result, employers require more support from the Fund in dealing with such issues. Secondly, the workload in the Investments team has increased driven by the investment strategy and management structure and greater governance requirements, both in terms of investments and the committee/panel.

The additional posts are:-

Valuation Accountant

Currently the actuarial capability consists of the Investments Manager supported by a part time Investment Manager (who will be retiring) and a Senior Project Officer (half of the post-holder's role). In addition, the Finance Manager (Pensions) assists in the monitoring of the financial standing of admitted bodies.

It is proposed that a new post of Valuation Accountant is created to provide day to day support on all valuation and actuarial issues, including employer admissions and cessations and financial monitoring of admitted bodies, eliminating the current part time post.

Investments Officer

The Investments Team currently consists of three posts. Since 2007, the team resource has remained static despite significant increases in workload, arising primarily from the increase in investment managers from five to sixteen generating more monitoring and due diligence work, and the increase in governance requirements which are mainly managed by the Investments Team. As a result the team has struggled to cope with the increased workload, in particular the development of investment strategy.

It is proposed that a new post of Investment Officer is created to provide support for the Assistant Investments Manager, taking responsibility for the monitoring of specific aspects of investment policy.

Investment Custody Officer

In addition the Investments & Custody Relationship Officer is nearing retirement. The role requires specialist and technical knowledge which will require a prolonged handover period given the wide scope of the role which performs a critical quality assurance and compliance function. When the incumbent retires the extra post will be eliminated.

2. **Investment Administration**
   There is a small reduction in costs as savings have been identified in the training and travel budget.

3. **Administration**
   There is a small increase in 2013/14 to fund the periodic AVC monitoring exercise

4. **Communications**
   Growth in Communication costs of £18,000 is for leaflets and a DVD to meet the statutory requirement to inform members of any changes in the Scheme. This cost is partly offset by savings to be made in the production and distribution of the Annual Report, *Avon Pension News* and *At Ease*.

5. **Payroll Communication**
   The reduction in Payroll Communication costs is due to a re-classification of Payroll Maintenance costs to more properly describe them. These have been transferred to Information Systems (see below).

6. **Information Systems**
   Information Systems costs have grown by £47,000. As described above £16,000 of this relates to Payroll Maintenance costs previously included under Payroll Communications costs. An additional £25,000 is included for the “I Connect” system which will allow the more efficient uploading of employer’s data in to Altair. This will be of particular importance when Auto Enrolment starts. A further £6,000 is included following a tender process and the letting of a contract for an improved disaster recovery programme.

7. **Central Allocated Costs**
   The small reduction in Central Allocated Costs is the result of improved budgeting in this area.

8. **Administration Recharges**
The budget for income from recharges of administrative work has increased from £134,000 to £166,000. This reflects the increased amount of rechargeable work that is required of the Fund from external bodies, for example in regard to their outsourcings, academies and the preparation of their statements of accounts.

Governance and Compliance

9. **Governance**
The increase in Governance costs is primarily due to the cost of the Strategic Investment Review due to commence in 2012/13. In addition £30,000 one-off recruitment costs have been included to provide for the possible appointment of new Independent Members when the term of the current independent members expires in June 2013.

10. **Compliance costs and Compliance Costs Recharged**
The 2012/13 budget for Compliance costs includes £15,000 as provision for preparatory work ahead of the 2013 valuation. Further increases in Compliance costs mainly relate to increased work carried out by the Actuary on behalf of Academies and outsourced employers. The recharges for this work are reflected by the increase in the Compliance Costs Recharged budget.

The 2013/14 budget for Compliance costs include £100,000 for the costs of the 2013 triennial valuation that will fall in that year.

Investment Fees

11. **Investments fees**
There are savings in custody fees following the contract being retendered in 2011. Partially offsetting lower fee rates is the currency hedging mandate that was not previously included in the custody fees budget.

The investment management fees assume a 6% increase in asset values during 2012/13. In addition the increase is also due to the currency hedging management fees being added to the budget.

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Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **16 MARCH 2012**	**AGENDA ITEM NUMBER**	
TITLE: **TREASURY MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** Current Treasury Management policy approved in December 2009. **Appendix 2** Proposed Treasury Management policy. **Appendix 3** Graph illustrating the Fund's cash accumulation since April 2010 **Appendix 4** Graph illustrating the forecast increase in retirements		

1 THE ISSUE

1.1 The Fund's Treasury Management Policy sets out how the Fund's cash is invested to meet its day to-day requirements. The short term cash managed within the Treasury Management policy at any one time is c. £25m. This represents less than 1% of the Fund's total value. The Treasury Management policy should therefore be considered as a risk management policy that is applicable to this small proportion of the overall assets.

1.2 The current policy approved in December 2009 was based on the Council's Treasury Management framework. Since 2009 significant downgrades of credit ratings of UK banks has made it increasingly difficult to invest the Fund's cash balance in line with this policy. Officers reported to the December Committee that following reductions in counterparty limits as a result of credit rating down-grades, the Fund had lent to some counterparties amounts up to previous limits. This was due to a lack of alternative approved counterparties. There have been no further issues of counterparty limits since those reported in December.

1.3 This report sets out the revised Treasury Management policy that provides flexibility to ensure the efficient management and investment of short term cash.

1.4 In addition, the report notes that the cash flow profile of the Fund is approaching a time of transition. Contributions are constrained by the pay freeze and reductions in Local Government expenditure and the value of pensions paid out is increasing. The net effect is to bring the Fund closer to the point of maturity when cash outflows (mainly pensions & lump sums) are no longer exceeded by cash inflows (mainly contributions i.e. excluding investment income).

2. RECOMMENDATION

2.1 That the Committee approves the revised Treasury Management policy as set out in Appendix 2

2.2 That the Committee notes the forecast change in the Fund's cash flow profile and the policy decisions that will be required as a consequence.

3 FINANCIAL IMPLICATIONS

3.1 The Fund requires accessibility to short term cash to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short term investment earns interest and incurs transfer costs. However, the significance of an efficient means of short term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4 CURRENT TREASURY MANAGEMENT POLICY

4.1 The current policy is set out in Appendix 1. The Fund's Treasury Management is administered by the Council's Treasury Management team. The Fund uses the Council's approved Counterparty list but in recognition of the Fund's lower level of short term cash, its limits have been set below those of the Council. The lower limits were designed to ensure diversity in the use of counterparties. They did not reflect the fact that the amount of cash being invested represented a small proportion of the Fund's invested assets (around 1%) whereas the Council's cash represents all its invested assets.

4.2 Counterparty risk is reduced by limiting the amount of cash permitted to be invested with a counterparty and limiting the maximum period for which it can be invested. As explained above, the Fund's cash limits were not based on the size of the Fund or the proportion of the Fund being invested. The limits on the period for which cash could be invested ranged from a maximum of three months to a maximum of six months, whereas in practice the Fund normally requires the cash to be on call and never normally needs to invest for more than a month.

4.3 The policy originally provided a capacity to invest £25m across five instant access call accounts (that met the credit rating criteria) and through lending in the money markets to AAA rated banks and other Local Authorities. In addition, unlimited funds can be placed with the Government's Debt Management Office although its interest rates are very low and it only takes fixed term money.

5 THE AFFECT OF THE BANKING CRISIS

5.1 The banking crisis has resulted in two of the call accounts no longer being available as the banks' credit ratings have fallen below the minimum acceptable. The remaining three accounts have had their maximum lending limits reduced from £5m to £3m following credit rating downgrades and the Council's maximum limits being reduced. In addition there is now very little demand in the money markets from approved counterparties for the very short term money that the Fund has to lend. The Debt Management Office interest rates are very low and its requirement for fixed term investments makes it unsuitable for depositing the day to day cash that the Fund needs to invest.

5.2 The Council is reviewing its Treasury Management policy in the light of the same developments. Because the Fund's existing Treasury Management policy is specifically linked to the Council's current Treasury Management policy these limits will no longer be appropriate once the Council's existing policy is replaced.

6 THE AFFECT OF THE MATURITY OF THE FUND

6.1 In the past the Fund has experienced positive monthly cash flow as contributions and other (non-investment) cash income have exceeded the payments of pensions c. £1m per month. The accumulated cash has been transferred to Investment

Managers in tranches of c. £5m. The Fund's current policy is for investment income to be retained by Investment Managers for reinvestment as it has not been required to meet pension payments. In the normal life cycle of a Pension Fund a point is reached at which the amounts paid out as pensions starts to exceed the contributions being paid in. At this point the Fund becomes "mature".

6.2 As a result of the Local Government pay freeze and reductions staff numbers, the level of contributions has begun to decline and is forecast to decline further. At the same time pension payments are forecast to rise due to (i) inflation indexation and (ii) the number of active members reaching retirement age increasing each year. In common with other LGPS funds, in the past year, these factors have accelerated the Fund's maturity and negative cash flow profile. The graph at Appendix 3 shows the accumulation of cash since April 2010 illustrating the recent slow-down in the accumulation of cash. The graph at Appendix 4 shows the forecast continued increase in the number of retirements based on the Actuaries assumptions.

6.3 Further work on the forecasting of future cash flows is required. It is proposed that the result of this research and the implications of the use of investment income and divestments to fund pension payments will be presented at June Committee in order that the options can be considered.

6.4 The requirements of a Treasury Management policy are very similar regardless of whether the Fund is in a cash flow positive or cash flow negative position. Transfers to or from the Investment Managers have normally been of a minimum of £5m. Where the Fund is cash flow positive this amount will be accumulated before transfer to the Investment Managers. Where the Fund is cash flow negative this amount will be transferred to the bank account and used over a period. In both cases the capacity for holding £5m cash in the short term is in addition to the cash flow investment requirements surrounding the efficient use of contributions and payment of pensions. This element of the Fund's cash investment capacity could be reduced through more frequent and consequently smaller transfers.

7 THE REVISED TREASURY MANAGEMENT POLICY

7.1 For its day to day operations the Fund requires the capacity to invest c. £25m of readily accessible short term cash. Currently the monthly cycle of the Fund's cash flow includes the receipt of contributions and other income amounting to c. £13m and the payment of a similar amount in benefits. Because contributions are received before pensions are paid, there is the need to invest c. £13m between the receipt and payment. In addition, as mentioned earlier, cash is accumulated up to £5m before being transferred to Investment Managers or tranches of £5m are received from managers to top up the cash balance. The Fund also has a policy of retaining a £5m balance in short term cash to meet any unexpected circumstances. These three amounts total £23m, hence the £25m capacity requirement. It is possible that the £5m transfer figure could in future be reduced by more frequent transfers to and from Investment Managers. The £5m balance held for unexpected circumstances could also be reduced. Taken together these changes could reduce the total required capacity to £20m.

7.2 Currently there is not a need to invest for periods of more than a month. A sustainable policy should build in the potential for higher levels and longer periods for investment to provide greater flexibility in the management of cash. A revised policy should not increase risk, but should exclude limits that are inappropriately cautious within the context of the overall Fund. The policy should be established in the knowledge that short term cash investment is necessary for the efficient operation of the Fund, bridging the period between the receipt of contributions and other cash and the payment of pensions.

7.2 The proposed revised Treasury Management Policy is set out in Appendix 2. The policy is designed to include the capacity for continued cash investment following adverse changes in counterparty ratings. Although the normal requirement is for cash to be invested for less than one month, the policy includes longer term limits designed to accommodate unforeseen changes in Treasury Management requirements such as the possible investment of investment income in excess of short-term cash requirements. This is also the reason that UK Local Authorities and Building Societies have been included even though at present it is not expected that they would be used.

7.3 The proposed revised Treasury Management policy closely mirrors the policy set out in the Councils' Annual Investment Strategy (approved at Council meeting 14th February 2012). As the Fund's Treasury Management is managed by the Council's Treasury Management Team, the use of similarly formatted policies will reduce the risk of error. The Pension Fund and Council also have a similar attitude to Treasury Management risk. Where the policy limits differ, it is a reflection of the different cash flow requirements and the amounts of cash (as a proportion of overall Fund assets) that need to be invested.

8. RISK MANAGEMENT

8.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has appropriate investment and treasury management strategies in place which are regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

9. EQUALITIES

9.1 An equalities impact assessment is not required.

10. CONSULTATION

10.1 None appropriate.

11. ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The issues are detailed in the report.

12. ADVICE SOUGHT

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

.Contact person	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 (Council 14th February 2012)

AVON PENSION FUND –CURRENT TREASURY MANAGEMENT POLICY

(1) The management of the pension fund cash will be delegated to the Treasury Management team.

(2) The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

(3) The Pension Fund will use the same criteria for counterparties as approved by the Council on an annual basis.

(4) The Treasury Manager will inform the pension fund of any change in the criteria for the counterparty list.

(5) The maximum invested by the pension fund with any one counterparty will be as follows:

Where the Council has a limit of:	The Pension Fund will have a limit of:
£10 million (including £20m temporary increase in UK Banks)	£5 million
£5 million	£3 million
£3 million	£3 million

(6) The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

(7) The maximum term with any counterparty will be as follows:

Where the Council has a limit of:	The Pension Fund will have a limit of:
1 year	6 months
6 months	3 months
3 months	3 months

(8) The cash retained as a working balance will target £10 million.

(9) All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

Approved by Pension Fund Committee 18 December 2009

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AVON PENSION FUND – PROPOSED TREASURY MANAGEMENT POLICY 2012

1 The management of the pension fund cash will be delegated to the Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	**Time limit**
UK Banks and building societies holding long-term credit ratings no lower than A- or equivalent, short-term credit ratings no lower than F1 or equivalent and a Fitch Support Rating (where given) no lower than 3.	£10m each[1]	2 months
Money market funds[2] holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities[3] (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

1, Banks within the same group ownership are treated as one bank for limit purposes.
2,as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
3, as defined in the Local Government Act 2003

8 The cash retained as a working balance will target £5 million.

9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 For reference the rating agencies equivalent ratings are as shown below.

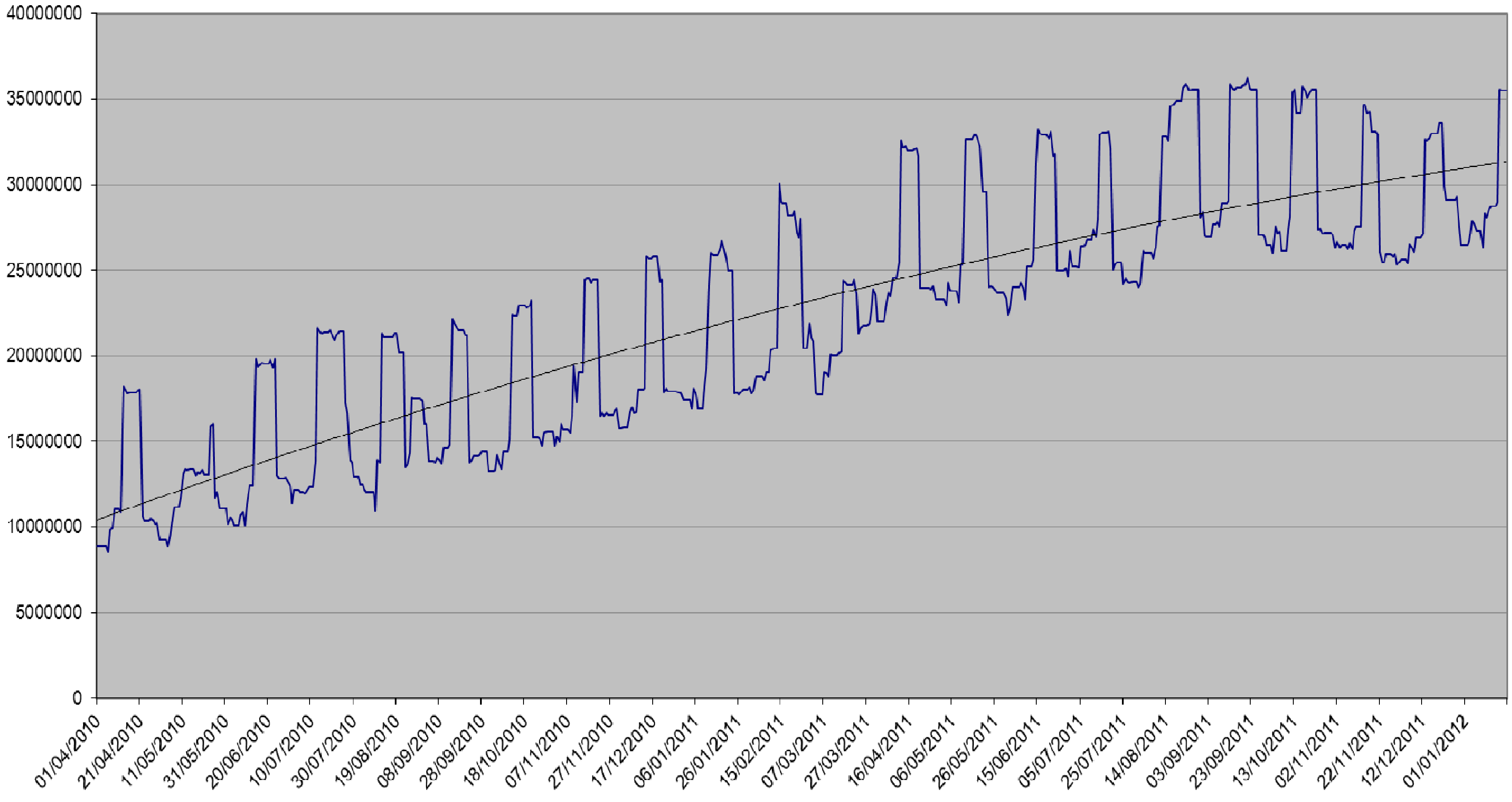
Fitch		Moody's		S&P	
Short term	Long term	Short term	Long term	Short term	Long term
	AAA		Aaa		AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
	A+		A1		A+
	A		A2		A
	A-		A3		A-
F1+		P-1		A-1+	
F1		P-1		A-1	

12 The current credit ratings of counter-parties that would be accepted under the proposed policy are given below.

Counterparty Name	FITCH RATINGS			MOODY'S RATINGS		S&P RATINGS	
	S/Term	L/Term	Sup	S/Term	L/Term	S/Term	L/Term
Barclays Bank plc.	F1	A	1	P-1	Aa3	A-1	A+
HSBC Bank plc.	F1+	AA	1	P-1	Aa2	A-1+	AA-
Lloyds Banking Group							
→ Bank of Scotland plc.	F1	A	1	P-1	A1	A-1	A
→ Lloyds TSB Bank plc.	F1	A	1	P-1	A1	A-1	A
Royal Bank of Scotland Group							
→ National Westminster Bank plc.	F1	A	1	P-1	A2	A-1	A
→ Royal Bank of Scotland plc.	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1+	AA-
UK Building Societies							
Nationwide	F1	A+	1	P-1	A2	A-1	A+

NET CASH ACCUMULATION: 1/4/10 TO 20/1/12

APPENDIX 3



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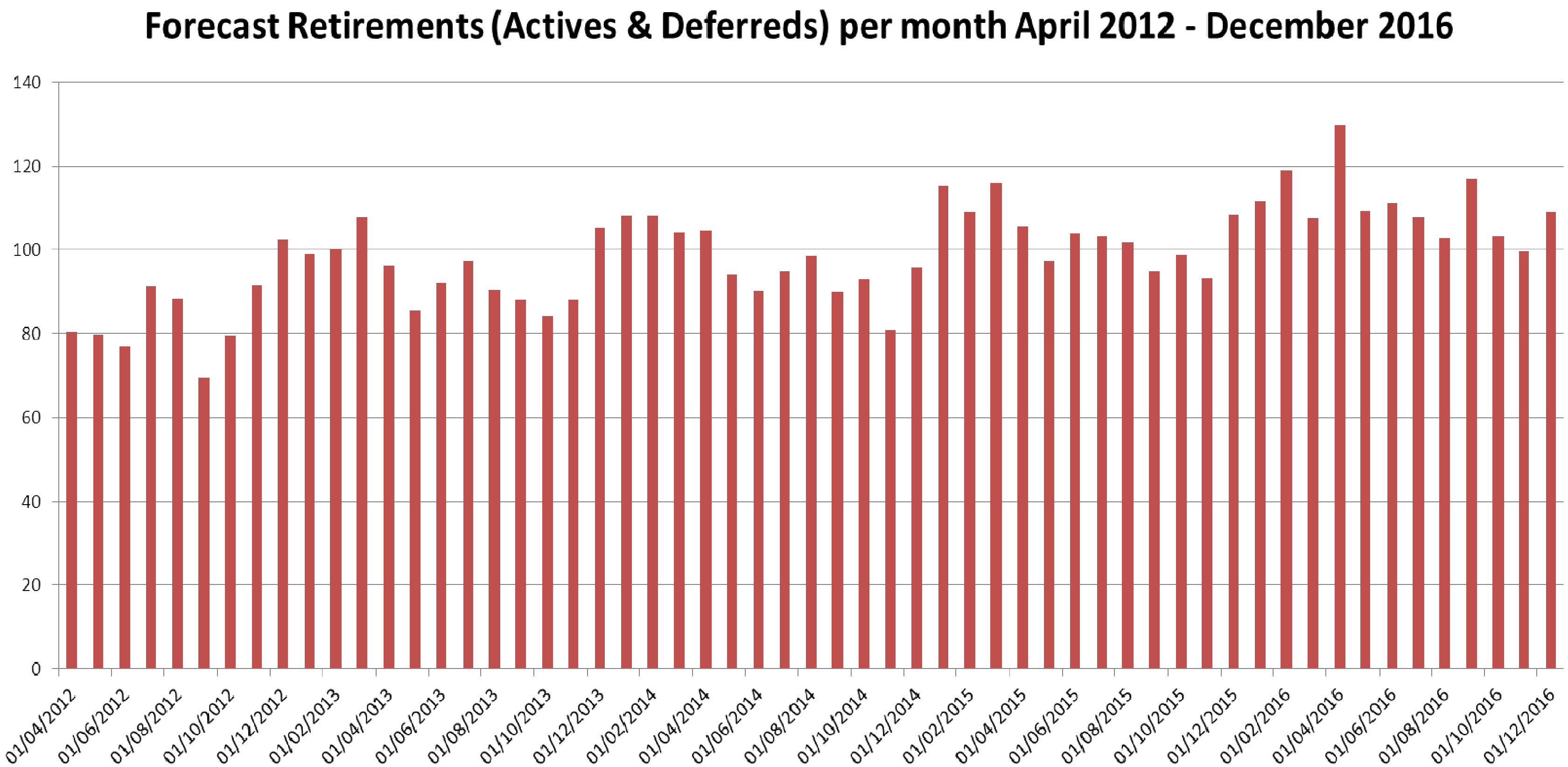
APPENDIX 4



Forecast is based on assumptions used in the 2010 Valuation. Actual data since that time suggests that this might under-estimate the number of retirements. The important point to note is that the number of retirements is not expected to fall over the next few years and may be expected to rise.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 MARCH 2012**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING STRATEGY STATEMENT - TERMINATION OF ADMISSION AGREEMENTS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Revised Funding Strategy Statement		

1 THE ISSUE

1.1 This report concerns the treatment of residual liabilities when an admission agreement terminates. A change is being proposed to the Funding Strategy Statement (FSS) which should be to the benefit of both the Fund and the employing bodies. This is because, in the case of transferee admission bodies, it will provide greater certainty than currently exists, albeit by restricting choice, while, in the case of community admission bodies guaranteed by a scheme employer, where choice will still exist, management of the liabilities will be improved because decisions concerning the residual liabilities will be made upfront.

2 RECOMMENDATION

That the Committee:-

2.1 Approves the revised Funding Strategy Statement as set out in the Appendix.

2.2 Delegates authority to the Resources Director in consultation with Chair and Vice-Chair to consider exceptional requests and vary the policy in order to manage exceptional risks which will subsequently be reported to Committee.

3 FINANCIAL IMPLICATIONS

3.1 The financial implications associated with the proposed change relate to the transfer of risk from the Fund to the outsourcing scheme employers in the case of transferee admission bodies. However, it is not possible to make any judgement as to who will benefit from the risk transfer because this will depend on what happens in the future to those factors which affect the valuation of pension liabilities.

4 BACKGROUND

4.1 At the present time the Fund's policy, as set out in the FSS, is as follows:-

"Unless the liabilities of an admitted body are transferred on closure to another employing body, the residual liabilities will be valued using either:

- an "on-going" valuation basis; consistent with the 2010 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date, or
- a "corporate bond yield" basis; consistent with the 2010 actuarial valuation assumptions, updated for market yields/inflation applying at the cessation date but with a discount rate based on the long dated Sterling AA Corporate Bond yield,

whichever produces the higher liability value".

(Invariably the "corporate bond yield" basis produces a higher valuation for the liabilities. However, the policy is worded in the way that it is because very occasionally there are market aberrations which undermine this "norm")

5 NEED FOR CHANGE

5.1 There are essentially two reasons why the present system needs to change. These are as follows:-

(i) **Contractual** – commercial contracts should make it clear at the outset on what basis the liabilities are going to be valued when the contract terminates. The present system does not encourage outsourcing employers to address this issue in the contract documentation, given that, so far as the FSS is concerned, this decision can be made at the end of the contract.

(ii) **Actuarial** – Contribution rates, both at the start of a contract and at actuarial valuations, can be calculated on an informed basis if the actuary knows how the liabilities are to be treated at the conclusion of the admission agreement. At the present time there is a presumption that at the conclusion of a contract the liabilities will be valued on a corporate bond basis when the reality is that in most cases no decision has been taken.

5.2 It therefore makes sense to move to a system where the treatment/valuation of liabilities at the conclusion of a contract is decided **in advance**.

6 PROPOSED CHANGE

6.1 In the case of transferee admission bodies, specific services are outsourced by a scheme employer to a contractor and it is therefore considered to be feasible for all liabilities at the point of closure to revert to the scheme employer. However, in the case of community admission bodies, the relationship between an admission body and a scheme employer may not always be sufficiently close for the reversion option to be appropriate.

6.2 The change which is now being proposed follows discussions with the Fund's actuary. This would involve transferee admission bodies and community admission bodies being treated differently in future, viz.

Transferee Admission Bodies – In these cases all liabilities on closure will revert to the outsourcing scheme employer. This reflects the fact that the Transferee Admission Body is discharging a function of the scheme employer.

Community Admission Bodies – In these cases the outsourcing scheme employer will continue to have a choice as to whether to take back the liabilities on closure or leave them with the Fund. **However, this choice will need to be exercised before the admission agreement begins.** Where a decision is taken to leave the liabilities with the Fund, contribution rates will be calculated on a corporate bond basis.

7 PRACTICAL IMPLICATIONS

7.1 As indicated earlier, the way in which liabilities are treated on closure has a direct impact on any commercial or service contract where the pensions risk is transferred. **Where it is not transferred, there will be a presumption in the case of community admission bodies as well as transferee admission bodies that at the conclusion of the contract the liabilities will revert to the scheme employer.**

7.2 Where the pensions risk has been transferred, the practical effect of the proposed change is as follows:-

(i) **Transferee Admission Bodies** – the Fund actuary will calculate a final liability using the on-going valuation basis. If there is a deficit, the transferee admission body will be required to settle this. The payment by the transferee admission body will be credited in the Fund's books to the outsourcing scheme employer. In effect, the liabilities will revert to the scheme employer fully funded.

(ii) **Community Admission Bodies** – Where the outsourcing scheme employer has decided that it will accept the liabilities on closure, the procedure will be the same as for transferee admission bodies. Where the outsourcing scheme employer has decided that it does not wish to take back the liabilities onto its own books, the Fund actuary will calculate a final liability using the "exit" basis of valuation (i.e. the discount rate will normally be the corporate bond yield). If there is a deficit, the community admission body will be required to settle this. The payment by the community admission body will then be credited to the Fund and set against the liabilities left with the Fund.

8 CONSULTATION

8.1 It has not been practical to consult all the scheme employers who might be involved in outsourcings. However, the four unitary councils, who are responsible collectively for c. 85% of existing transferee admission agreements, have been consulted. It is hoped that their views will be representative of scheme employers as a whole.

8.2 Bath & North East Somerset Council, North Somerset Council and South Gloucestershire Council are all comfortable with the proposed change. Bristol City Council has no fundamental objection but the Fund has had to address two issues which arose during the course of correspondence with their officers. These were:-

(i) Where a new contract was let to the same transferee admission body as previously, could a deficit be carried forward to the new contract instead of being "crystallised"? The Fund was happy to agree to this.

(ii) Although it was difficult to identify the particular circumstances where such an eventuality would arise, might there not be occasions when it would be reasonable for the residual liabilities to be left with the Fund in the case of a terminated transferee admission agreement? Fund's response set out in 9.3 below.

9 REVISED FUNDING STRATEGY STATEMENT

9.1 Having taken into account the consultation responses, the FSS will be revised to incorporate the change in policy as proposed in Section 6 above.

9.2 As a result, the Appendix to the FSS will be revised with new paragraphs 12, 13 and 19. The revised FSS including the appendix is attached as Appendix 1 to this report.

9.3 However, in response to the issue raised by Bristol City Council in 8.2(ii) above, as it is not always possible to foresee future scenarios and the service delivery models within the public sector are becoming increasing complex, it is advisable to have some discretion within the Policy to enable officers to accommodate changed circumstances on the basis that risks to The Fund and employers are always minimised through practical solutions. Therefore, it is requested that delegated authority is given to the Director of Resources in consultation with the Chair and Vice-Chair to (i) consider any exceptional request that could arise in the future that cannot be envisaged at present and (ii) vary the policy accordingly in order to manage exceptional risks. Any variations to policy should subsequently be reported to Committee.

10 EXISTING CONTRACTS

10.1 So far as the existing contracts are concerned, the current arrangements will stand. However, for actuarial purposes, scheme employers will be asked to review these contracts and to let the Fund know how they wish to treat the liabilities when the contracts end.

11 RISK MANAGEMENT

11.1 Although risk reduction was not the primary driver, the proposed change will deliver a reduced risk for the Fund in the sense that it will be left with fewer "orphan liabilities" (i.e. liabilities for which no scheme employer is responsible) on its books.

12 EQUALITIES

12.1 There are no equalities issues associated with the proposed change.

13 CONSULTATION

13.1 The response from the consultation is discussed in Section 8 of this report.

14 ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 The relevant issues are set out in the report.

15 ADVICE SOUGHT

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

Contact person	Tony Bartlett, Head of Business Finance and Pensions 01225 477302 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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AVON PENSION FUND

FUNDING STRATEGY STATEMENT (FSS)

This Statement has been prepared by Bath and North East Somerset Council (the Administering Authority for the Local Government Pension Scheme in the area formerly known as Avon) to set out the funding strategy for the Avon Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (the "Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- **After consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their funding strategy;**
- **In preparing the FSS, the Administering Authority must have regard to:-**
  - **(i) the guidance issued by CIPFA for this purpose; and**
  - **(ii) the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);**
- **The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Statement of Investment Principles.**

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the "BMC Regulations"). The required level of employee contributions is also specified in the BMC Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**
- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and purpose of the Pension Fund

The aims of the fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- support the employers so that they can manage their liabilities effectively, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

(all the above items as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)).

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with underlying legislation
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Scheme's performance and funding, amending the FSS/SIP as necessary.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding, before the event.

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates after consulting the Administering Authority and having regard to their FSS, and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP.

5. Solvency issues and target levels

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The financial assumptions making up the funding strategy in respect of past service and as adopted for the 2010 valuation are:

Rate of discount	6.85% per annum (pre-retirement) 5.70% per annum (post-retirement)
Rate of Pensionable Pay Inflation	4.50% per annum
Rate of pension increase inflation	3.00% per annum

The key financial assumptions for Past Service are as follows:

- the extent to which the Fund's investments are expected to outperform a portfolio of Government bonds ("asset outperformance assumption" – AOA). An AOA of 2.35% per annum has been assumed in respect of pre-retirement liabilities and 1.2% per annum in respect of post-retirement liabilities.

- the expected rate of Pensionable Pay increase above CPI price inflation ("real Pensionable Pay growth"). This has been assumed to be 1.50% per annum in the long term (see further comments below).

The AOA represents the advance allowance which, for valuation purposes, the actuary is making for the return which will be achieved on the Fund's assets over and above Government bonds. This reflects the liability profile of the Fund and the fact that the Fund is invested predominantly in higher return assets as detailed in Section 7. If the return actually achieved is higher than this the Fund deficit will be reduced; if the return is lower then the Fund deficit will increase (provided that all the other assumptions remain valid).

The rate of pensionable pay inflation relates to pay increases for scheme members during their period of employment (this will determine the level of their final salaries, on which the pension is based). If the actual rate of pensionable pay inflation is greater than the actuary's assumption the Fund deficit will increase; if it is lower then the Fund deficit will be reduced (again, provided that all the other assumptions remain valid).

There are special circumstances relating to this valuation such as the government's announcement that all public sector employees earning over a whole time equivalent of £21,000 per annum, would not receive any pay increases for at least two years whilst other employees would receive a flat increase. Given this, the Administering Authority will, on the advice of the Fund Actuary, make an adjustment to the valuation results to reflect this short term pay progression as far as it relates to those employers affected by the change.

The rate of price inflation applies primarily to pensions in payment and the assumption incorporates an adjustment to allow for supply/demand distortions in the bond market which is used to derive the market implied rate as at the valuation date. The rate of price inflation is important as retirement pensions are increased each April by the Consumer Price Index applying in the previous September. This is a departure from the historic approach based on the Retail

Price Index and was announced by the Chancellor in his Emergency Budget in June 2010 and will apply from April 2011. The above assumptions make due allowance for this revised basis of indexation as advised by the Actuary.

In testing whether actual experience has been in line with the actuary's assumptions (which are intended to be long term allowances rather than predictive of rates in the three year period between valuations), any monitoring exercise would need to focus on their aggregate effect.

For calculating the cost of future accruals (the future service basis) a non-market related basis is adopted. This focuses on stability in the future service contribution rate, rather than linking it directly to variable gilt yields at each valuation, with the object of introducing an element of smoothing into the costs falling on employers. The use of a different basis for future service also reflects the fact that market conditions at time of payment of future contributions are at present unknown.

The future service basis for the 2010 valuation assumes a real rate of discount in excess of price inflation of 3.75% per annum (pre and post retirement).

The 2010 valuation takes into account modified longevity, ill health and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary. It also assumes that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, builds in a minimum level of longevity 'improvement' year on year in the future.

The following two tenets underpin the 2010 valuation:

- that the Fund and the major employers are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable part in achieving adequate funding over the longer term.

The current actuarial valuation of the Fund is effective as at 31 March 2010. The results indicate that overall the assets of the Fund represented 82% of projected accrued liabilities at the valuation date.

Historically, any shortfall of assets relative to liabilities has been recovered over a period of 15 years. At the 2004 valuation, the administering authority for the Avon Pension Fund, Bath & North East Somerset Council agreed to consider requests from employing bodies to increase their recovery periods from 15 to 20 years and this position remained unchanged at the 2007 valuation At this valuation the Administering Authority is recognising the pressures on public sector finances by extending the recovery period for Scheduled and Designating Bodies with the aim of maintaining a stable rate of contribution, subject to an employer's strength of financial covenant. The Actuary has drawn the Fund's attention to the uncertain position regarding the willingness of the government to guarantee the outstanding pension liabilities of a scheduled body, in particular, a college or academy. Because there are no immediate concerns about the financial covenant over the next three years, the same maximum deficit recovery period applied to the scheduled bodies will be applied to the collages and academies. The financial risks of the colleges and academies will be monitored during the valuation period and, on the basis of this, different treatment may be necessary at the next valuation. In addition, special arrangements continued to apply so far as the admitted bodies are concerned, these being subject to the outcome of the Fund's review (see Appendix 1).

Therefore the administering authority proposes to introduce the option for employing bodies to extend the maximum deficit recovery period to those shown in the table below, **subject to there being no reduction in the employer contribution rate**. Employers will be able to select any shorter deficit recovery period than the maximum periods stated below.

Employer Category	Maximum Deficit Recovery Period
Scheduled and Designating Bodies (except Bath Tourism Plus and Destination Bristol	30 years subject to no reduction in the employer rate
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	30 years subject to agreement with Guarantor
Community Admission Bodies (with no guarantee), Bath Tourism Plus and Destination Bristol	Determined on a case by case basis
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	Deficit recovery period to be agreed with the letting scheme employer

Ideally, the Fund would have been seeking to move back to a lower deficit recovery period at this stage but, in view of the continuing funding pressures it has not proved practicable. **Any savings arising as a result of scheme changes or any improvement in the funding position at the next valuation will be used to reduce the deficit recovery period to at least the 2007 position** and therefore reduce the overall cost of the scheme. Only after this has been achieved, will any reductions in employer contribution rates be considered.

Similarly, any increase in contribution rates necessary to restore full funding and again after discussion with the actuary, the Fund will consider allowing employing bodies to phase in the increase over a period not normally exceeding [three] years. However, it should be noted that it may not be possible to extend this facility to all admitted bodies.

Notwithstanding the above, the Fund, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

In exercising their discretion within the maximum deficit recovery period, the employing bodies will be given detailed advice by the Avon Pension Fund.

6. Admitted Bodies, Destination Bristol and Bath Tourism Plus

There are particular issues which need to be addressed in this Statement regarding the way in which the liabilities of admitted bodies are funded. The essential issues are (i) what valuation basis should be used when an admitted body leaves the Fund, (ii) what steps can reasonably be taken to protect employing bodies generally from the financial risk of an admitted body becoming insolvent and (iii) what level of contribution rate is affordable. These issues are addressed in detail in Appendix 1.

The main item of policy set out in Appendix 1 is that, unless the liabilities of an admitted body are transferred on closure to another employing body, the residual liabilities will be valued using either:

- **an "ongoing" valuation basis; consistent with the 2010 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date, or**

- **a "corporate bond yield" basis; consistent with the 2010 actuarial valuation assumptions, updated for market yields/inflation applying at the cessation date <u>but</u> with a discount rate based on the long dated Sterling AA Corporate Bond yield**,

whichever produces the higher liability value.

(It should be noted that this principle would apply to any employing body which leaves the Fund. Although the number of occasions when this is likely to occur are few, the bodies involved can be quite sizable. These events are normally triggered by restructurings initiated by government). Additionally, where an admitted body becomes insolvent and leaves a deficit with the Fund, there is a change in the way in which this deficit will be funded in future.

Although Destination Bristol and Bath Tourism Plus are resolution bodies, these have the same characteristics as some of the Fund's admitted bodies and must be considered in the same way.

Since the Fund's policy on admitted bodies will have implications for every employing body in the Fund, this Appendix should be regarded as an integral part of the Funding Strategy Statement and be read as such.

7. Link to investment policy as set out in the Statement of Investment Principles (SIP)

The results of the 2010 valuation show the liabilities to be 82% covered by the current assets, with the funding deficit of 18% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for out-performance of the investments or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The target position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, and expected long-term returns, as set out in the SIP are:

Asset Class	% of Fund	Expected Return (long term, p.a.)
UK Equities	27%	8.4%
Overseas Equities	33%	8.4%
Index-Linked Gilts	6%	5.1%
Fixed Coupon Gilts	6%	4.7%
UK Corporate Bonds	5%	5.6%
Overseas Fixed Interest	3%	5.6%
Fund of Hedge Funds	10%	6.6%
Property	10%	7.4%

As documented in the SIP, the investment strategy and return expectations set out above equate to an overall expected return of 2.8% per annum in excess of long-dated gilt returns. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2.35% in respect of liabilities pre-retirement and 1.2% in respect of post-retirement liabilities. Based on the liability profile of the

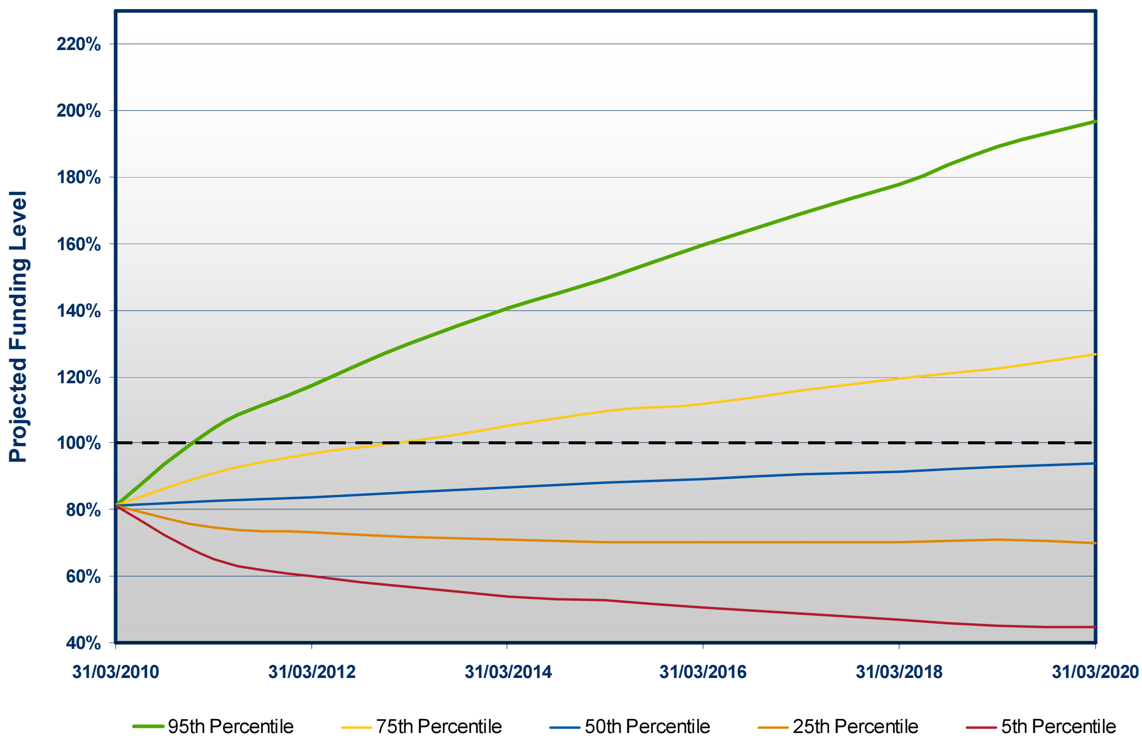
Scheme at valuation, this equates to an overall average asset out-performance allowance of [1.6]% per annum in the short term to keep pace with the liabilities. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy set out in the SIP.

8. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

The chart below illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date assuming no change in contribution rates, investment strategy or the benefits of the Scheme. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower.)



Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated

To the extent that employer contribution rates need to increase as a result of these risks, there will in turn be an impact on service delivery and the financial position of admitted/scheduled bodies.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

Regulatory

The regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or Inland Revenue Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

Governance

The Avon Pension Fund Committee has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it will be circulating copies of the first draft to all employing bodies for their comments and will also place a copy on the Fund's website. The first draft is being released after consultation with Members of the Avon Pension Fund Committee; the final version will be approved at the Committee's meeting in September after the Fund has received feedback from the employing bodies.

Governance risks are as follows:-

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Bond arrangements are strictly controlled and monitored, but in most cases the outsourcing employer, rather than the Fund, bears the risk.

9. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

Avon Pension Fund
24 September 2010

FUNDING STRATEGY STATEMENT – APPENDIX 1

ADMITTED BODIES including DESTINATION BRISTOL AND BATH TOURISM PLUS

Introduction

1. An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

2. There are basically two types of admitted body, as follows:-

   Transferee admission bodies – An employer which participates in the Fund for the benefit of employees involved with delivery of a specific function or service for a Scheme Employer (the "transferor scheme employer"). An example is where a local authority outsources a specific service (e.g. waste management) to a private sector employer. In these cases the Scheme Employer acts as ultimate guarantor and would be a party to the admission agreement in addition to the admitted body itself.

   Community admission bodies – These are the traditional type of admitted body, i.e. those which provide some form of public service and whose funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations.

   Destination Bristol and Bath Tourism Plus – These bodies are companies limited by guarantee in which the outsourcing Scheme Employer has a controlling interest. Although they are "Designating Bodies", they have similar characteristics to admitted bodies (viz. they are similar to transferee admission bodies in that there is an "outsourcing employer" and they are similar to most of the Fund's community admission bodies in that there is no guarantee). For the purpose of the Funding Strategy Statement they will be treated as if they are community admission bodies.

3. As mentioned above, community admission bodies in the Avon Pension Fund are a diverse group. Some are financially very secure in that they receive funding from either the government or local authorities on a quasi-permanent basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising. Most of the recently admitted bodies are backed by a guarantee; however, those which were admitted more than eight years ago will have no such backing and, as such, will constitute a potential risk to the Fund. This is because they may cease operations with insufficient residual assets to meet their pension liabilities.

4. The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most Funds – and, by extension, most employing bodies – now have a deficit of assets relative to liabilities. It is important that, in the interests of the other employing bodies, as much as possible is done to manage the risks associated with the admitted bodies. There is also the question of the basis on which the liabilities of the admitted bodies are valued by the actuary when the admitted body leaves the Fund. These have always been valued on a stronger basis (= more highly valued) than that used for the triennial valuation.

Valuation Basis

5. When the actuary prepares the triennial valuation, the rate at which he discounts future pension payments back to a present value reflects the return which he expects, or "assumes", that the Fund will earn on its investments over the long term. If this return is not achieved, either in the short term or the long term, all other things being equal, contribution rates would have to be increased at subsequent valuations.

6. When an admitted body leaves the Fund, there is no facility to revert to that body if the contributions paid by that body to meet future pension payments prove to be inadequate. Because the body responsible for generating these liabilities has no ongoing obligation to meet any future increase in liabilities relative to assets, the liabilities left with the Fund are known as "orphan liabilities".

7. **Therefore, unless the liabilities of an admitted body are transferred on closure to another employing body, the residual liabilities will be valued by the actuary using either**
   - **an "ongoing" valuation basis consistent with the 2010 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date,**

   or
   - **a "corporate bond yield" basis consistent with the 2010 valuation assumptions, updated for market yields/inflation applying at the cessation date but with a discount rate based on the long dated Sterling AA Corporate Bond yield,**

   whichever produces the higher liability value.

   The theory is that, if the assets left by the admitted body are invested in corporate bonds, the Fund can be assured of achieving a return which would approximate to the underlying liabilities and thereby eliminate most of the investment risk arising from "orphan liabilities". The Sterling AA Corporate Bond yield is, of course, the discount rate currently used for FRS 17 purposes, albeit over a range of durations appropriate to the underlying liabilities.

8. For the purposes of the actuarial valuation, there is arguably a case for using the Sterling AA Corporate Bond yield to discount the liabilities of a substantial number of admitted bodies. This would have a twofold benefit in that (i) it would achieve consistency between the triennial valuation and the valuation basis used on closure and (ii) the higher contributions would provide greater protection for the other employing bodies in the Fund who, by default, would have to meet any deficit left by an admitted body which became insolvent.

9. Ahead of the 2010 valuation only a small number of admitted bodies are in the position of having their liabilities valued on the Sterling AA Corporate Bond basis. Had financial circumstances been more favourable at the last valuation, there would have been more.

10. However, for the benefit of the admitted bodies, additional information will be provided showing the past service deficit and contribution rate which would have resulted if the Sterling AA Corporate Bond yield had been used as the discount rate. Employers will then have input as to whether they wish to reduce investment risk and volatility by investing in corporate bonds with the liabilities being valued accordingly. However, this reduction in volatility will come at an increase in the contribution rate.

Transferee Admission Bodies

11. As at 31 March 2010 the transferee admission bodies in the Avon Pension Fund, with the outsourcing Scheme Employer in brackets, were as follows:-

Active Community Engagement Ltd (Bristol City Council)
Agincare (Bath & North East Somerset Council)
Aquaterra Leisure Ltd. (Bath & North East Somerset Council)
Aramark Ltd (City of Bristol College)
BAM Construction UK Ltd (Bristol City Council)
Bespoke Cleaning Services Ltd (Filton College)
Churchill Contract Services Ltd (Bristol City Council)
Eden Food Services (Bristol City Council)
English Landscapes (Bristol City Council)
ISS Mediclean (Bristol City Council)
Mama Bears (City of Bristol College)
Mouchel Business Services Ltd (Bath & North East Somerset Council)
Northgate Information Systems (Bristol City Council)
Prospect Services Limited (Gloucestershire County Council)
Quadron Services Ltd (Bristol City Council)
Shaw Healthcare (North Somerset) Ltd. (North Somerset Council)
SITA Holdings UK Ltd. (South Gloucestershire Council)
Skanska Rashleigh Weatherfoil (Bristol City Council)
SLM Community Leisure (Bristol City Council)
SLM Fitness and Health (Bristol City Council)
South Gloucestershire Leisure Trust (South Gloucestershire Council)
The Brandon Trust (North Somerset Council)
Yes Dining Ltd (Bristol City Council)

12. ***Until the Funding Strategy Statement was revised on 16 March 2012, an outsourcing scheme employer had a choice as to whether, at the conclusion of a transferee admission agreement, they left the liabilities of the transferee admission body with the Fund or took them back in-house. For transferee admission agreements which commence subsequent to this revision, the Fund's policy is that the liabilities of a transferee admission body will in all cases revert to the outsourcing scheme employer when the agreement ceases.***

13. ***For those transferee admission agreements which were in operation as at 16 March 2012, the Fund will be asking the relevant outsourcing scheme employers to decide as quickly as possible whether they intend to take the transferee admission body's liabilities back in-house when the agreement ceases or whether they intend to leave them with the Fund. This will enable the liabilities to be managed more effectively from an actuarial standpoint.***

Community Admission Bodies (with guarantee)

14. In 2002 new legislation was introduced which made it possible for the Fund to seek guarantees from local authorities in support of applications made by potential community admission bodies wishing to participate in the Fund. The current policy of the Avon Pension Fund is that any such applications must, with few exceptions, be accompanied by a guarantee or, failing that, a bond.

15. As at 31 March 2010 the community admission bodies in the Avon Pension Fund supported by a guarantee were as follows:-

    Merlin Housing Society Ltd. (Transferred Staff Only)
    North Somerset Housing
    Southwest Grid for Learning Trust
    West of England Sport Trust (Wesport)

16. The guarantors for Merlin Housing Society Ltd and North Somerset Housing are South Gloucestershire Council and North Somerset Council respectively. In this case the relationship between the community admission bodies and the "outsourcing" employer is, from the Fund's standpoint, much the same as for transferee admission bodies. The Fund will accordingly seek to establish the policy stance of the outsourcing employer with regard to the treatment of the community admission body's liabilities both on an ongoing basis and on closure.

17. The admission agreement for Southwest Grid for Learning Trust involves multiple guarantors, many of whom are not employers in the Avon Pension Fund. In this case it is not practical for any deficit on closure to

be transferred to another employer in the Fund. The Sterling AA Corporate Bond valuation basis would therefore apply on closure and the Fund will be discussing with Southwest Grid for Learning Trust the feasibility of adopting this valuation basis at the 2010 valuation.

18. Wesport was admitted to the Fund with effect from 1/1/2007. In this case the guarantors are the four unitary councils. It was agreed with these Councils that the Sterling AA Corporate Bond valuation basis should apply from the outset.

19. ***In those cases where a guarantee exists and where there is a strong link between the community admission body and the scheme employer who is the guarantor, the scheme employer has a choice as to whether to take the community admission body's liabilities back in-house when the admission agreement ceases or leave them with the Fund. This choice will continue to exist following the revision of the Funding Strategy Statement on 16 March 2012. However, for admission agreements which commence after that date, the guaranteeing scheme employer will be required to exercise that choice at the outset.***

Community Admission Bodies (without guarantee)

20. The majority of community admission bodies in the Fund are, for historical reasons, not supported by a guarantee. Some were admitted prior to 1974, the year in which Avon County Council became the administering authority for the Avon Pension Fund. Some were admitted during the Avon County Council era (1974 to 1996). Others were admitted during the first five years of Bath & North East Somerset Council's administration of the Fund when there was no provision in law for local authorities to provide guarantees to underpin an admission agreement.

21. As at 31 March 2010 the community admission bodies in the Avon Pension Fund without a guarantee were as follows:-

Ashley House Hostel
Bath & North East Somerset Racial Equality Council
Brislington Neighbourhood Centre
Bristol Council for Racial Equality
Care Quality Commission
Centre for Deaf People
Clifton Suspension Bridge Trust
Connexions West of England
Direxions for Success Ltd
Holburne Museum of Art
Learning Partnership West Ltd
Off The Record Bath & North East Somerset
Somer Community Housing Trust
Somer Housing Group Ltd
Southern Brooks Community Partnership

University of Bath
West Mendip Internal Drainage Board
Woodspring Association for Blind People

22. Some of these organisations provide a service which, because it is supported by a particular employing body, can be regarded as providing the service on behalf of that employing body. In the event that an organisation of this sort goes into liquidation and leaves the Fund with an excess of liabilities relative to assets (using the Sterling AA Corporate Bond valuation basis) the most equitable solution, after utilising any legal remedies which may exist to obtain the necessary funds from the defunct body itself, would be to transfer the deficit to the relevant (i.e. “linked”) employing body. (Alternatively, the employing body might choose to take over both the liabilities and assets of the defunct body).

23. The test which would be applied to establish whether a “link” exists is taken from the regulations themselves, viz, whether the defunct body “has sufficient links with a Scheme Employer for the body and the Scheme Employer to be regarded as having a community of interest, whether because the operations of the body are dependent on the operations of the Scheme Employer or otherwise.” The alternative to this solution would be for the deficit to be shared among all employing bodies in the Fund in accordance with the Regulations, something which has been normal practice for the Avon Pension Fund but which clearly has shortcomings from the standpoint of equity.

24. Since there is no regulatory backing to support this approach, it can only be adopted by agreement. To date it has not been possible to secure such an agreement. However, if the employers in the Fund were willing to agree to this approach, it would also be possible to reflect the stronger covenant when calculating the contribution rate for such bodies (in particular, this could affect the deficit recovery period).

25. In more general terms, the question of whether the valuation basis should be changed for community admission bodies without a guarantee will depend very much on individual circumstances. For example, some of these bodies may intend to remain with the Fund indefinitely and, in the hypothetical event of closure, would have sufficient resources to meet the closure cost. In these cases it will be sufficient to simply draw the body’s attention to the Fund’s policy on closure as set out in this Statement. Otherwise the desirability of moving to a Sterling AA Corporate Bond basis of valuation has to be weighed against the ability of that body to pay higher contribution rates.

Destination Bristol and Bath Tourism Plus

26. The Fund remains concerned that there is no provision in the Regulations for the Scheme Employers which “control” Bath Tourism Plus and Destination Bristol to underwrite the liabilities of those bodies and has brought this matter to the attention of the Government. Given the present situation where there is no guarantee in place the case for

moving to a Sterling AA Corporate bond basis remains and will be explored with the employers as part of the 2010 valuation.

Valuation 2010

27. The Fund's officers will, prior to the setting of new contribution rates, meet representatives of each of the admitted bodies, firstly, to explain the background to the 2010 valuation and, secondly, to establish, if possible, the extent to which they can accommodate any contribution rate increases. It is anticipated that on this occasion affordability considerations will be paramount and that action to accelerate deficit recovery will need to await future valuations.

Revised FSS to be approved by Avon Pension Fund Committee 16 March 2011

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 March 2012**	**AGENDA ITEM NUMBER**
TITLE:	**ACADEMIES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Guidance Note from Secretaries of State, 11 December 2011 Appendix 2 – Employer Contribution Rates for Avon Pension Fund Academies		

1 THE ISSUE

1.1 In December 2011 the Secretaries of State for Education and Communities and Local Government issued a guidance note relating to the treatment of academies within the LGPS. The note was prompted by Government concern that “no academy should pay unjustifiably higher employer contributions to the LGPS compared to maintained schools in the local area”. The Government is accordingly looking for a consistency of approach across all LGPS funds based on this principle.

1.2 This report explains the guidance and how the Fund’s policy for academies complies with the guidance.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the information set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The Fund currently has 27 academies as scheme employers. As many schools have yet to convert, it is anticipated that the number will continue to grow over next few years.

3.2 An employer contribution rate is calculated for each new academy. Each academy is allocated a share of the deficit which existed at 31 March 2010 according to the size of its payroll (relative to the unitary authority it is leaving) on conversion. A future service rate is calculated for each academy based on the profile of its active membership.

4 BACKGROUND

4.1 Current government policy means that schools converting to academies become "scheduled bodies" in the Fund (employing body is required to offer membership of the LGPS to eligible staff; the Fund cannot refuse membership). However, no specific guidance had been provided to administering authorities regarding the treatment of past service deficits and how liabilities would be treated should an academy default. As a result, there has been an inconsistent treatment of academies across LGPS funds, with some academies paying significantly higher contribution rates than they did as a maintained school.

4.2 In order to achieve greater consistency, a guidance note relating to the treatment of academies within the LGPS was jointly issued jointly by the Secretaries of State for Education and Communities and Local Government in December 2011 (see Appendix 1). The essential problem which the guidance note was trying to address was that some funds, almost certainly just a minority, have increased contribution rates for academies by reducing the period over which a deficit is recovered compared to that of their former unitary authority. Their justification for this was the perceived risk associated with an academy, given that there had been no formal commitment from Government that they would intervene as administrator and honour any outstanding pension liability should an academy become insolvent. The note seeks to amend this perception, as follows:-

"It is recognised that consideration has to be given about the risk to the fund should a school or Academy fail. Should a maintained school ever be wound up it will be the function of the local authority to transfer pupils to another educational institution. Pension liabilities would be managed within the local authority's employer contribution rate.

Equally, if the Secretary of State for Education considered that an Academy was performing poorly, he would review the position, broker support and, where necessary, take steps either to replace the Academy Trust sponsors (the members of the Academy Trust) or the Academy Trust. If either party to the Academy arrangements ever decided that those arrangements should be brought to an end, it would have to give notice to the other party. The education provision for the affected children and young people would need to continue in an appropriate educational establishment.

The Government would be bound to consider all available options for dealing with an Academy's outstanding LGPS pension liabilities including, but not limited to, the assignment of assets and liabilities to a new or an existing educational establishment where this was the desired outcome."

4.3 The guidance note is clearly hoping that those funds who have taken a pessimistic view of the solvency risk associated with academies and therefore set high contribution rates will now revise their policies. To reinforce this message, it urges funds to "positively consider" any request from an academy to be pooled with the local authority for LGPS purposes. If this still does not have the desired effect, in that "inconsistencies or unjustifiably high employer pension contributions…remain" then "consideration will be given to what other steps, including regulatory changes, would be needed following discussions with LGPS experts, including Scheme actuaries".

4.4 In this context "pooling" means the academies using the same employer contribution rate as the unitary authority it was formerly part of and the assets and liabilities remaining "pooled" with those of the unitary authority.

5 AVON PENSION FUND CURRENT POLICY

5.1 Since the Government's legislation permitting academies to convert to academies was introduced, 27 local authority schools have converted to academies in the Avon area. **Each of these has been allocated a share of the deficit which existed at 31 March 2010 according to the size of its payroll on conversion. A future service rate has been calculated for each academy based on the profile of its active membership.** Any difference in an academy's contribution rate compared to what it would have been paying if it had continued as a maintained school stems almost entirely from the level of its future service rate. Whereas the future service rate for the four local education authorities is c.12% on average, the rates for the new academies range from 10.2% to 15%.

5.2 Appendix 2 provides a comparison of the rates for each academy against the relevant local authority.

5.3 **The Fund's actuary has been consulted on the Guidance Note and confirms that the approach adopted by the Fund for setting contribution rates is "broadly in line with the spirit of the letter". He notes that "the differences with the joint letter include the assessment of the future service cost, which under the policy adopted by the Avon Pension Fund will be driven by the membership involved in the new academy and not the entire Council membership (as would have been the case if pooled)"**.

5.4 With regard to the issue of pooling, the actuary favours individual future service rates because it "demonstrates transparency of cost and avoids cross subsidy". In addition, it reflects the employer's own practices for pay etc. over which the former LEA (local education authority) has no control.

5.5 There is also a question mark on the way in which pooling would impact accounting practices. It would be much more difficult for an academy to produce stand-alone accounting figures on a "defined benefits" type approach in accordance with accounting standards if there were pooling involved due to the assets and liabilities not being separately identifiable. In addition, (i) explanations which might be sought by an academy with regard to liability changes from one year to another would be much more difficult to provide where pooling was involved and (ii) the accounting figures for all those participating in the pool might be delayed if one of the participants did not supply data within the agreed timescale.

5.6 Any decision to allow the academies to pool their liabilities with those of the local authority would need to be agreed in principle by both the actuary and the Avon Pension Fund. However, this would not in itself be sufficient; the local authority with whom an academy wished to pool its liabilities would also have to give its consent.

5.7 So far as the actuary's position is concerned, it is as follows:-

"We do not have any objection to the pooling concept, as long as both the LEA and academies accept the principle of cross subsidy of cost and from the LEA perspective that they would remain responsible for the liabilities in the long term (i.e. if there is any concern regarding the academy's financial covenant). If all parties accept the cross subsidy of costs then pooling may be beneficial both practically and politically for the Fund and its employers".

5.8 There is no specific provision within the LGPS Regulations for a pooling arrangement such as that envisaged in the guidance note to be established. However, the actuary is confident that the Regulations do not preclude this type of arrangement and this view is apparently shared by other actuaries.

5.9 Pooling arrangements are already used by some LGPS funds for specific groups of employers. However, the actuary's experience is that some funds are finding significant difficulties in allocating funding positions (and collecting deficits) when a participant of that pool wants to leave the Fund (or a pool) and, due to these difficulties, some are looking to unpick pooling arrangements rather than set up new ones.

6 CONCLUSIONS

6.1 It is suggested that the primary purpose of the guidance note is not to promote pooling per se but to persuade a minority of pension funds which have increased contribution rates significantly for academies in their area that they should reconsider their policies. Permitting an academy to request pooling is simply intended to reinforce this message; the threat of regulatory change is a more direct sanction, albeit not one which the Government would find it easy to implement.

6.2 It should be emphasised that the Avon Pension Fund does not fall within this minority. **Consequently it is recommended that, for the reasons set out in this paper, namely that the current policy is in the spirit of the guidance, provides greater transparency and removes cross-subsidisation, the pooling facility should not be used.** Indeed, despite the potential benefits of a pooling arrangement to the Fund (in the event of an academy default), it is not clear why an LEA should be willing to take financial responsibility for the liabilities of a defaulting academy over which it has no control.

6.3 The Fund has previously expressed its concern to the DfE regarding the lack of clarity as to the guarantee for academy liabilities in the event of default or closure. Therefore, the guidance letter provides some assurance around the covenant of the academies and the role of the Secretary of State should an academy fail.

However it does not provide a "guarantee" and the Fund will continue to pursue this issue with the DfE to gain greater assurance.

6.4 A position statement regarding the Fund's policy on Academies will be circulated to all academies and LEA's following this meeting.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has appropriate investment and funding strategies that are regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

8 EQUALITIES

8.1 This report is for information only.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 N/a

11 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	Academies and the LGPS – Mercers Viewpoint, Jan 2012
Please contact the report author if you need to access this report in an alternative format	

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Department for
Education

Communities and Local Government

A note from the Secretaries of State for Education and Communities and Local Government

To Local Authority Leaders and Chief Executives in England

copied: Local Government Pension Scheme administering authorities

Academies and the Local Government Pension Scheme (LGPS).

Academies in all their forms are central to improving education. They promote innovation and diversity in the school system, give power and freedom back to heads and teachers and raise school standards across the board. The Academy conversion programme ensures that the highest performing institutions help the weakest to improve. Where maintained schools are performing poorly the Government is encouraging their conversion to Academy status with the help of an outstanding school or experienced sponsor. The Government is committed to expanding the Academy programme. There are now 1,463 Academies across England, with many more schools wishing to convert. In addition, the first Free Schools opened in September 2011 and the range and choice of education provision is changing rapidly across the country. Free Schools, University Technical Colleges (UTCs) and Studio Schools are being opened as Academies in direct response to parental demand and will drive up standards in the communities they serve.

We are, therefore, writing to set out in further detail an approach to pooling that we recommend be adopted. The clear aim is that there is a consistency of approach across Local Government Pension Scheme (LGPS) administering authorities so that an Academy in one part of the country is not treated in a different manner to one in another and no Academy pays unjustifiably higher employer pension contributions to the LGPS compared to maintained schools in the local area. This applies to existing Academies as well as those yet to convert or open, including Free Schools, University Technical Colleges and Studio Schools.

Many LGPS administering authorities have worked hard to help those schools becoming Academies resolve issues but we know that some administering authorities have been uncertain about how to treat Academies in their fund with some Academies being set employer pension contributions significantly more than maintained schools in the local area. Where a maintained school converts to Academy status it is Government's intention that the overall costs for the Academy as a participant in the Scheme should not increase. Like maintained schools, all forms of Academy continue to receive their funding from the public purse and, consequently, should not be treated in the LGPS less favourably than maintained schools.

Some converting Academies have been discussing with their LGPS administering authority the wish to be pooled with the local authority that formerly maintained the school.

Pooling arrangements between employers are permissible within the LGPS regulatory framework and we strongly recommend that where an Academy wishes to be pooled, administering authorities positively consider this. Academies would then pay the same LGPS employer contribution rate as maintained schools in the local area which includes an element for accrued past service liabilities. If it is found that inconsistencies or unjustifiably high employer pension contributions to the LGPS remain, consideration will be given to what other steps, including regulatory changes, would be needed.

Michael Gove   Eric Pickles

MICHAEL GOVE   **ERIC PICKLES**

December 2011

Academy arrangements and the Local Government Pension Scheme - pooling of Academy arrangements with local authorities

Legal and financial status of Academy arrangements

1. Academies set up under the Academies Act 2010 are independent schools but they are publicly funded. Governance arrangements are agreed with the Department for Education and the Funding Agreement entered into with the Secretary of State sets out clear and robust financial and accounting requirements. Under the Funding Agreement the Academy Trust (the legal entity that runs the Academy Trust), has to ensure that its accounts are audited annually by independent auditors and it must allow access by the Secretary of State to its accounts and related records.

2. Section 1 of the Academies Act 2010 contains provisions that allow for the Secretary of State for Education to enter into an Academy arrangement with any person to establish and maintain and to carry on, or provide for the carrying on of, an Academy. The Act enables existing maintained schools to convert to Academy status and for Academy arrangements to be entered into with an Academy Trust that is replacing a maintained school. Additionally, the Act allows the creation of new schools (i.e. schools that do not replace a converting or closing maintained school), including Free Schools, University Technical Colleges and Studio Schools. These new schools are also Academies set up under Academy arrangements under Section 1 of the Academies Act 2010.

3. Funding Agreements made between the Secretary of State for Education and the Academy Trust are not signed for a set or limited period of time, rather they are open-ended.

The Local Government Pension Scheme and pooling Academy arrangements with the relevant local authority

4. A proprietor of an Academy[1] who has entered into Academy arrangements, is a Scheme employer in the Local Government Pension Scheme (LGPS) and is listed in paragraph 21 of Part 1 of Schedule 2 to the LGPS (Administration) Regulations 2008 (as amended). This means that the non-teaching staff employed by Academies are automatically eligible for membership of the Scheme and existing members in a maintained school retain eligibility when a school becomes an Academy. The change in legal status, when a former maintained school is replaced by an Academy, means that the Academy Trust becomes an LGPS employing authority in its own right. Academy Trusts for new provision, such as Free Schools, Studio Schools and UTCs will also be LGPS employers.

5. While there is no express regulatory provision in the LGPS for the pooling of employers in the Scheme, Regulation 36 of the LGPS (Administration) Regulations 2008 is considered a sufficiently broad power to enable employers (if they wish) to enter into joint arrangements with the Scheme funds, as already happens in some cases, that will

[1] Commonly referred to as an "Academy Trust": A qualifying Academy Trust proprietor is a charity under section 12 of the Academies Act 2010. This includes Academies that opened prior to the 2010 Act.

facilitate the setting of harmonised employer contribution rates under pooled arrangements.

6. Where an Academy pools with the local authority it is intended that this should result in the Academy Trust having the same employer contribution rate as the local authority would have in respect of its maintained schools. This is because the assumptions used to set the rate will be common to the Academy and local authority. Actuarial assumptions are shared across the pool and all participants in the pool are responsible for meeting the cost of the full past service deficit relating to those in the pool and share the same deficit recovery period.

7. It is recognised that consideration has to be given about the risk to the fund should a school or Academy fail. Should a maintained school ever be wound up it will be the function of the local authority to transfer pupils to another educational institution. Pension liabilities would be managed within the local authority's employer contribution rate.

8. Equally, if the Secretary of State for Education considered that an Academy was performing poorly, he would review the position, broker support and, where necessary, take steps either to replace the Academy Trust sponsors (the members of the Academy Trust) or the Academy Trust. If either party to the Academy arrangements ever decided that those arrangements should be brought to an end, it would have to give notice to the other party. The education provision for the affected children and young people would need to continue in an appropriate educational establishment.

9. The Government would be bound to consider all available options for dealing with an Academy's outstanding LGPS pension liabilities including, but not limited to, the assignment of assets and liabilities to a new or an existing educational establishment where this was the desired outcome.

10. This note is intended to clarify the position regarding Academy funding and the Secretary of State for Education's role should there be any question about the performance or continued operation of an Academy. This clarification has been provided to remove the uncertainty for administering authorities about the treatment of Academies in their fund and also allow requests, from an Academy to be pooled with the local authority for LGPS purposes, to be positively considered. The clear aim is that there is a consistency of approach across LGPS administering authorities so that an Academy in one part of the country is not treated in a different manner to one in another and no Academy pays unjustifiably high employer pension contributions to the LGPS compared to maintained schools in the local area. If it is found that inconsistencies or high employer pension contributions remain, consideration will be given to what other steps, including regulatory changes, would be needed following discussions with LGPS experts, including Scheme actuaries.

11. The preferred approach in this note is recommended to apply to all Academies, including existing Academies as well as those yet to convert or open, including Free Schools, University Technical Colleges and Studio Schools.

12. To help practitioners in both educational establishments and LGPS administering authorities, supporting guidance is being developed and will be issued shortly covering

Academy arrangements and the LGPS both for existing Academies and those schools considering conversion to Academy status. It will also cover how to manage an existing Academy's employer contributions for those who wish to join a pooling arrangement but have not been treated this way previously.

13. Communications about this note should be addressed to either:

Department for Education
Claire de Charmant
Academies Policy & School Organisation Group
Sanctuary Buildings
Great Smith Street
London SW!P 3BT

Department for Communications and Local Government
Robert Ellis
Workforce, Pay & Pensions
Local Government Finance Directorate
5/F5
Eland House
Bressenden Place
London
SW1E 5DU

From: the Department for Education and Department for Communities and Local Government

Date: December 2011

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Contribution Rates for Avon Pension Fund Academies

Academy	Date of Conversion	Future Service	Cash Sum £	Payroll £	Aggregate Rate %	LEA* %
Bath & North East Somerset Council						
Midsomer Norton Schools Partnership - Amalgamation of Norton Hill and Somervale Schools	01/09/10	12.10%	73,000	1,306,537	17.7	
Academy of Trinity C of E	01/06/11	12.50%	5,400	113,587	17.3	
Oldfield School Academy	01/02/11	13.90%	10,500	189,693	19.4	
Beechen Cliff School Academy	01/04/11	12.40%	25,400	459,317	17.9	
Hayesfield Girls School Academy	01/08/11	12.90%	28,050	528,024	16.4	
Fosseway Special School Academy	01/09/11	10.20%	38,600	696,444	15.7	
Writhlington School	01/10/11	11.00%	48,000	864,429	16.6	
Wellsway School	01/10/11	12.00%	35,400	639,430	17.5	
			264,350	**4,797,461**	**17.3**	**18**
Bristol City Council						
Cotham School	01/09/11	11.80%	46,800	829,950	17.4	
St Bede's Catholic College	01/11/11	11.90%	23,600	415,668	17.6	
West Town Lane Primary School	01/01/12	14.00%	12,400	222,123	19.6	
Henbury School	01/02/12	11.90%	28,200	497,986	17.6	
Westbury on Trym Primary School	01/08/11	12.30%	14,400	254,078	18.0	
Elmlea Junior School	01/07/11	12.40%	7,800	135,926	18.1	
Waycroft Academy	01/08/11	12.90%	19,800	349,652	18.6	
Henleaze Junior School	01/10/11	12.20%	7,200	127,661	17.8	
Ilminster Avenue (E-Act)	01/01/12	15.00%	6,600	205,368	18.2	
			166,800	**3,038,412**	**18.1**	**17.7**
North Somerset Council						
Hans Price Academy (joining Cabot Learning Fed)	01/05/11	12.10%	47,200	662,771	19.2	
Backwell School	01/04/11	13.70%	68,000	956,458	21.1	
Churchill School	01/08/11	13.00%	70,950	996,726	20.1	
Priory Secondary School	17/08/11	11.90%	76,500	1,073,542	19.0	
Clevedon School	01/02/12	12.10%	46,200	679,036	18.9	
Broadoak Mathematics & Computing College	01/02/12	11.60%	55,200	811,909	18.4	
Gordano School Academy	01/07/11	12.50%	75,600	1,059,576	19.7	
			439,650	**6,240,018**	**19.5**	**19.2**
South Gloucestershire Council						
Bradley Stoke Community School (Olympus Academy Trust will be the legal entity)	01/01/12	10.90%	44,700	869,945	16.0	
Patchway Community College	01/09/11	12.50%	37,700	738,022	17.6	
Brimsham Green Secondary	ON HOLD	12.30%	35,600	697,317	17.4	
Kings Oak Academy (formerly Kingsfield School)	01/09/11	13.20%	24,000	468,451	18.3	
			142,000	**2,773,735**	**17.3**	**17.3**

*Based on 31/3/2010 payroll

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 MARCH 2012**	**AGENDA ITEM NUMBER**
TITLE:	**REVISED STATEMENT OF INVESTMENT PRINCIPLES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Statement of Investment Principles (SIP) Appendices 2 - 5 – Appendices 1-4 to the SIP: Manager Statements on their SRI Principles Appendix 6 – Appendix 5 to SIP: Compliance with Myners Principles		

1 THE ISSUE

1.1 This report asks the Committee to approve the Fund's revised Statement of Investment Principles (SIP). The SIP sets out the Fund's investment strategy and policies and states how the Fund complies with the Myners Principles for Effective Decision Making.

1.2 The SIP was last approved on 18 March 2011. The main developments since then are listed in section 5.1 of this report.

2 RECOMMENDATION

That the Committee:

2.1 Approves the revised Statement of Investment Principles

3 FINANCIAL IMPLICATIONS

3.1 The annual budget provides for the training programme and the commissioning of advice required in order to comply with the Myners Principles.

4 BACKGROUND AND LEGAL FRAMEWORK

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

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

5 REVISIONS TO THE SIP

5.1 The SIP was last revised in March 2011. Since then the main developments have been:

(1) Implementation of the active currency hedging mandate

(2) Implementation of changes to the hedge fund portfolio following review in March 2011

(3) Amendment of the statement regarding realisation of investments (paragraph 22)

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

5.3 The SIP consists of the following:

(1) The Statement

(2) Appendices 1-4 which are the SRI statements from the Fund's active investment mandates

(3) Appendix 5, the Fund's compliance with the Myners Principles (2009).

5.4 The Committee is asked to approve the revised SIP.

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 N/a for information only.

10 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	CIPFA Guidance SIP/Myners Principles

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Appendix 1

AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Types of Investment Held

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

2. The Fund actively hedges its US dollar, Yen and Euro equity exposure which is managed on a segregated basis.

Asset Allocation and Expected Long Term Returns on Investment

3. The Avon Pension Fund Committee ("the Committee") periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile. The 2005/06 review resulted in diversifying some of the Fund's assets into property and hedge funds. In 2009 the strategy was reviewed in light of the credit crisis which concluded that the current asset allocation was appropriate but highlighted areas where the Fund may be able to enhance returns without significantly increasing risk. As a result, the Fund reduced its allocation to UK equities in favour of overseas equities and implemented active currency hedging of the US dollar, Yen and Euro denominated equities.

4. In 2010 following an assessment of sector and stock concentration risk within the UK FTSE All Share Index (the benchmark for the passively managed UK equity portfolio), the allocation to passively managed UK equities was reduced further and the monies allocated to global equities.

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

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

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

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

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

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

10. An Asset Liability Study is normally undertaken following the triennial actuarial valuation which establishes the value of the Fund's liabilities. In the interim period the equity and bond proportions are rebalanced periodically when the

proportions deviate by more than the permitted range and the valuation metric to re-balance is triggered.

11. Cash is not included in the customised benchmark. However, cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The managers of the segregated portfolios can utilise money market funds offered by the custodian, BNY Mellon, or put cash on deposit in line with their cash management policy. The cash within the pooled funds is managed internally by the managers. The cash managed by Blackrock in the property portfolio is invested in the Blackrock Sterling Liquidity Fund. The cash held internally by the Fund to meet working requirements is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management policy which was approved by the Committee on 16 February 2012.

Investment Management Structure

12. The 2005/06 and 2009 strategic reviews resulted in a significant restructuring of the investment management arrangements. In addition to the Fund of Hedge Fund and property mandates, the new investment structure includes the following approaches to investing:

    a. Passive multi-asset portfolio – a low risk approach where the portfolio replicates indices to generate a return in line with those indices.

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

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

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

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

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

    g. Active currency hedging – actively manage the hedge to seek to ensure that the Fund benefits from favourable foreign currency movements but that adverse movements (i.e. when sterling strengthens) are hedged against.

13. The investment structure is detailed in the table below:

Manager	Mandate	Performance Objective	% of Fund	Inception date
BlackRock	Passive multi-asset	In line with customised benchmark	44%	1 April 2003
Jupiter Asset Management (Jupiter)	UK Equities (Socially Responsible Investing)	FTSE All Share +2% p.a.	5%	1 April 2001
TT International	UK Equities (unconstrained)	FTSE All Share +3-4% p.a.	5%	11 July 2007
Invesco Perpetual	Global ex-UK Equities (Enhanced Indexation)	MSCI Global ex-UK Index +0.5% p.a.	6.5%	19 December 2006
State Street Global Advisors	Europe ex-UK Equities (Enhanced Indexation)	FTSE World Europe ex-UK Index +0.5% p.a.	3.5%	14 December 2006
State Street Global Advisors	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE Developed Asia Pacific Index +0.5% p.a.		14 December 2006
Schroders Investment Management	Global Equities (unconstrained)	MSCI All World Index +2-4%	6%	1 April 2011
Genesis Investment Management (Genesis)	Emerging Market Equities	MSCI Emerging Markets Index	5%	13 December 2006
Royal London Asset Management (RLAM)	UK Corporate Bond Fund	iBoxx £ non-Gilt Index +0.8% p.a.	5%	11 July 2007
MAN Investments	Fund of Hedge Funds	LIBOR +4-6% p.a.	3.0%	1 August 2007
Gottex Asset Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	2.5%	1 August 2007
Signet Capital Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	3.0%	1 August 2007
Stenham Asset Management	Fund of Hedge Funds	LIBOR +4-6% p.a.	1.5%	1 August 2007
Schroders Investment Management	UK Property	IPD UK Pooled Property Fund Index +1% p.a.	5%	1 February 2009
Partners Group	Overseas Property	IPD Global Property Index +2% p.a.	5%	18 September 2009
Record Currency Management	Currency hedge (US$, Yen and Euro equity exposure)	N / A	n/a	26 July 2011

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

14. In 2011 a review of the hedge fund portfolio resulted in the reduction in the number of Fund of Hedge Fund managers and altered the allocation between managers to better reflect the opportunities generated from the managers' investment strategies.

15. In the current structure 45% of the Fund is invested in passive mandates which rely solely on market returns to generate the investment return. The other 55% is invested in mandates where the investment return is derived, to a greater or lesser extent, from manager skill.

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

Risk Control and Diversification

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

18. The implementation of the currency hedge is to manage the unrewarded risk that arises from the foreign currency exposure. Adverse movements in the currency that overseas assets are denominated in will reduce the value of those assets when translated into sterling.

Regulatory Investment Limits

19. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) impose certain "prudential" limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk. For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of prudential limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

20. Currently all the "normal" prudential investments limits apply to the Fund, except for the following:
    a) Investments in Life Funds - following a Committee resolution in March 2006, this has been increased to the maximum limit of 35% to accommodate the life fund investments managed by Blackrock.
    b) Investments in single partnerships - following a Committee resolution in December 2008, this has been increased to the maximum limit of 5% to accommodate the property investments managed by Partners.

Realisation of Investments

21. The Fund's investment policy is structured so that the investments which it holds can, except in the most extreme market conditions, be readily realised. There are longer "lock-up" periods for the investments in Fund of Hedge Funds and property

funds given the nature of these investments. However, the Fund has sought to minimise the length of these "lock-up" periods. The growth in indirect property funds has provided the Fund with the opportunity to invest in this relatively illiquid asset class and to build a well-diversified property portfolio.

22. At the present time, the Fund's outgoings (principally the payment of pensions) can be met from income (principally employer and employee contributions) without the need for investments to be sold or investment income to be used to pay pensions. However, the Fund's maturity has accelerated due to reductions in active members as employers respond to the funding squeeze. At the same time the number of pensioners continues to grow and pensions are uprated by inflation. Therefore, the investment strategy will be reviewed to manage the use of income/divestments to meet pension payments.

Social, Environmental and Ethical Considerations

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

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

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

26. At the strategic level, a manager's approach to identifying and managing SRI risks and opportunities is evaluated as part of the tender process for appointing

new managers. It is also incorporated into the ongoing process of monitoring the investment managers' performance.

27. In December 2010 the Fund adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code. As a result, each of the investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers, the monitoring of its voting activity by an independent 3rd party and through membership of the Local Authority Pension Fund Forum.

Exercise of Voting Rights

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

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

Stock Lending Policy

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

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

Myners Principles

32. Having asked Paul Myners to carry out a review of institutional investment, in 2002 the then Chancellor of the Exchequer endorsed the ten principles of investment for pension funds which Myners recommended. Following a review in

October 2008, the Treasury published a revised set of six principles. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

33. Appendix 5 sets out the existing position with regard to the Fund's compliance with the revised principles.

To be approved by the Avon Pension Fund Committee on 16 March 2012

TT
INTERNATIONAL
Authorised and Regulated
by the Financial Services Authority

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D.J.S. Burnett
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O.P. Crawley
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F. Goasguen
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F.F. Carpenter
S.J. Dodgson

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

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

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

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

High Alpha Manager

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

Voting

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

Stewardship Code

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

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

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www.schroders.com

18 February 2011

Global Equities Responsible Investment Policy

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

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

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Sustainable Investment

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

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

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

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

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

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

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GENESIS
INVESTMENT MANAGEMENT, LLP

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Genesis Principles on Socially Responsible Investment

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

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

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

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

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

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

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

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

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

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

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

Genesis Investment Management, LLP
February 2010

APPENDIX 6

(Appendix 5 to the SIP)

Myners Principles (2009): Statement of Compliance

Principle 1: Effective Decision Making

Administering Authorities should ensure that:

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

Fund Compliance - Full

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

Fund Policy

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

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

Given the wide scope of the business covered by the Committee, the Fund has established an Investment Panel ("the Panel") to consider matters relating to the management and investment of the Fund's assets including the performance of the investment managers, and to advise the main committee on such matters. The Panel has a Terms of Reference and is subject to the same Council regulations as the Committee.

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

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

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

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

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

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

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

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

Principle 2: Clear Objectives

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

Fund Compliance - Full

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

Fund Policy

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

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

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

The Committee's approach to risk is balanced by these requirements and as a result the Fund retains a significant exposure to a diversified selection of return generating assets. In 2006, having taken expert advice, the Fund diversified into property and hedge funds in order to reduce the volatility of the investment returns generated by equities. Asset allocation was reviewed in 2009 and the conclusion was that the allocation between the main asset classes remained valid. The Fund implemented an active currency hedging strategy in 2011 to reduce the volatility of foreign currency on investment returns when translated into sterling.

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

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

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

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

Principle 3: Risk and Liabilities

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

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

Fund Compliance - Full

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

Fund Policy

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

The overall investment objective is expressed as a return in excess of gilt returns (as a proxy for the Fund's liabilities).

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

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

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

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

Principle 4: Performance Assessment

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

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

Fund Compliance - Full

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

Fund Policy

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

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

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

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

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

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

Principle 5: Responsible Ownership

Administering Authorities should:

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

Fund Compliance – Full

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

Fund Policy

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

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

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meeting where practical. The voting activity of the managers will be monitored by Manifest and reported to the Committee each quarter. From 2012 Manifest will also provide an annual report on the Fund's voting activity as well as wider trends in corporate governance.

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

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

At the time of publishing this statement, the Fund is reviewing its SRI Policy and the statement will be updated once the review is completed.

Principle 6: Transparency and Reporting

Administering Authorities should:

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

Fund Compliance – Full

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

Fund Policy

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

The published Annual Report highlights any changes made to any of the above statements during the year. In addition the review of the year includes all the activities and projects the Fund has undertaken during the period under review.

The Annual Report provides scheme members and employers information about the Fund, its investment and administration strategies and its performance as well as it financial statements and auditors opinion.

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

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

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

APF 16 March 2012

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 MARCH 2012**	**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 February 2012		

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 February 2012 are in Appendix 1.

2 RECOMMENDATION

2.1 That the Committee notes the *draft* minutes of the Investment Panel meeting held on 22 February 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 (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 22nd February, 2012, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Councillor Nicholas Coombes, Councillor Mary Blatchford, Andy Riggs (Reserve) (In place of Bill Marshall) and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Benefit Solutions)
Guests: Peter Hunt (TT International) and Martin Pluck (TT International)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

20 DECLARATIONS OF INTEREST

There were none.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

24 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

25 MINUTES: 22 NOVEMBER 2011

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

26 REVIEW OF INVESTMENT PERFORMANCE FOR PERIOD ENDING 31 DECEMBER 2011

The Assistant Investments Manager presented the report. He said that the quarter had been positive, with positive returns on most asset classes. Managers were, in aggregate, underperforming the benchmark. Table 1 showed fund investment performance for the past three months, both inclusive and exclusive of currency hedging. Because currency hedging had been in place for less than twelve months, the "relative to benchmark" data excluded it. The impact of currency hedging was addressed in paragraph 4.9 of the report. During the quarter Sterling had strengthened against the Euro in December, but had weakened against the Dollar and the Yen. Overall, the hedging programme had reduced the return for the quarter by 0.1%. The decision to make a tactical bond allocation had been made during the quarter. The monthly spread between UK corporate bonds and UK gilts (now c. 1.49%) had now moved halfway toward the 1.2% trigger level at which the switch would be reversed.

The Chair asked why there had been a decline in bond yields. Mr Sheth replied that this resulted from continuing concerns over the Eurozone crisis, quantitative easing, and the fall in headline inflation. The Investments Manager said that when the tactical switch had been performed, the yield of the corporate bond index had been 4.85%, but was now 4.65%.

In conclusion, the Assistant Investments Manager asked Members to note that the funding level was now 68% (down from 69%in the last quarter), the reason being the fall in the gilt yields.

Mr Sheth commented on the JLT investment performance report (Appendix 2). He said that there had been a strong start to the year. The latest data suggested that there was a sustained, not merely seasonal, rise in employment in the US; the European Central Bank had made liquidity available to banks in the EU, which was the Eurozone equivalent of quantitative easing, and there had been a reduction in borrowing costs for the Spanish and Italian governments. However, it was questionable whether the Greek people would endure the ten years of austerity that had been demanded as the price of the recently-agreed rescue package. Macroeconomic factors were driving markets at the moment, but investment managers could outperform the markets by skill and the anticipation of opportunities. He drew attention to the data for currency instruments given in the table on page 8 and for Record Currency Management on page 9. Noting the performance of Schroders Global Equity Portfolio, he said that JLT believe it is too early to draw firm conclusions; their performance is within expectations given the long term unconstrained nature of the mandate. JLT believe that investments in emerging markets would be likely to do well in 2012. RLAM had done very well. There were no concerns about any of the investment managers.

A Member asked about the bullet point below the table on page 10 stating that the 0.9% underperformance against the benchmark last year was not reflected in the performance graph. She wondered how the Committee would be in a position to judge from the information it received whether or not the new investment strategy was working. The Investments Manager replied that a five-year view might capture this, and that officers were considering how to present this information to Members. JLT explained that the problem with rolling performance (3 year in this case) was that each quarter the result is determined by the net out/under performance of the quarters that leave or enter the period. The Investments Manager agreed with the Member that there was a need to understand how asset allocation had added value. At present 50% of the Fund was in passively managed assets, and should be in line or marginally over the benchmarks over time; there should be an analysis of the impact of actively managed assets. The Chair noted that equities had been performing abnormally in the recent period, and suggested that the aim should be to understand where the Fund would be in normal times. The Head of Business, Finance and Pensions suggested that the main objective was to rebalance the Fund's assets with its liabilities. This could be achieved by an increase in contributions, though the effect of the latest scheme changes was not yet clear, or by raising expectations of the returns that investment managers should achieve through active management. Members suggested that comparisons should be made between the performance of the Avon Pension Fund and other local authority pension funds and lessons learned from their investment strategies. Although such a comparison is informative, the Investments Manager, however, stressed that the main objective was to ensure that the liabilities are funded, and that the performance of the peer group was in this sense not relevant.

The Investments Manager said that next Fund valuation would take place in 2013; planning for this had already commenced. Consideration was being given to how the Committee would be involved in this process. There would also be a review of the investment strategy which would be in parallel to the valuation process.

In reply to a question from a Member the Assistant Investments Manager explained that that the customised benchmark was calculated from the average of the benchmarks of individual investment managers.

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

27 TT UK EQUITY MANDATE

It was proposed by Councillor Coombes and seconded by Councillor Batt and **RESOLVED** unanimously that

> Having been satisfied that the public interest would be better served by not disclosing relevant information, that, in accordance with the provisions of the 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.

Peter Hunt and Martin Pluck of TT International made a presentation to the Panel and answered questions. The Chair thanked them for their presentation.

Following discussion, it was **RESOLVED** to make a recommendation to the Avon Pension Fund Committee at its next meeting to be held on 16 March 2012 as follows:

> Officers will continue to closely monitor the performance of TT and report back to the Panel any issues resulting in significant underperformance

28 WORKPLANS

The workplans (circulated after the publication of the agenda) were noted.

The meeting ended at 11.35 am

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:	**16 March 2012**	**AGENDA ITEM NUMBER**
TITLE:	**RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary of Investment Panel Meeting with TT (7 Sept 2011) Exempt Appendix 2 - TT Peer Group Analysis Exempt Appendix 3 - Summary of Investment Panel meeting with TT (22 February 2012)		

1 THE ISSUE

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

1.2 The Panel has held one meeting since the December 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 The Committee requested that the Investment Panel review the performance of the Fund's UK Equity mandate managed by TT following a deterioration in the longer term performance trend over the last 12 months.

2 RECOMMENDATION

2.1 **That the Committee agrees the recommendation from the Investment Panel regarding TT's current mandate:**

(i) Officers will continue to closely monitor TT's performance and report back to the Panel any issues resulting in significant underperformance

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 a period in which TT failed to achieve their performance target the Investment Panel met with TT on September 7 2011. A summary of that meeting is provided in Exempt Appendix 1. Subsequently, the Panel considered a report from the Fund's investment consultant which provided a peer group analysis of performance and risk. This analysis is included again at Exempt Appendix 2. The analysis concluded that

(1) TT's active decisions appear consistent with its peers;

(2) TT are managing the portfolio in a way that is consistent with the mandate; and

(3) There are areas for further analysis at the next presentation by TT

4.2 The Investment Panel received a further presentation from TT at their meeting on 22nd February 2012 which provided more detail to give greater insight into the drivers of performance. Exempt Appendix 3 provides a summary of the meeting.

4.3 TT provided information on the following:

(1) attribution of performance to sector and stock selection, highlighting the reasons for the underperformance

(2) measures taken to improve performance

(3) impact on performance of measures taken

4.4 The Panel were satisfied that:

(1) TT have identified the reasons for the weak performance

(2) TT have taken measures to address the weak performance that have had an initial beneficial effect

(3) These measures, though fairly significant, do not alter the philosophy or investment approach or the appropriateness of the risk return targets of the mandate

5 CONCLUSION

5.1 The Panel were encouraged by the action TT have taken and were reassured that TT have the potential to achieve their risk return targets.

5.2 The Panel requested that Officers continue to monitor performance closely, and report any issues resulting in significant underperformance to the Panel.

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

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

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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-12-004

Meeting / Decision: Avon Pension Fund Committee
Date: 16 March 2012

Author: Liz Feinstein
Report Title: Recommendations from the Investment Panel Exempt Appendix Title: Appendix 1 – Summary of Investment Panel Meeting with TT (7 Sept 2011) Appendix 2 - TT Peer Group Analysis Appendix 3 - Summary of Investment Panel meeting with TT (22 February 2012)

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 exempt appendix 2 contains the observations and opinions of an external consultant about the expected and actual performance of investment managers. Exempt appendix 1 and 3 also contains the opinions of Council officers and Panel members. All the appendices also contain details of the investment processes/strategies of the investment managers.

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

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the performance of the fund and investment managers 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 Investment Panel**	
MEETING DATE:	**16 MARCH 2012**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 31 Dec 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		

1 THE ISSUE

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

1.2 This report contains performance statistics for periods ending 31 Dec 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. Custody Contract

Section 9 Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

That the Investment Panel:

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 increased by £135m (+5.6%) in the quarter, giving a value for the investment Fund of £2,623m at 31 December 2011, which was marginally less in value (by £3m) than December 2010. 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 31 Dec 2011

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	5.6%		
Avon Pension Fund (excl. currency hedging)	5.7%	-0.2%	10.0%
Strategic benchmark *(Fund relative to benchmark)*	5.4% *(+0.3%)*	-0.7% ***(+0.5%)***	9.6% *(+0.4%)*
Customised benchmark *(Fund relative to benchmark)*	6.1% *(-0.4%)*	0.7% ***(-0.9%)***	10.3% *(-0.3%)*
Local Authority Average Fund *(Fund relative to benchmark)*	5.2% *(+0.5%)*	-1.5% ***(+1.3%)***	9.6% *(+0.4%)*

Note that because currency hedging has been in place for less than 12 months, for consistency all "*Fund relative to benchmark*" data in the above table excludes currency hedging. The impact of currency hedging is addressed at paragraph 4.8.

4.4 **Avon Pension Fund**: Quarterly return driven by positive returns from all equity markets with the exception of Japan, supported by strong returns from UK bonds and smaller returns from property and hedge funds. The marginally negative annual return was a result of negative returns across all equity markets over the year (with the exception of North America) negating strong returns from the bond portfolio.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Annual relative outperformance driven by the Fund being overweight UK government bonds (versus the benchmark) which performed strongly over the period and as a result of the emerging markets, hedge fund and property managers outperforming their benchmarks. Over the quarter the Fund benefitted from being underweight Japanese equities and hedge funds and from the outperformance by the property managers. This is despite a small cash holding.

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 relative underperformance of the Hedge Funds and TT, more than offsetting outperformance by Jupiter, Genesis and the property managers. 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 bonds which performed well and provided protection from equity losses.

4.8 **Currency Hedging**: The implementation of the active currency hedging programme commenced in July and will be implemented fully within a twelve month timeframe. This quarter movements in currency markets were mixed with sterling strengthening against the Euro but weakening against the US dollar and Yen. Overall the hedging programme detracted 0.1% from the Fund's return in the quarter. The programme provided some protection from currency loss on Euro denominated assets (especially in December) and passed through some of the currency gains from the US dollar and Yen assets.

4.9 Since the beginning of 2012 global equity markets have been more positive with the FTSE All Share index rising by over 5% (to 8 February). In contrast, the total return for the Over 15-year Gilt index was c. -3% during the same period.

B – Investment Manager Performance

4.10 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 new performance issues with the managers.

4.11 On the 22nd February, the Investment Panel will received a presentation from TT as part of the ongoing review of TT's performance. They also received presentations from Schroder Global Equity and Partners as part on the 'meet the managers' programme. A summary of these sessions is included in Exempt Appendix 3.

4.12 Performance reporting for Partners is lagged by a quarter. However, the latest estimate for the quarter ending 31 December 2011 is -1.1%.

5 INVESTMENT STRATEGY

5.1 JLT's report did not highlight any strategy issues for consideration.

5.2 During the quarter the decision to make a tactical allocation within the bond portfolio was implemented. On 12 December the Fund switched £80m (c.3% of the total Fund assets) from UK Gilts into UK corporate bonds to provide some protection from future rises in gilt yields (which are at or near 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. Officers will monitor changes in the relative yields to identify when the spread between gilts and corporate bonds reaches the pre-determined trigger at which point the allocation will be reversed. The spread on long dated corporate bond yields over gilt yields was 1.73% when the tactical switch was implemented, and as at 29 February it is 1.46%. This narrowing of the spread was a result of a 20 basis point reduction in corporate bond yields, and an increase in gilt yields of 7 basis points over this period. The trigger point for reversal is a spread of 1.2%.

6 FUNDING LEVEL UPDATE

6.1 As at 31 Dec 2011 the Actuary has estimated that the funding level has deteriorated to 68%, at 31 March 2010 triennial valuation it was 82%. (Note: The revised funding level takes into account benefit payments and contributions received during the period. However, the actuary uses estimates for asset returns and cashflows so the update is only an indication of the trend in the funding level.)

6.2 Since the 2010 valuation, the value of the assets has increased by £257m (10%) to £2.7bn, and liabilities increased by £985m (32%) to £3.99bn. As a result the deficit has increased from £552m to £1,280m, with much of the deterioration happening in the last six months.

6.3 The driver of the significant increase in the liabilities and the deficit since June (when liabilities were estimated to be £3.3bn) is the reduction in gilt yields from 4.3% at 30 June to 3.0% at end of December. More positively, implied inflation has continued to decline which has helped offset some of the impact from the reduction in gilt yields. The announcement of further “quantitative easing” by the MPC in early February should keep nominal gilts yields at depressed levels for the immediate future. It should however be noted that this is just a snapshot of the funding level at a particular point in time.

6.4 Table 2 shows the change in financial assumptions:

Table 2: **Change in Financial Assumptions**

	31 March 2010	30 Sept 2011	31 Dec 2011
UK Gilt yield	4.50%	3.60%	3.00%
Real yield	0.70%	0.20%	-0.20%
Implied RPI inflation p.a.	3.80%	3.40%	3.20%
Inflation adjustment p.a.	0.80%	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.60%	2.40%

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 29 February 2012 the Equity:Bond allocation was estimated at 73:27. 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 Following the downgrades in the credit ratings of the UK banks in December, the Fund has invested money with the DMO (Debt Management Office) as required to prevent breaches of the current policy. Proposed changes to the Treasury Management Policy are discussed elsewhere on this agenda.

8 CUSTODY CONTRACT

8.1 The custody contract was re-tendered in 2011 in line with Council procurement policy. Due to the value of the contract it was tendered under EU competitive procurement rules. The custodian acts as "banker" for the Fund, settling all trades and collecting income. In addition, the custodian provides the Fund with investment accounting reports which are used in the preparation of the final accounts.

8.2 Mercers Sentinel, a specialist in custody advice, advised the Officers on the selection process.

8.3 The tender document set the evaluation criteria against which the bids were assessed and the appointment was made. The evaluation criteria took into account current best practice standards. The tender documentation also set out the Fund's legal requirements with regard to the Custody Agreement.

8.4 Five bids were received and due diligence meetings were held with the two custodians that scored highest under the tender's evaluation criteria. The due diligence meetings were held to clarify aspects of the custodians' responses.

8.5 The evaluation process took into account the criteria as set out in tender documentation. In accordance with the evaluation criteria, Officers concluded that the tender submitted by BNYM was the most economically advantageous. Following the completion of the tender process, BNY Mellon was appointed as custodian for a period of 5 years commencing 1 March 2012. The impact of the lower fee schedule that resulted from the tender process will be reflected in the 2012/13 budget.

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted: 163
Resolutions voted: 1657
Votes For: 1537 (92.7%)
Votes Against: 114 (6.8%)

9.2 In 2011 the Fund appointed Manifest to monitor its voting activity. Manifest will prepare an annual report for the June committee meeting which will provide more information of the Fund's voting activity as well as commentary about main themes during the year and issues arising from the Fund's own voting activity.

9.3 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:

9.3.1 LAPFF Study - Bank 'Post Mortem'

In December LAPFF published a report addressing the shortcomings of accounting standards that led to UK and Irish banks to overstate their solvency and directly contributed to banking losses. The Forum argues that the relatively simple misdiagnosis of the problem as one of liquidity rather than solvency resulted in the near collapse of the UK and Irish banking systems. For these reasons, LAPFF believes that the International Finance Reporting Standards (IFRS), in practice, has run contrary to the "true and fair view in accounting, painting a false picture of the solvency of financial institutions, and that UK and Irish banks were hit the hardest because they adopted the IFRS more comprehensively than the rest of the EU.

9.3.2 **Engagement activity:**

9.3.2.1 Afren – Afren is a UK listed oil and gas development company active in Africa and the Middle East. The company is on the Forum's Global Focus List as it attempts to bring its governance practices in line with peers. The discussion with the company about remuneration, independence of non-executive directors and other governance challenges it faces, was productive and LAPFF expect a number of recommendations to be included in the company's governance reforms over the next year.

9.3.2.2 Easyjet – LAPFF met the Company to better understand how it incorporates climate change risk factors into its business model.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 EQUALITIES

11.1 This report is primarily for information only.

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

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

Contact person	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 – 31 DECEMBER 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	254.2	14.5	124.2	99.4		13.6							505.9	19.3%
North America	124.7	8.6				59.5							192.8	7.3%
Europe	105.7	4.6				17.5		27.5					155.3	5.9%
Japan	33.0					6.2		26.7					65.9	2.5%
Pacific Rim	43.0					14.7		25.2					82.9	3.2%
Emerging Markets					127.3	16.8							144.1	5.5%
Global ex-UK							159.4						159.4	6.1%
Global inc-UK	222.0												222.0	8.5%
Total Overseas	***528.4***	***13.2***			***127.3***	***114.7***	***159.4***	***79.4***					***1022.4***	**39.0%**
Total Equities	**782.6**	**27.7**	**124.2**	**99.4**	**127.3**	**128.3**	**159.4**	**79.4**					**1528.3**	**58.3%**
BONDS														
Index Linked Gilts	194.8												194.8	7.4%
Conventional Gilts	115.4	28.9											144.3	5.5%
Sterling Corporate	6.8								220.8				227.6	8.7%
Overseas Bonds	81.0												81.0	3.1%
Total Bonds	**398.0**	**28.9**							**220.8**				**647.7**	**24.7%**
Hedge Funds										209.6			209.6	8.0%
Property											194.6		194.6	7.4%
Cash	5.4	18.7	1.2	6.7		1.3					0.8	8.5	42.6	1.6%
TOTAL	**1186**	**75.3**	**125.4**	**106.1**	**127.3**	**129.6**	**159.4**	**79.4**	**220.8**	**209.6**	**195.4**	**8.5**	**2622.8**	**100.0%**

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

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Review for period to 31 December 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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

Jig Sheth, BSc, IMC
Consultant

February 2012

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 increased in value by £135m over the final quarter of 2011, to £2,623m as at the end of December 2011. The total Fund underperformed the customised benchmark, returning 5.6% versus the customised benchmark return of 6.1%.
- This underperformance is a result of the combined underperformance of the Fund's investment managers against their benchmarks. Manager performance is discussed below.

Strategy

- The Fund's positive strategic benchmark return was driven by positive equity markets, particularly within the UK and US, and positive UK government bond returns. Corporate bonds also produced positive returns but to a lesser extent.
- The strategic weighting to alternatives (property and fund of hedge funds) was a negative contributor relative to equities but still an absolute positive contributor to the benchmark.
- Outperformance by the Fund against the strategic benchmark over the year was largely a result of being overweight UK index linked gilts which performed strongly over the period. The quarterly outperformance resulted from being underweight hedge funds (which performed relatively poorly) and the outperformance by the property managers against the property benchmark.

Managers

- The strongest outperformance over the quarter was from TT International, outperforming the benchmark return by 2.1% to give an absolute return of 10.5%.
- Genesis (+0.3%), SSgA Europe (+0.1%) and SSgA Pacific Rim (+0.2%) also contributed positively amongst the active / enhanced equity managers but Invesco (-0.8%), Jupiter (-2.0%) and Schroder Equity (-1.1%) all underperformed.
- Schroder Property and Partners both produced positive absolute returns but only the former outperformed its benchmark return.
- All fund of hedge fund managers produced negative absolute (and therefore relative) returns, the most significant of which was from Man, with an absolute return of -3.4%.
- Royal London outperformed its corporate bond benchmark (2.7% vs 2.3%).

Key points for consideration

- There are no fundamental concerns with either the strategy or the Fund's managers.
- The Fund has taken a tactical position to increase its holdings with RLAM corporate bonds and reduce its investments in government bonds. Monitoring of this switch is now underway to ensure that a switch back into government bonds takes place when the trigger level in the corporate bond spread is reached.
- Despite there appearing to have been no immediate negative impact on the performance of the SSgA Europe ex UK Enhanced Indexation Fund, following the significant fall in the size of this fund, it should continue to be monitored carefully.
- Over the coming quarters the implementation of Record's active currency hedging mandate is expected to be completed, after which more meaningful analysis of the impact can be made.
- The Pensions Committee for the Fund continues to develop and amend its Environmental, Social and Governance Policy and the relative performance of the Jupiter UK Equity portfolio should be considered in this context.

Section Two – Market Background

- The table below summarises the various market returns to 31 December 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	8.4	-3.5
Overseas Equities	7.2	-6.9
USA	11.9	2.5
Europe	3.3	-15.0
Japan	-3.6	-12.9
Asia Pacific (ex Japan)	4.4	-14.8
Emerging Markets	4.2	-18.4
Property	1.6	8.1
Hedge Funds	0.8	-2.1
Commodities	9.2	-0.4
High Yield	5.6	3.4
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.2	-0.7
Against Euro	3.1	2.6
Against Yen	-0.4	-5.8
Yields as at 31 Dec 2011	**% p.a.**	
UK Equities	3.52	
UK Gilts (>15 yrs)	2.94	
Real Yield (>5 yrs ILG)	-0.25	
Corporate Bonds (>15 yrs AA)	4.68	
Non-Gilts (>15 yrs)	4.82	

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	9.6	26.3
Index-Linked Gilts (>5 yrs)	9.8	23.3
Corporate Bonds (>15 yrs AA)	6.4	14.2
Non-Gilts (>15 yrs)	3.7	12.0

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.5	-1.2
Index-Linked Gilts (>5 yrs)	-0.4	-0.7
Corporate Bonds (>15 yrs AA)	-0.4	-0.7
Non-Gilts (>15 yrs)	-0.2	-0.6

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	4.8
Price Inflation - CPI	0.7	4.2
Earnings Inflation *	0.5	1.9

* is subject to 1 month lag

Economic statistics

	Quarter to 31 December 2011			Year to 31 December 2011		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.2%	0.7%[2]	2.8%	0.8%	2.0%[2]	1.6%
Unemployment rate	8.4%[3]	9.9%	8.5%	8.4%[3]	9.9%	8.5%
Previous	*8.1%*	*9.8%*	*9.0%*	*7.9%*	*10.0%*	*9.4%*
Inflation change[4]	0.6%	0.8%[3]	-0.5%[3]	4.2%	2.7%[3]	3.0%[3]
Manufacturing Purchasing Managers' Index	49.6	46.9	53.1	49.6	46.9	53.1
Previous	*50.8*	*48.5*	*50.8*	*58.7*	*57.1*	*57.3*
Quantitative Easing [5]	£275bn	€0	$2,654bn	£275bn	€0	$2,654bn
Previous	*£200bn*	*€0*	*$2,654bn*	*£200bn*	*€0*	*$2,054bn*

Source: Thomson Reuters, markit, Office for National Statistics, Institute for Supply Management, Eurostat. All figures to 31 December 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 September 2011; (3) Figures as at November 2011; (4) CPI inflation measure; (5) Refers to amounts announced and therefore ignores changes due to debt maturing.

Statistical highlights

- The year on year rate of CPI inflation fell from 5.2% to 4.2% over Q4 2011 and is expected to fall further over the coming months. The Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% throughout the quarter and in October it announced an extension to its policy of quantitative easing, increasing the size of its asset purchase programme by £75 billion to a total of £275 billion. The programme is expected to be completed in February 2012.
- According to the British Retail Consortium ("BRC"), UK retail sales were boosted by a Christmas rush but retailers reported very different results with Tesco and Argos reporting a fall in UK sales and John Lewis and Morrisons reporting a rise. Stephen Robertson, Director General of the BRC said, "a better than hoped-for December closed a relentlessly tough year for retailers, but these figures hinged on a dazzling last pre-Christmas week and were boosted by some major one-off factors."
- The Office for National Statistics ("ONS") confirmed that the number unemployed rose to a 17 year high of 2.68m and that the number of people working part-time because they could not find full-time jobs had reached a record high. Unemployment rose by 118,000 between September and November, taking the unemployment rate to 8.4%.
- Interest rates in the Eurozone were reduced from 1.5% to 1.0% over the quarter as the European Central Bank ("ECB") reacted to the intensification of the sovereign debt crisis by reducing interest rates by 0.25% at both its November and December meetings. The US Federal Reserve kept interest rates on hold at 0.25%. During the quarter, the US Federal Reserve, the ECB and the central banks of the UK, Switzerland, Canada and Japan agreed to provide loans to banks, as it became apparent that Europe's banks were struggling to roll over $2 trillion of loans denominated in US Dollars as a consequence of liquidity in the interbank markets falling sharply.

- The sovereign debt crisis facing the Eurozone continues to be extremely challenging, both politically and economically. The cost of borrowing for countries such as Italy and Spain remains a political "hot potato" because the ECB does not have the power to guarantee bonds issued by member countries or be a buyer of 'last resort'; powers that would be expected to limit speculation and reduce Italian and Spanish government bond yields.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Concerns about the ongoing crisis in the Eurozone have resulted in the Euro falling to its lowest level against the US Dollar for 16 months.
- The FTSE-All Share Index produced a return over the quarter of 8.4% and European equities achieved a return of 3.3%, due to a belief that the markets have priced in the ongoing sovereign debt crisis in the Eurozone. US equities were the strongest performing of the major equity markets producing a return of 11.9% as evidence emerged that the economy was growing at a faster rate than had been forecast. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of 4.4% and 4.2% respectively. The Japanese equity market produced a return of -3.6% and was the only major region in which the equity market produced a negative return.
- The UK gilt market continues to be perceived as a safe haven and long-dated gilt-edged securities produced a return of 9.6% over the quarter. Index-linked gilts achieved a strong return over the quarter of 9.8%, whilst long-dated corporate bonds produced a return of 6.4%, despite the prices of bonds issued by financial companies continuing to be extremely volatile.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 December 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	31 December 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	484,215	18.5	18.0
Overseas Equities	1,046,532	39.9	42.0
Bonds	647,812	24.7	20.0
Fund of Hedge Funds	209,606	8.0	10.0
Cash (including currency instruments)	51,198	2.0	-
Property	194,407	7.4	10.0
Reconciling differences and rounding	-10,914	-0.5	-
TOTAL FUND VALUE	**2,622,856**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £135m over the final quarter of 2011 to £2,623m, resulting from positive absolute investment performance. Equities were the major contributor given their allocation within the Fund and due to returns over the quarter of 8.4% and 7.2% for UK and overseas equities in particular. Long dated gilts (+9.6%) and index-linked gilts (+9.8%) were also positive contributors.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - There was an increase in the holdings with RLAM. This completed in December and is a tactical holding to take advantage of the spread on yields between corporate bonds and UK gilts. This was funded by a disinvestment from the UK gilt allocation within the BlackRock Multi-Asset portfolio..
  - There was some further funding of property investment with Partners over the quarter, funded by a drawdown from the funds set aside to invest in property.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2011		Net new money £'000	31 December 2011	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	99,784	4.0	-	106,118	4.0
TT International	UK Equities	113,368	4.6	-	125,396	4.8
Invesco	Global ex-UK Equities	149,203	6.0	-	159,421	6.1
Schroder	Global Equities	122,025	4.9	-	129,764	4.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	77,595	3.1	-	79,401	3.0
Genesis	Emerging Market Equities	121,308	4.9	-	127,334	4.9
MAN	Fund of Hedge Funds	64,657	2.6	-	62,441	2.4
Signet	Fund of Hedge Funds	63,366	2.5	-	63,048	2.4
Stenham	Fund of Hedge Funds	33,283	1.3	-	32,717	1.2
Gottex	Fund of Hedge Funds	51,603	2.1	-	51,399	2.0
BlackRock	Passive Multi-asset	1,180,349	47.4	-81,070	1,185,907	45.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	73,847	3.0	-3,745	75,350	2.9
RLAM	Bonds	135,155	5.4	81,070	220,765	8.4
Schroder	UK Property	128,641	5.2	-	128,107	4.9
Partners	Property	63,606	2.6	3,745	67,180	2.6
Record Currency Mgmt		-4,754	-0.2	-	-6,383	-0.2
Internal Cash	Cash	14,105	0.6	-	14,891	0.6
Rounding		1	0.0	-	0	0.0
TOTAL		**2,487,961**	**100.0**	**0**	**2,622,856**	**100.0**

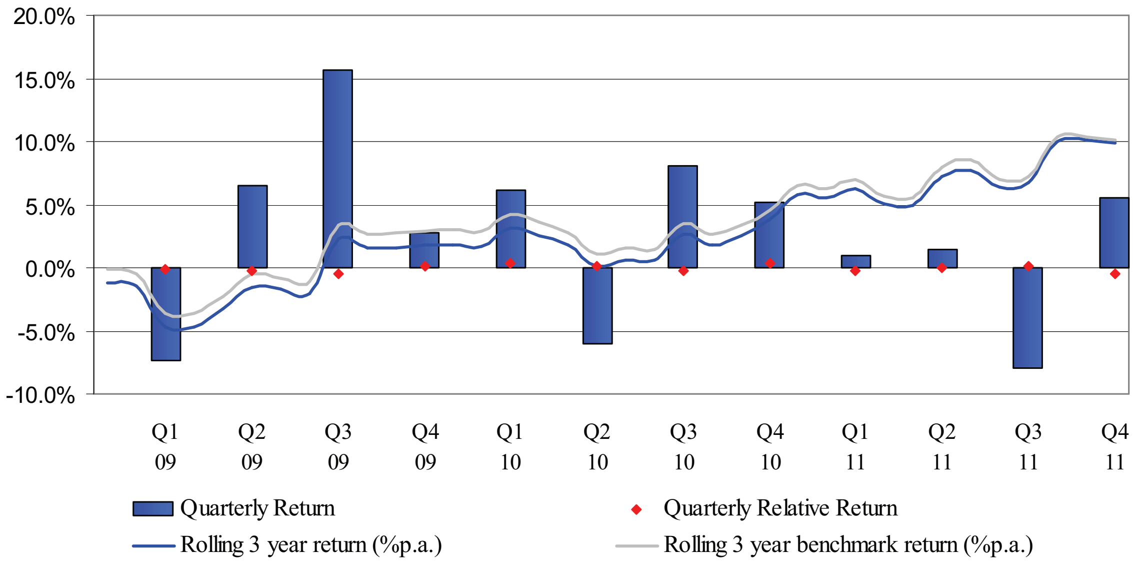
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter.

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 5.7%, underperforming the customised benchmark by0.4% (this analysis excludes the impact of currency hedging).
- Over the last year (not shown above) the total Fund's assets produced a return of -0.2%, underperforming the customised benchmark by 0.9% (this analysis excludes the impact of currency hedging).

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 31 December 2011.

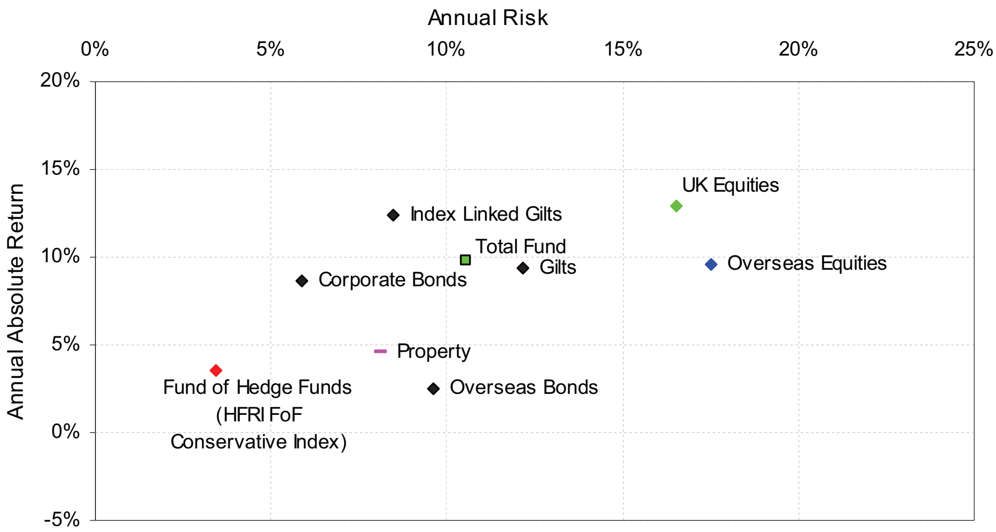
Asset Class	Weight in Strategic Benchmark	Q4 2011 (index returns)	1 year (index returns)
UK Equities	18%	8.4%	-3.5%
Overseas Equities	42%	7.2%	-6.9%
Index Linked Gilts	6%	8.4%	19.9%
Fixed Coupon Gilts	6%	5.0%	15.6%
UK Corporate Bonds*	5%	3.1%	5.4%
Overseas Fixed Interest	3%	0.0%	7.4%
Fund of Hedge Funds**	10%	0.8%	-2.1%
Property	10%	1.6%	8.1%
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 then a hedge fund or fund of fund index. The property and overseas equity indices also differ slightly from those in Section Two.

- **Market impact:** despite continued uncertainty regarding the Eurozone and Euro, markets produced positive returns following improving economic data from the US and some optimism over a resolution in Europe.
- UK and overseas equity markets produced returns of 8.4% and 7.2% respectively.
- Sterling weakened 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.
- Bonds generally produced strong positive returns. Longer dated gilts and index-linked gilts produced the highest returns, reflecting the expectation of a prolonged period of low interest rates. Spreads on corporate bonds widened but absolute performance was still positive.
- The allocations to fund of hedge funds and property continue to provide more steady returns, as evidenced by the one year returns, but were a drag relative to equities over the quarter.
- **Strategic Benchmark performance:** the strategy return was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately 1.5% and 3.0% respectively to the strategic benchmark return (ignoring the impact of currency hedging).
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both contributed approximately 0.6% each.
- **Asset allocation**: a small underweight allocation to equities at the start of the quarter had a slight detrimental impact on returns. Whilst the asset allocation is broadly in line with target, property continues to be underweight as the funding of these portfolio is an on-going process.
- Market movements have meant that there is an overweight position to bonds and an underweight position to fund of hedge funds. This has been a positive contributor to returns over the quarter.
- A tactical switch of approximately 3% of total Fund assets was made from gilts to corporate bonds at the end of the quarter.

- **Overall** these effects did not have a large impact on relative performance, with much of the underperformance over the quarter being due to managers underperforming their benchmarks.
- 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 December 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.

3 Year Risk v 3 Year Return to 31 December 2011

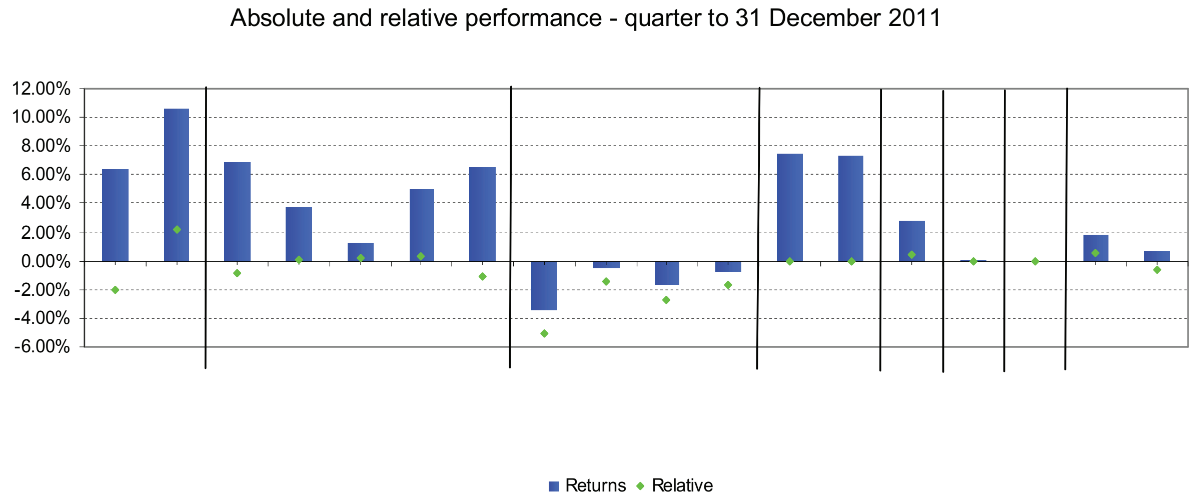


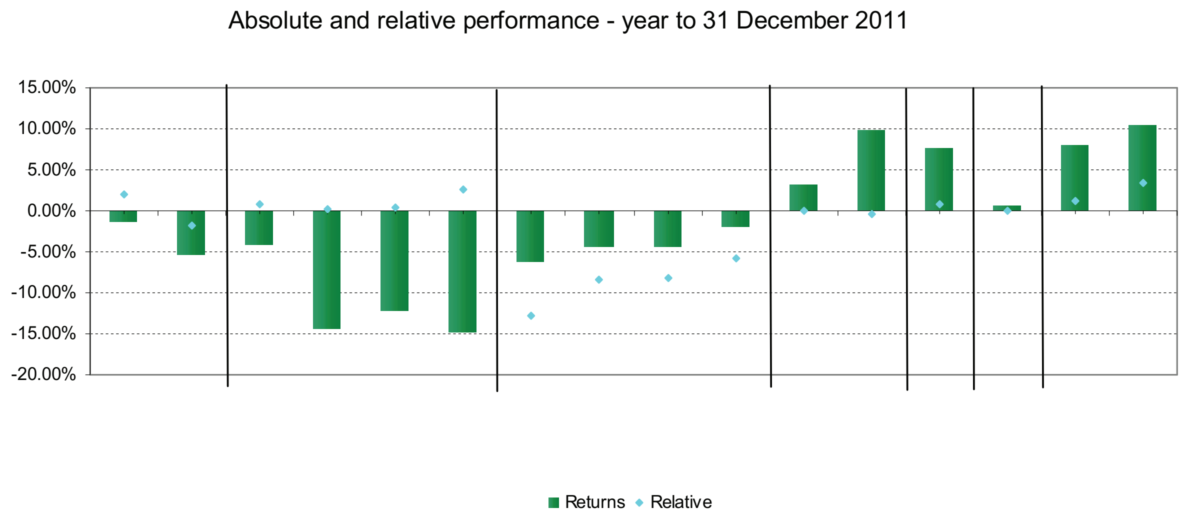
Source: Thomson Reuters. Please note, the Fund of Hedge Funds return does not include the cost of hedging currency.

- All of the underlying benchmarks have produced a positive return over the period.
- Changes to the previous quarter are driven by the impact of Q4 2008 falling out of the analysis and being replaced by Q4 2011.
- This has resulted in a significant increase in the return for equities (over 5% for UK equities) and a fall in volatility (annual risk), particularly for overseas equities. The return on index-linked gilts has also increased by a similar margin.
- The largest fall in return is from overseas bonds. The return over the 3 year period has also fallen for property.
- Overall, the Total Fund return has increased compared to last quarter and this has been generated at a lower level of risk. The position of the various asset classes is broadly as expected, although the volatility of gilts is higher than expected and has been caused by the large changes in yields experienced over the period.

Aggregate manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of December 2011. The relative quarter and one year returns are marked with green and blue dots respectively.
- Please note Partner's returns and values are lagged by a quarter. Due to timing issues there is a query, which at the time of printing has still to be resolved.





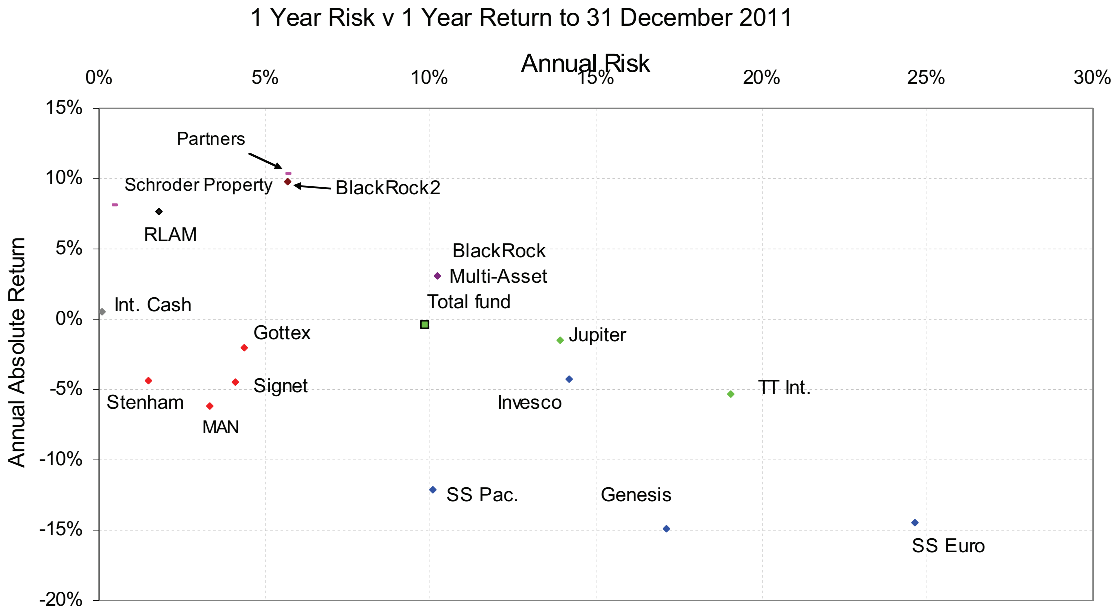
Source: Data provided by WM Performance Services

- Jupiter and TT both produced positive absolute returns over the quarter. However, Jupiter underperformed its benchmark whereas TT outperformed their benchmark. Over the 1 year period, both managers produced negative absolute returns. Jupiter outperformed their benchmark whereas TT underperformed their benchmark.
- Within overseas equities, all managers produced positive absolute performance over the quarter. SSgA Europe and SSgA Pacific marginally outperformed their respective benchmarks. Genesis outperformed their benchmark. Invesco underperformed their benchmark over the quarter.

- Disappointingly, the Fund's fund of hedge fund managers produced negative returns over the quarter and therefore underperformed their benchmarks. Absolute and relative performance was also negative over the year although returns were generally ahead of the equity managers.
- RLAM produced a positive return over the quarter, and marginally outperformed its benchmark. Over the 1 year period, performance was positive in absolute and relative terms.
- The property portfolio outperformed over the year, due to consistent positive returns from both Schroder and Partners, although over the quarter Partners underperformed the benchmark.
- Over the quarter the combined effect of the managers' performance was expected to have detracted approximately 0.4%.

Manager and total Fund risk v return

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



Source: Data provided by WM Performance Services

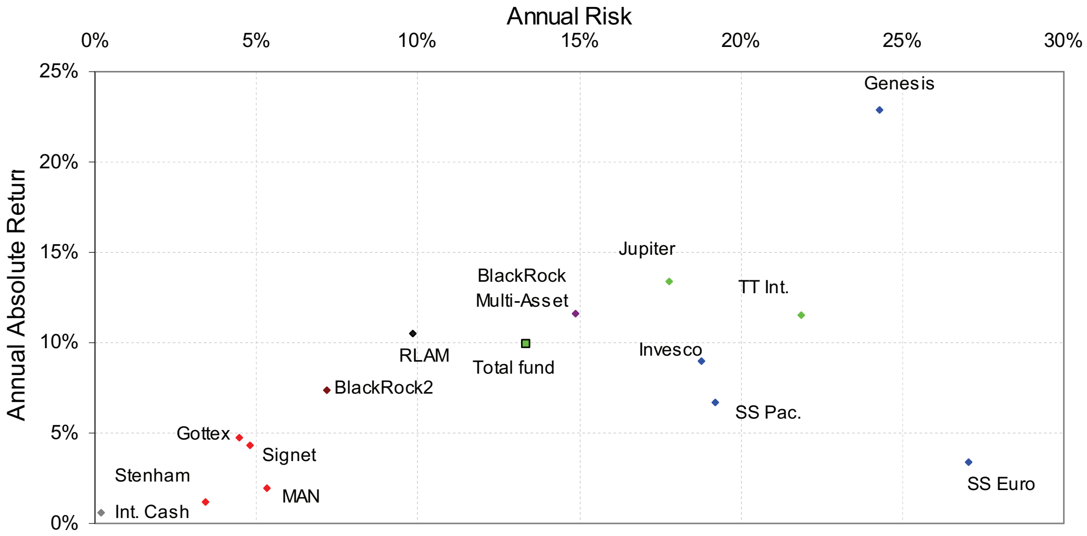
- The managers are colour coded by asset class, as follows:

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

- The key changes from the previous quarter are an increase in risk for the equity portfolio, particularly TT International and the SSgA Europe portfolio, and a fall in returns from the fund of hedge fund managers.
- The Total Fund return has not changed significantly.

- The chart below shows the annualised 3 year absolute return ("Annual Absolute Return") against the 3 year annualised volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2011 of each of the funds, along with the total Fund.

3 Year Risk v 3 Year Return to 31 December 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

- Genesis has seen an improvement in the return whilst also experiencing a reduction in risk. This is also applicable to the returns from Jupiter. Returns from TT have increased whilst risk has remained similar to last quarter. The SSgA Pacific Fund has seen a marginal decrease in the level of risk coupled with a decrease in the return.
- There has been little change to the annual risk for either BlackRock portfolio; however, the returns have increased. RLAM has also seen little change.
- Despite a poor Q4 2011, the returns from Fund of Hedge Funds have increased and the risk reduced.
- 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.

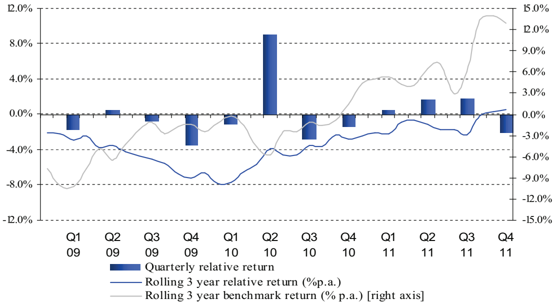
Key points for consideration

- 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. We include a qualitative assessment of the Schroder global unconstrained equity manager, implemented in Q2 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 underperformed their benchmark over the quarter by 2.0%.
  - TT International outperformed its benchmark over the quarter, however underperformed over the one year to 31 December 2011. The Fund continues to be overweight in Consumer Services and Basic Materials, with underweight positions to Financials.
  - The newly appointed unconstrained global equity manager, Schroder, produced a positive absolute return over the quarter, however the portfolio underperformed the benchmark.
- Non-UK Enhanced Indexation Funds: The SSgA Europe ex UK Fund and the SSgA Pacific incl. Japan equity fund both marginally outperformed their respective benchmarks. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds but negative in absolute terms.
- Enhanced Indexation: Invesco underperformed its benchmark over the quarter by 0.8%, although performance was positive in absolute terms. Over the one year performance was ahead of the benchmark by 0.9%. Performance over the 3 years was positive in absolute and relative terms. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark and therefore the longer term returns are more informative.
- Emerging Markets: Genesis outperformed their benchmark over the quarter. Performance over the longer 1 and 3 year periods also remains positive in relative terms.
- Fund of Hedge Funds:
  - Man produced a negative relative return of -5.0%, producing an absolute return of -3.4%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 1.5%. In absolute terms, Signet produced a return of -0.5%.
  - Stenham Asset Management produced a negative relative return for the quarter, 2.7% behind their benchmark, with an absolute return of -1.7%.
  - Gottex produced the highest absolute return of all the fund of hedge fund managers, but still underperformed their benchmark over the quarter by 1.4%, producing an absolute return of -0.4%.
  - All four funds produced negative absolute and relative returns over the year in what was a tough year for hedge funds.

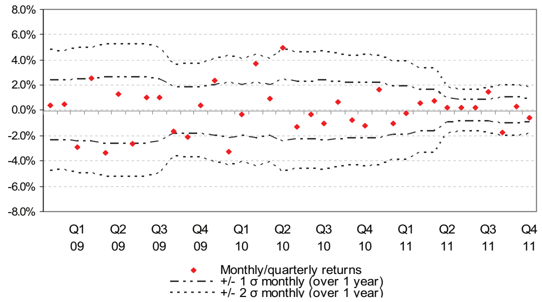
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios. Both passive funds produced positive absolute returns over the quarter and performed in line with their respective benchmarks.
- Fixed Interest: RLAM outperformed the benchmark in the last quarter by 0.4%. In absolute terms, RLAM produced a return of 2.7%. There are no notable changes in the risk profile of this fund.
- Property: Performance of the Schroder property fund over the quarter was positive in absolute and relative terms. Over the 1 year period, the Schroder property fund produced a performance of 8.1% which was ahead of the benchmark by 1.2%. The performance of Partners is now lagged by 1 quarter. As such, over the third quarter of 2011, Partners underperformed their benchmark by 0.6%, producing an absolute return of 0.7%. 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)

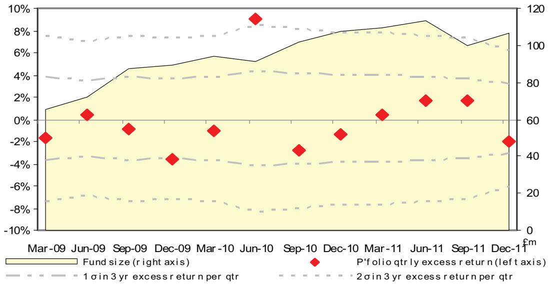
Relative returns [#1]



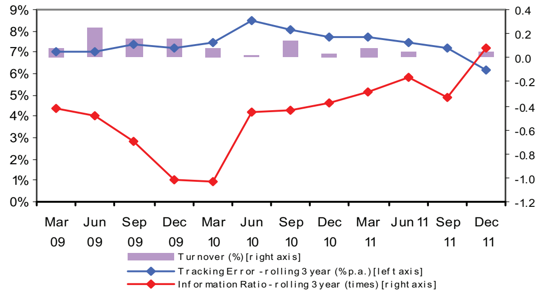
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]

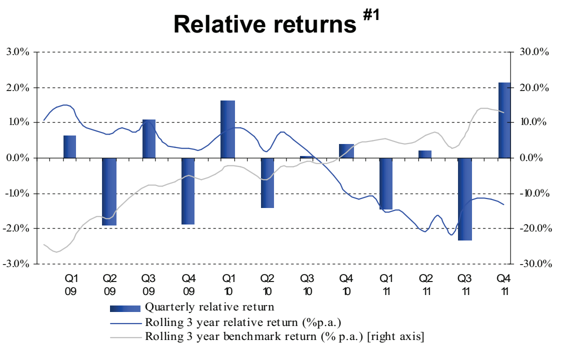


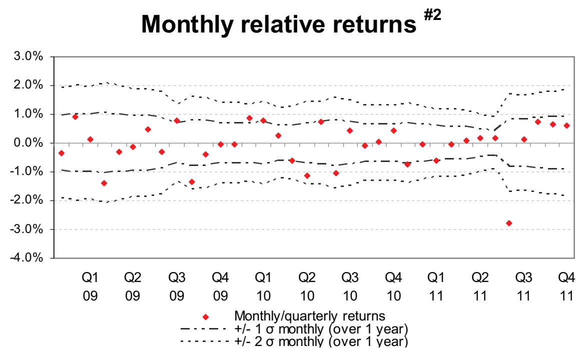
Source: Data provided by WM Performance Services, and Jupiter

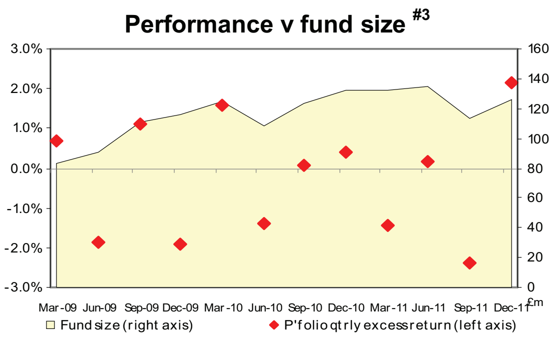
Comments:

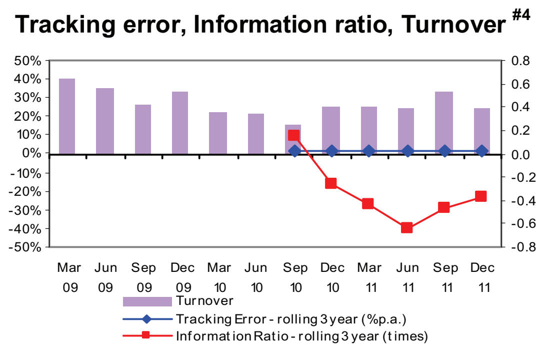
- Over the last quarter, the Fund underperformed the benchmark by 2.0%, producing an absolute return of 6.4%.
- Over the last year, the Fund outperformed the benchmark by 2.0%, producing an absolute return of -1.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 13.4% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarter primarily because the weak performance from Q4 2008 (-18.7%) falling out of the 3 year calculations.
- The Fund's allocation to Cash (6.3%) decreased marginally compared to the preceding quarter (6.5%).
- Jupiter's approach means that they will be underweight to certain industries relative to the benchmark (tobacco and mining, for example). Together with a bearish view on banks, this means they are significantly underweight to large cap stocks and also have a concentration in other sectors. Performance is therefore likely to be volatile relative to benchmark but this is a function of the mandate rather than a concern with Jupiter's management style.
- A high allocation to cash represents a defensive view and is understandable in the current economic environment. However, it will lead to underperformance during periods of market rallies, such as Q4 2011.

TT International – UK Equities (Unconstrained)









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

Comments:

- Over the last quarter the Fund outperformed the benchmark by 2.1%, producing an absolute return of 10.5%.
- Over the last year, the Fund underperformed the benchmark by 1.9%, producing an absolute return of -5.4%. Over the last three years, the Fund underperformed the benchmark by 1.4% p.a., producing an absolute return of 11.5% p.a.
- The Fund has an overweight position in Consumer Services and Telecommunications by 4.7% and 2.7% respectively, and is significantly underweight to Financials by 9.5%.
- Turnover, over the fourth quarter, has fallen back to around the 25% mark as compared to the spike the previous quarter when it increased to approximately 33%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters. The 3 year information ratio (risk adjusted return), continued to improve very slightly from -0.5% to -0.4%.
- After a difficult 12 months to end Q3 2011, Q4 2011 has provided an improved relative return, but longer term performance is still behind benchmark.
- TT's approach dictates high (relative to other equity portfolios) turnover and this has been seen in their activity over the quarter.
- TT have acknowledged the uncertain conditions and expect them to continue, but believe there are opportunities to outperform, particularly where shares or sectors appear oversold.
- TT are taking active positions in sectors and individual stocks, as expected given their approach.
- Care should be taken to ensure looking for "cheap" stocks does not lead to buying poor quality stocks, although this does not appear to be the case as evidenced by significant underweight to financials, where they believe significant headwinds remain.

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.
- Due to the short period since inception, we provide here a qualitative update and assessment of the manager.

Portfolio update and performance over Q4 2011

The fund underperformed its benchmark by 1.1%, producing an absolute return of 6.5% over the quarter.

The final quarter of 2011 saw equities markets produce positive absolute returns however; these were not strong enough to outweigh negative returns from earlier in the year. As such over the 2011 calendar year, global equities posted negative returns.

Whilst markets had somewhat regained their appetite for risk in October, political and economic turmoil continued throughout the Eurozone. There remains some scepticism regarding the outcome of any negotiations to stave off a default of Greece. There was some encouraging news from the US toward the end of the quarter regarding their economic data, which helped equity returns.

Whilst the fund produced a positive return, it did underperform its benchmark. There were positive contributions from the information technology sector, which includes names such as Google and Samsung. Samsung was boosted by continued demand for their smartphones sales.

The main detractors from relative returns for the fund came from the consumer sectors. Within consumer staples, it was Diamond Foods driving the underperformance. The company suffered severely following news that there would be an investigation into their accounting by an internal audit committee. Their planned acquisition of Pringles from L&G is likely to suffer a long delay as a result. Schroder consequently sold this position in the portfolio.

In terms of the regional exposure in the fund, stock selection and an underweight position to Japan was beneficial to the fund's performance. The underweight position was 3.2% less than the benchmark exposure. UK financials and materials was the main contributor adding value to relative performance, with Prudential doing particularly well.

North America and Pacific ex Japan were the areas that were the main detractors to relative performance. The Fund is underweight to North America relative to the benchmark by 4.6% and overweight to Pacific ex Japan by 2.3%. Within North America the main underperformer was Diamond Foods. Energy was also negative in this region. Newcrest Mining was a key detractor in the Pacific region; the company suffered from adverse weather conditions, which caused an announcement that there would be a short-term production shortfall.

The most underweight country weightings in the portfolio are North America (-4.6%) and Japan (-3.2%). The portfolio is overweight to the Emerging Markets (+2.9%) and Pacific ex Japan (+2.3%).

In terms of sector weightings, the most underweight positions are to Telecoms (-2.9%), Utilities (-2.1%) and material (-0.9%). Overweight positions are in Consumer Staples (+3.5%), Consumer Discretionary (+1.8%) and Information Technology (+0.9%).

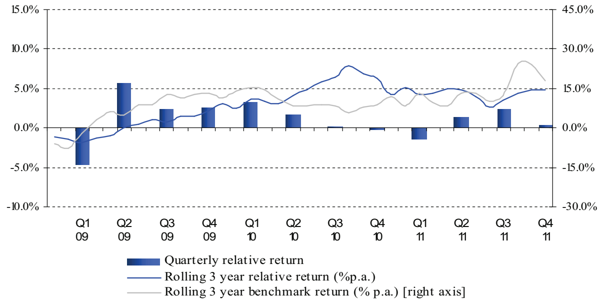
Conclusion

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.

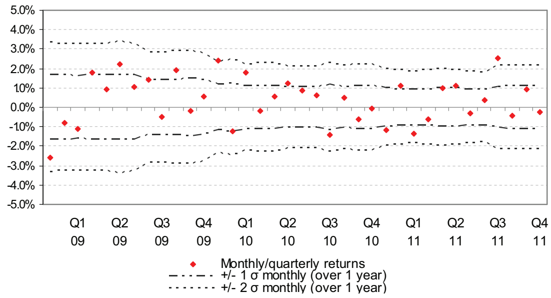
Given the outperformance target of the portfolio and the relatively unconstrained approach, it is expected that relative returns will vary over time. The returns to date should therefore not be of concern. The portfolio is taking an active view on stocks, sectors and regions which will be required both to meet its outperformance objective and to fulfil its philosophy.

Genesis Asset Managers – Emerging Market Equities

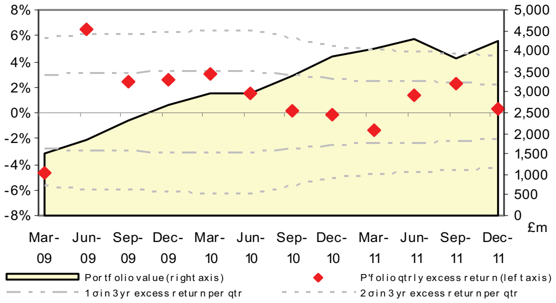
Relative returns #1



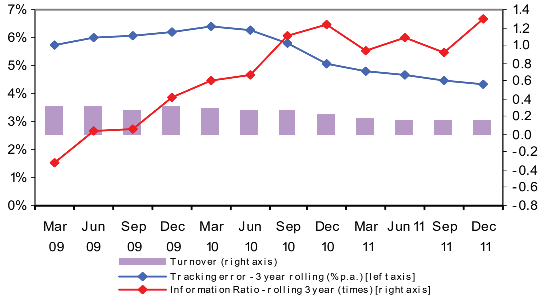
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



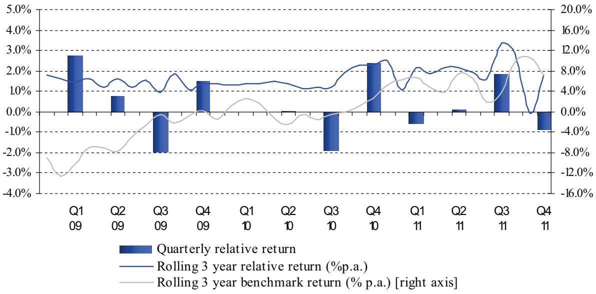
Source: Data provided by WM Performance Services, and Genesis

Comments:

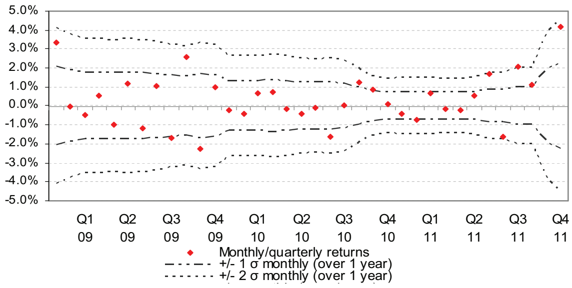
- Over the last quarter, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 5.0%.
- Over the last year, the Fund outperformed its benchmark by 2.6%, producing an absolute return of -14.9%. Over the last 3 years, the Fund outperformed the benchmark by 5.5% p.a., producing an absolute return of 22.8% p.a.
- The Fund remains overweight to South Africa and India, 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 allocation to Cash (1.1%) increased marginally compared to the previous quarter (0.9%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Healthcare (+2.6%) and Financials (+1.0%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-3.9%) and Telecom Services (-2.4%).
- 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.
- The tracking error has fallen slightly and remains well below levels seen in 2009. This could be viewed as Genesis looking to protect the outperformance achieved over the past few years but, more significantly, it is impressive that they have managed to outperform in an environment that is significantly different (within Emerging markets) to the period over which previous outperformance was attained.
- The reduction in risk should therefore not be of concern at this stage.

Invesco – Global ex-UK Equities (Enhanced Indexation)

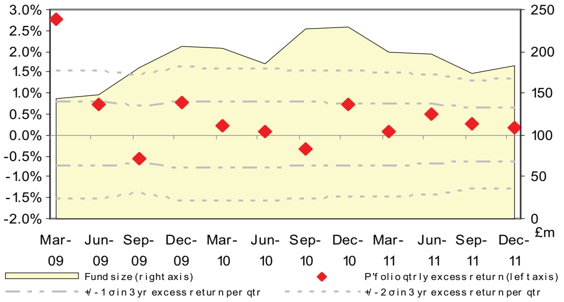
Relative returns #1



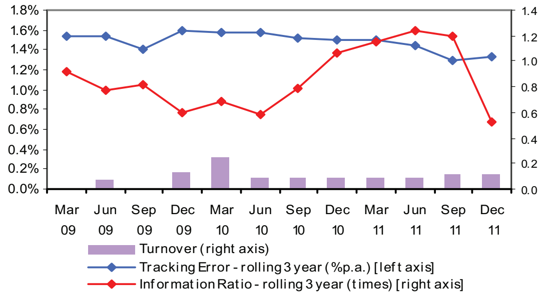
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



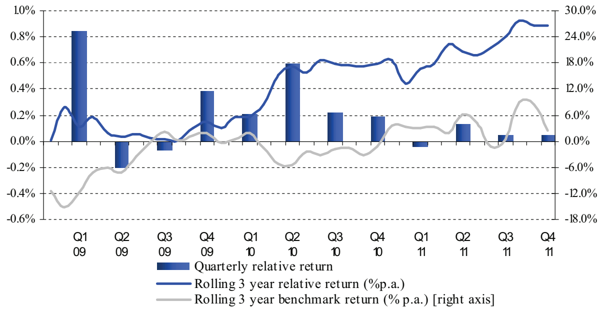
Source: Data provided by WM Performance Services, and Invesco

Comments:

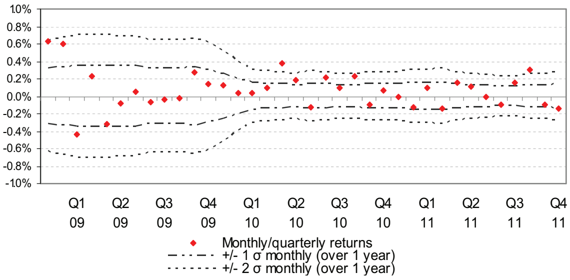
- Over the last quarter, the Fund underperformed its benchmark by 0.8%, producing an absolute return of 6.9%.
- Over the last year, the Fund outperformed its benchmark by 0.9%, producing an absolute return of -4.3%. Over three years, the Fund outperformed, by 1.1% p.a., producing an absolute return of 9.0% p.a.
- Over the last quarter, all strategies continued to be 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 turnover for this quarter of 11.2% decreased from 12.3% in the previous quarter. The number of stocks, however, marginally rose from 399 to 401.
- 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.
- Quarterly relative returns can be affected by timing issues between pricing the fund units versus the benchmark. Therefore longer term performance is a more reliable indicator of whether Invesco are meeting their long term objective.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

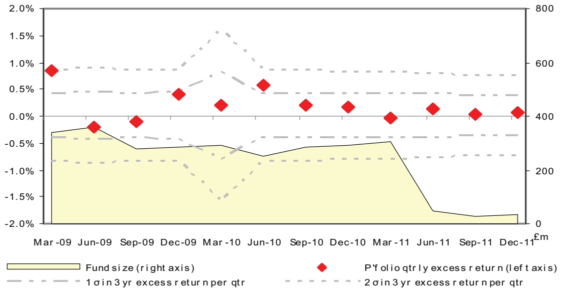
Relative returns #1



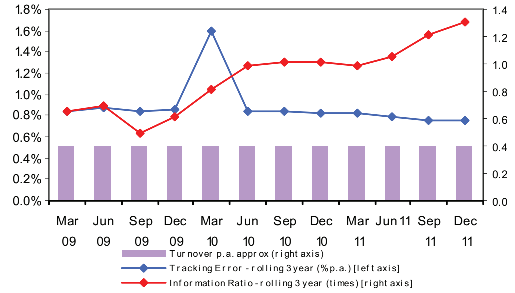
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



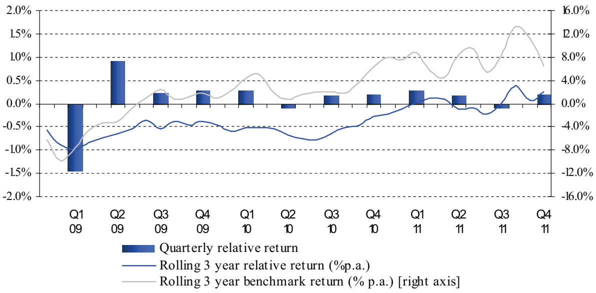
Source: Data provided by WM Performance Services, and SSgA

Comments:

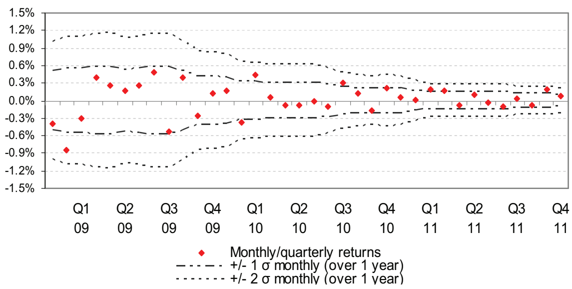
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 3.7%.
- Over the last year, the Fund outperformed the benchmark by 0.2%, producing an absolute return of -14.4%. Over the last 3 years, the Fund outperformed the benchmark by 1% p.a., producing an absolute return of 3.4% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. In the third quarter, it fell further to £30.34million. In the forth quarter, however, there has been a marginal increase of £1.1million compared to the previous quarter's fund size. These changes do not appear to have affected performance.
- 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 and the current level is more appropriate than seen previously.
- 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 decreased very marginally over the last quarter.
- A period of small consistent outperformance has seen a pleasing increase in the information ratio. This fund is not expected to provide shocks relative to the benchmark and therefore current risk levels are appropriate.
- As concerns over the rapid change in size of the fund recede, it can be considered suitable for new contributions or suitable for investment if rebalancing is required, although it should be discussed in advance with SSgA if the amount is significant relative to the size of the fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

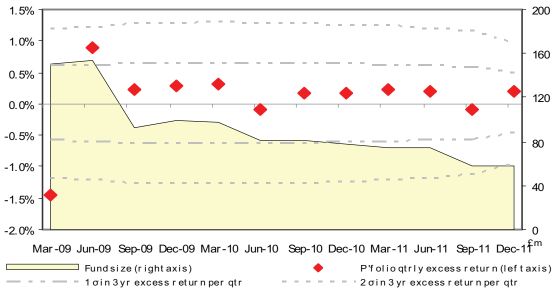
Relative returns #1



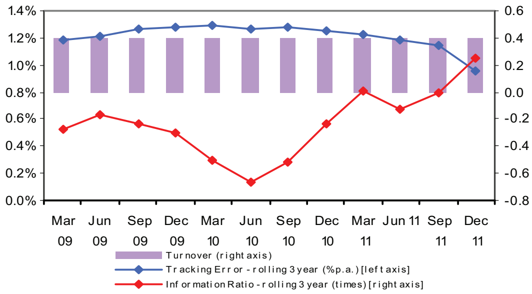
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



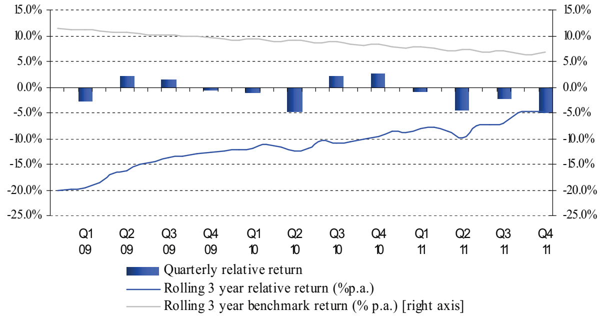
Source: Data provided by WM Performance Services, and SSgA

Comments:

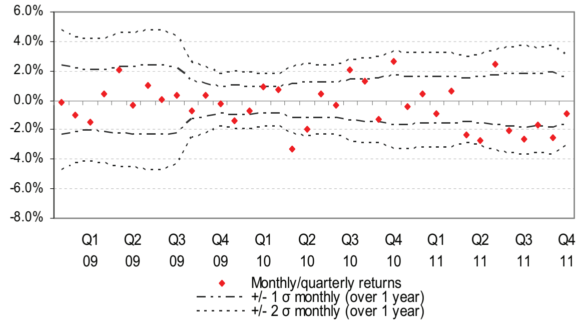
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 1.3%.
- Over the last year, the Fund outperformed the benchmark by 0.4%, producing an absolute return of -12.2%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 6.7% p.a.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- Tracking error has fallen over the year and significantly so over the last quarter. Performance has pleasingly been as expected and the small consistent levels of outperformance have led to a increase in the information ratio. However, it should be monitored carefully as to whether there is a reduction in relative returns due to the reduction in risk.
- Despite this slight concern, this fund is suitable for new contributions or suitable for investment if rebalancing is required.

MAN – Fund of Hedge Funds

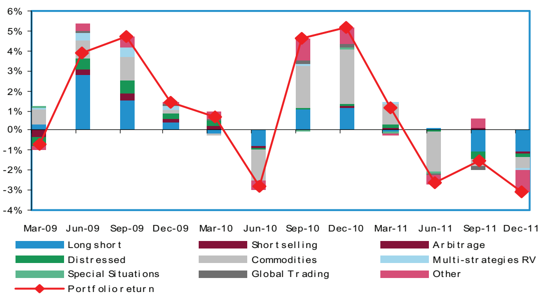
Relative returns #1



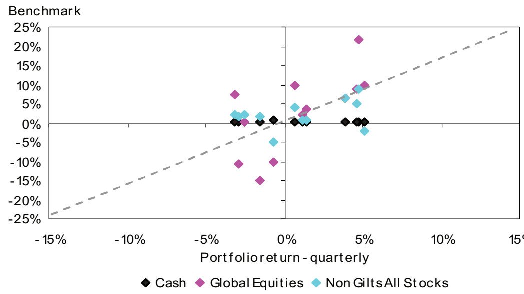
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7

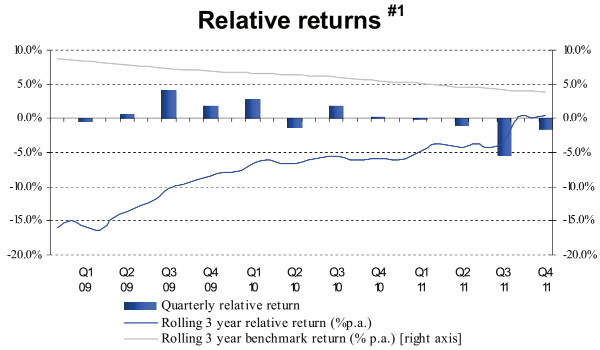


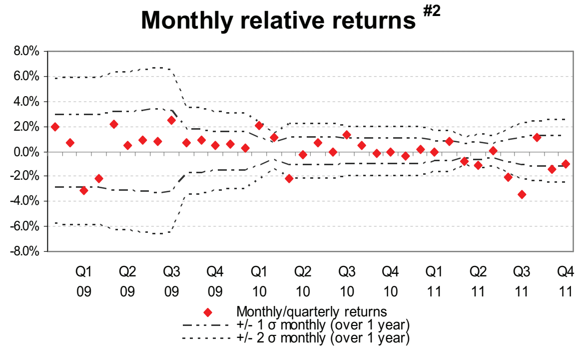
Source: Data provided by WM Performance Services, and MAN

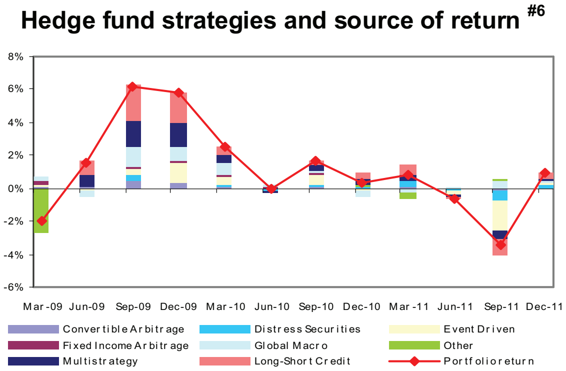
Comments:

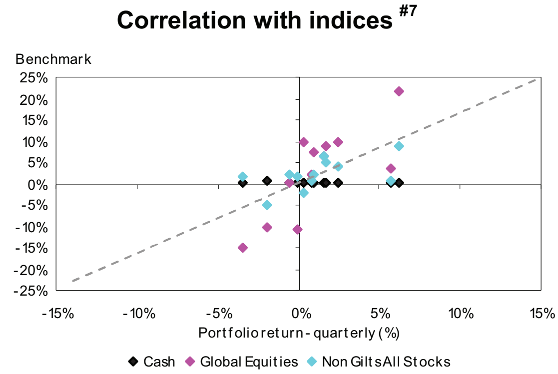
- Over the last quarter, the Fund underperformed the benchmark by 5.0%, producing an absolute return of -3.4%.
- Over the last year, the Fund underperformed the benchmark by 12.7%, producing an absolute return of -6.1%. Over the last 3 years, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of 1.9% p.a.
- The key drivers of the negative performance were the allocations to Systematic Long Term Trend, Long / Short Emerging Markets and Commodities.
- 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 Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 61.6% of the fund.
- MAN's performance relative to the other fund of hedge fund managers is not unexpected in a tough environment for hedge fund strategies - as the manager with the highest outperformance target it is expected to take the highest levels of risk.
- However, the contribution from its long / short strategies is disappointing during a quarter of positive equity returns (long / short tends to be net long), albeit not unusual compared to other long short managers.
- MAN has continued to reduce the number of managers within the strategy which should, over the longer term, allow a greater chance of meeting its outperformance objective, subject of course to successful manager selection.

Signet – Fund of Hedge Funds









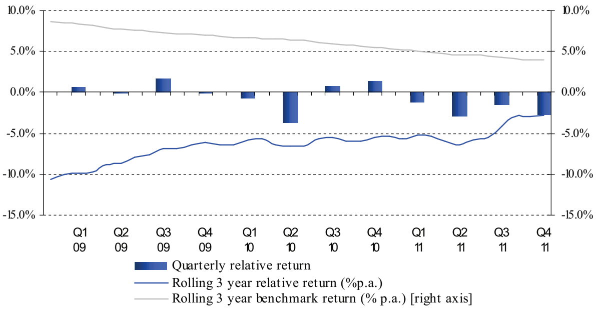
Source: Data provided by WM Performance Services, and Signet

Comments:

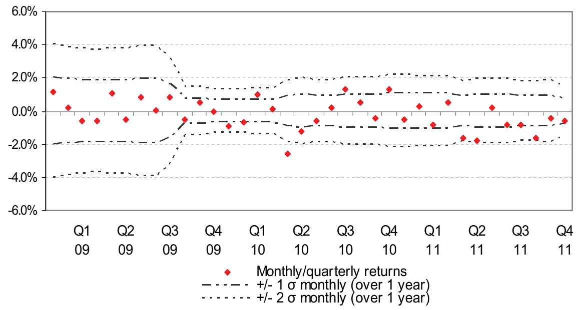
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.5%.
- Over the last year, the Fund underperformed the benchmark by 8.4%, producing an absolute return of -4.5%. Over the 3 year period, the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 4.4% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarters primarily because the weak performance from Q4 2008 (-10.8%) falling out of the 3 year calculations.
- All strategies contributed positively except for the Volatility Arbitrage strategy, Emerging Market strategy and Convertible Arbitrage strategy, which pulled total portfolio absolute returns into negative territory.
- 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.
- Relative to other hedge fund managers, Signet's performance was more positive in terms of minimising drawdown and managing risk.

Stenham – Fund of Hedge Funds

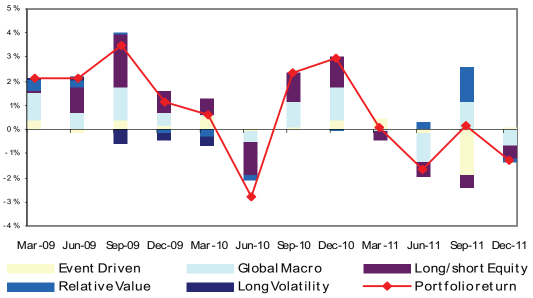
Relative returns [#1]



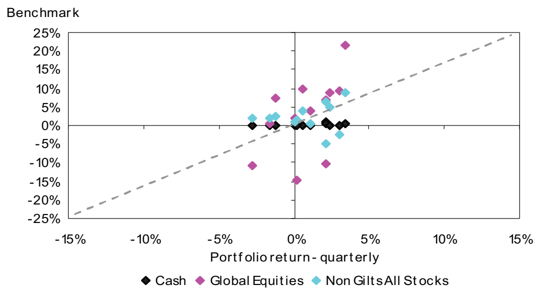
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



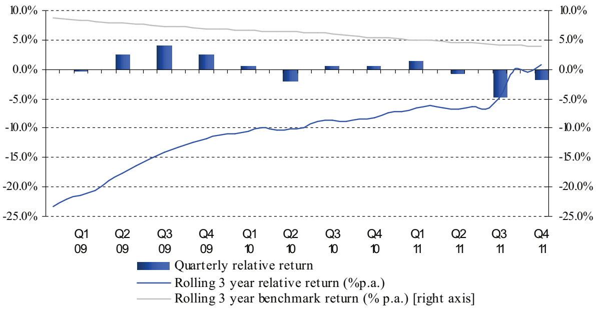
Source: Data provided by WM Performance Services, and Stenham

Comments:

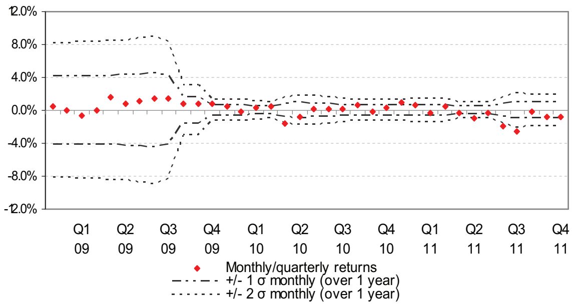
- Over the last quarter, the Fund underperformed the benchmark by 2.7%, producing an absolute return of -1.7%.
- Over the last year, the Fund underperformed the benchmark by 8.2%, producing an absolute return of -4.3%. Over the last 3 years, the Fund underperformed the benchmark by 2.7% p.a., producing an absolute return of 1.2% p.a.
- Global Macro and Relative value strategies were the largest detractors over the quarter. The only positive contributor to performance came from Event Driven Strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 65.0% of the total Fund allocation. The allocation to Cash decreased from 8.0% to 6.0% 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.
- Volatility of returns have generally been lower than the other fund of hedge fund managers, which is as expected given Stenham's focus on liquidity and capital preservation.

Gottex – Fund of Hedge Funds

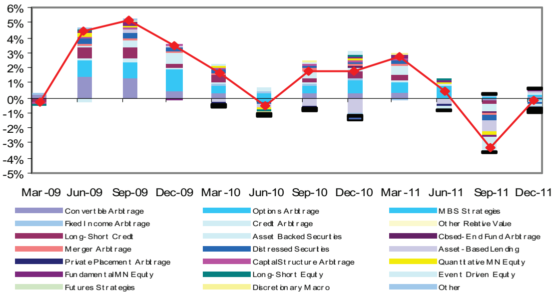
Relative returns [#1]



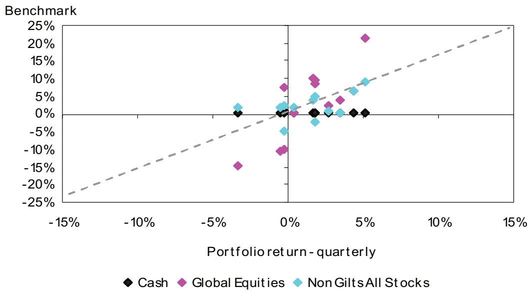
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



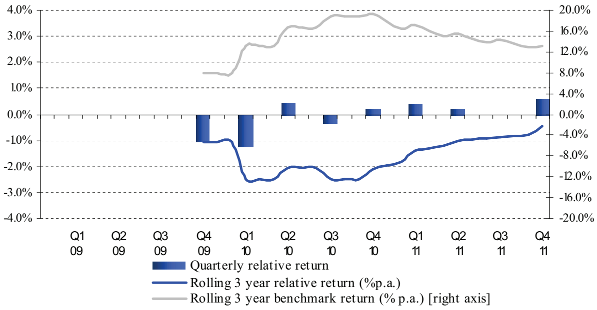
Source: Data provided by WM Performance Services, and Gottex

Comments:

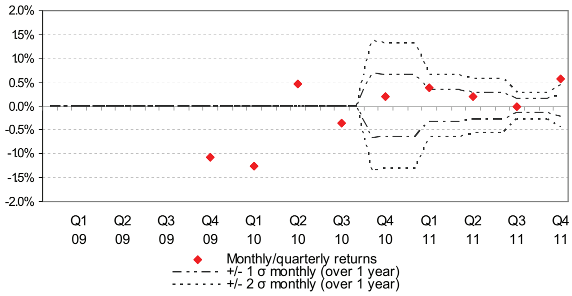
- Over the last quarter, the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.4%.
- Over the last year, the Fund underperformed the benchmark by 5.9%, producing an absolute return of -2.0%. Over the last 3 years, the Fund outperformed the benchmark by 0.9% p.a., producing an absolute return of 4.8% p.a.
- The Fund generated a negative return during the quarter. This was primarily led by Options Arbitrage strategies, Asset-Backed Securities and Asset based investing strategies. Negative performance was marginally offset by positive contribution from Mortgage Backed Securities and Fixed Income Arbitrage.
- The Fund has a diverse range of strategy exposures, with continued major exposures to MBS, ABS and Fundamental MN Equity Strategies. Allocations to Options Arbitrage strategies increased by 2.1% to 7.0% over the quarter while allocations to Fundamental MN Equity and Convertible Arbitrage strategies fell by 1.3% and 1.0% respectively.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- Gottex performance continues to be significantly less volatile than several years prior, as expected in a reduced leverage environment. However, underperformance has more been driven by one strategy offsetting another rather than due to a lack of opportunities or leverage.

Schroder – UK Property

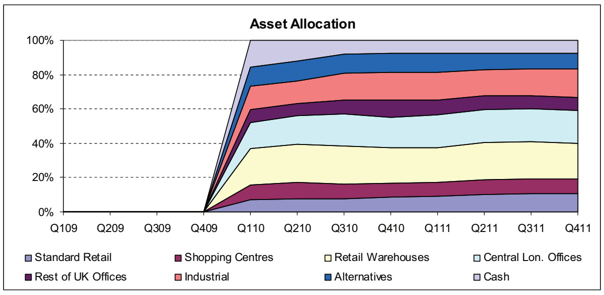
Relative returns #1



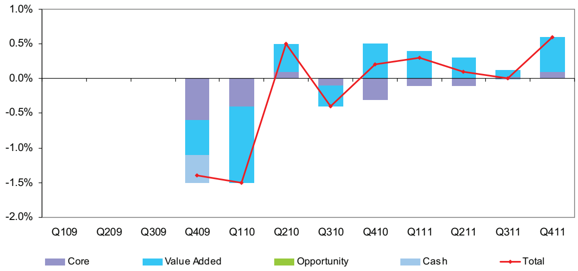
Monthly relative returns #2



Asset Allocation #5



Contribution to relative return #6



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.9%.
- Over the last year, the Fund produced a return of 8.1%, outperforming the benchmark by 1.2%.
- Over the fourth quarter of 2011, the strongest contributor to relative performance came from the value add funds, which comprise 39.3% 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 Hansteen UK Investment Trust was the strongest performer at the stock level, which specialises in asset management intensive industrial properties.
- 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.
- Despite the illiquid nature of property investment, Schroder has been able to position the portfolio relative to the benchmark according its views and has been able to produce consistent outperformance.

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 £65 million, or approximately 49.4% of the Fund's intended commitment of approximately £134 million. A total of £5.91 million was drawn down over the quarter. The draw downs commenced in September 2009.

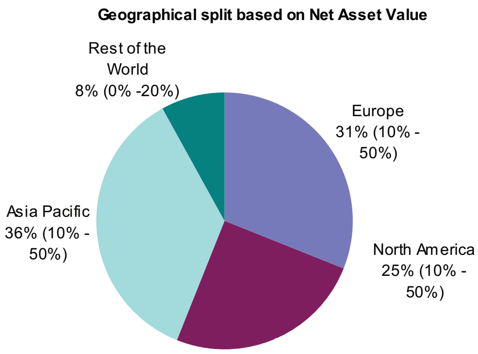
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

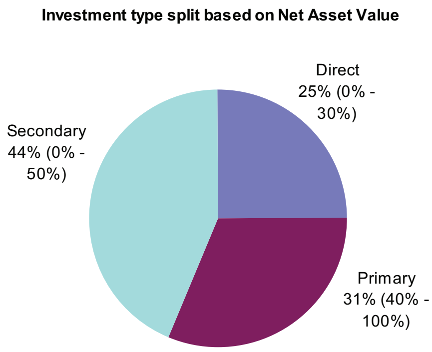
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 December 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.68	10.62
Direct Real Estate 2011	2.69	2.53
Distressed US Real Estate 2009	11.65	11.85
Global Real Estate 2008	25.50	25.97
Global Real Estate 2011	7.16	6.70
Real Estate Secondary 2009	8.77	9.51
Total (£)	**65.46**	**67.18**

Source: Partners. Please note, whilst the valuation on page 14 is as at 30 September 2011 (adjusted for cash flows), the above is Partners' valuation as at 31 December 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 December 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 a decrease to Europe from 32% to 31%, to North America from 26% to 25% while the rest of the world allocation remained at 8%. The exposure to the Asia Pacific region has increased from 34% to 36%.

In terms of the portfolio allocation by investment type, the exposure to primary investments has increased from the position last quarter from 30% to 31%. The exposure to secondary investments has decreased from 45% to 44%, while the exposure to direct investments remained constant at 25%.

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 Q4 2011

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.

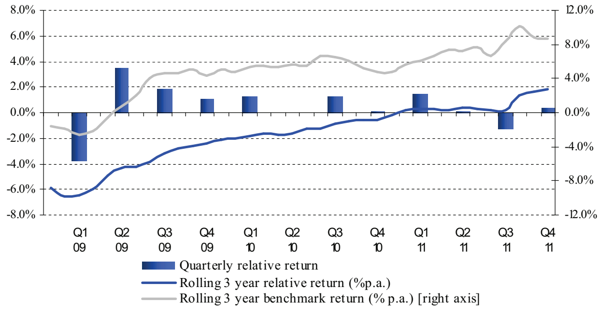
Distributions since inception total £6.72m, with £2.11m distributions over the most recent quarter.

Conclusion

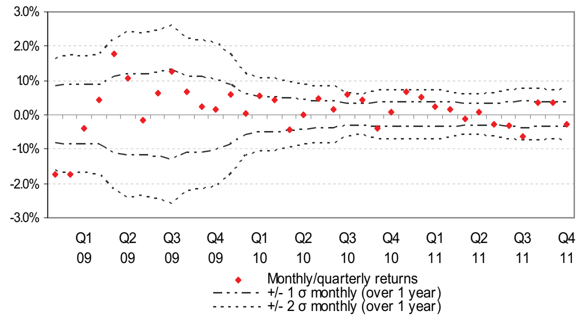
Over the quarter, Partners increased the amount drawn down by £5.91 million. There have been some changes to the asset allocations and the geographical split; however, these are at present due to the draw-downs from the amounts committed. There have been no further changes to the guidelines, and those implemented in October 2010 remain in place.

We have no concerns with Partners. They appear to building the portfolio in a diversified manner thus not exposing the Fund to any one region or type of property investment.

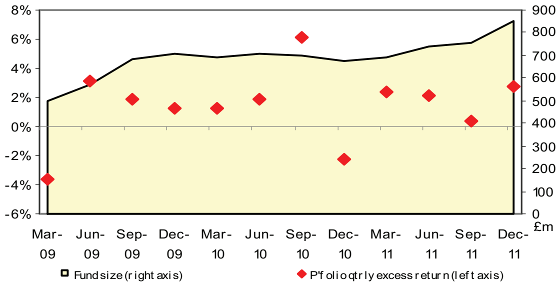
Relative returns #1



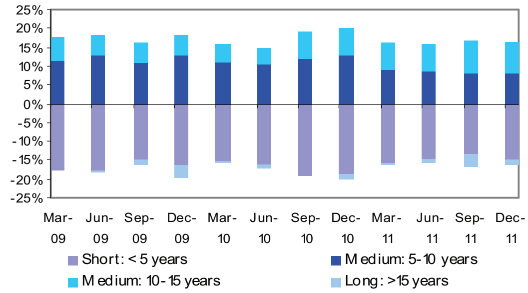
Monthly relative returns #2



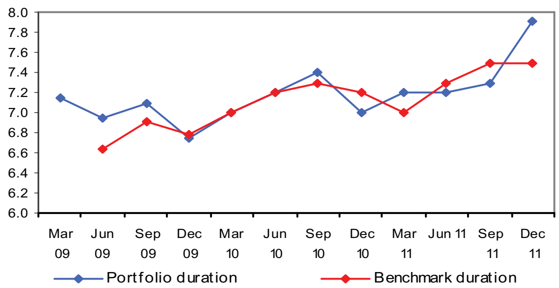
Performance v fund size #3



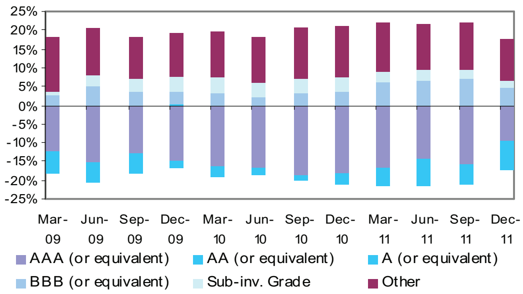
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



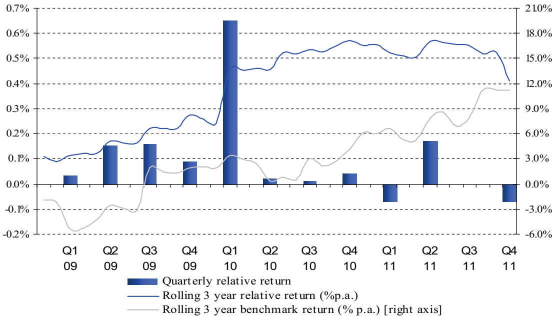
Source: Data provided by WM Performance Services, and RLAM

Comments:

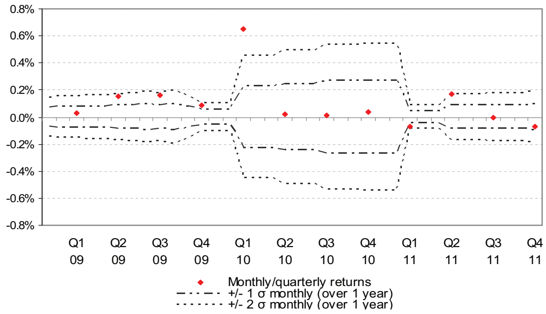
- Over the last quarter, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 2.7%.
- Over the last year, the Fund outperformed the benchmark by 0.7%, producing an absolute return of 7.6%. Over a rolling 3 year period, the Fund outperformed the benchmark by 1.8% p.a., producing an absolute return of 10.5% 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.
- Intra month volatility is greater than that implied by quarterly relative performance. This is expected from an active corporate bond manager and is not cause for concern.
- The active approach means that RLAM will look to identify good quality companies through superior research. The high relative allocation to lower and unrated bonds at the expense of, higher quality, AAA or AA bonds should not be of concern.
- Portfolio duration has remained close to the benchmark duration. This is not expected to be a material source of return and is therefore as expected.

BlackRock – Passive Multi-Asset

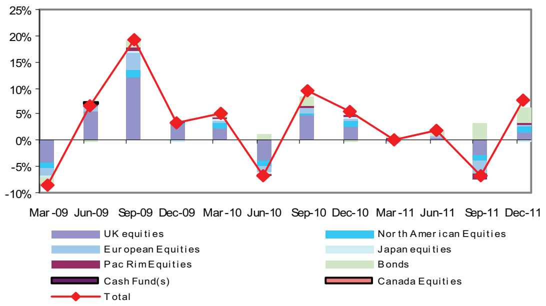
Relative returns [#1]



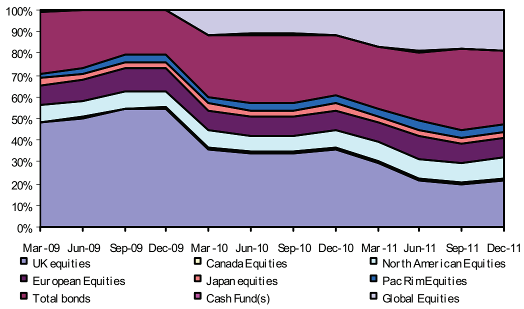
Monthly/Quarterly relative returns [#2]



Contribution to absolute return [#6]



Asset Allocation [#5]

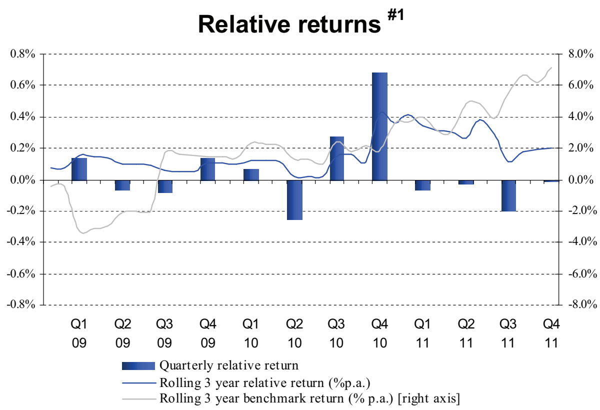


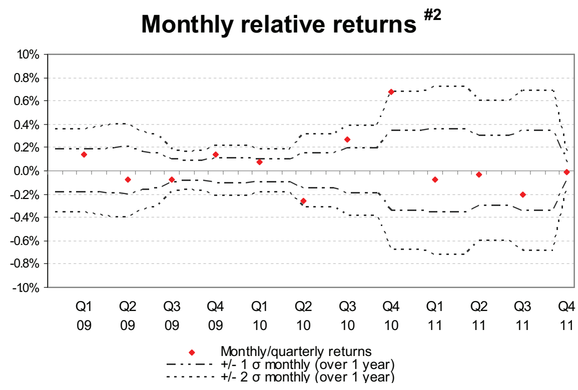
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 7.5%.
- Over the last year, the Fund performed in line with its benchmark, producing an absolute return of 3.1%. Over the last 3 years, the Fund underperformed the benchmark by 0.2% p.a., producing an absolute return of 11.7% 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.
- There has been a fall over the quarter to the allocation to bonds and subsequent rise in the other asset classes. This is primarily as a result of the tactical switch from gilts to corporate bonds, the latter of which are managed by RLAM.

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





Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund performed in line with its benchmark, producing an absolute return of 7.3%.
- Over the last year, the Fund produced a return of 9.8%, underperforming the benchmark by 0.3%. Over a rolling 3 year period, the Fund produced an absolute return of 7.3% p.a., outperforming the benchmark return by 0.1%.
- Over the quarter the Fund's relative holding in cash, UK equities futures and US equity futures increased, and the relative holdings in UK gilts decreased. This is as a result of the Fund selling down £5m of UK gilts to raise cash to invest in the property portfolio.
- Tracking of this portfolio relative to the benchmark remains within expected tolerance ranges.

Appendix A – Market Events

UK market events – Q4 2011

- **Quantitative Easing:** The Bank of England's quantitative easing program remained at £275 billion following the increase of £75 billion in October.
- **Government Debt:** At the end of December 2011 UK national debt stood at £1.004 trillion, or 64.2% of Gross Domestic Product.
- **Unemployment:** Britain's unemployment rate spiked to 8.4% in November 2011, its highest level since 1996. The Office for National Statistics also said there were 2.7 million people out of work in the three months from September to November. This is the highest figure since 1994.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey, increased to a seasonally adjusted figure of 49.6 in December, up from a revised reading of 47.7 in November. This was the third successive month below 50. A figure that is below 50 is believed to indicate a contraction in activity. The average PMI reading in Q4 2011 was the weakest since Q2 2009.
- **Inflation:** CPI annual inflation fell from 4.8% in November 2011 to 4.2% in December 2011. RPI annual inflation fell from 5.2% in November 2011 to 4.8% in December 2011. The drop in the CPI rate was the biggest monthly fall since April 2009, and the lowest rate since June 2011. The figures reflected a 2.8% drop in the price of clothing and footwear as retailers cut prices to attract customers in the run-up to Christmas. However, food prices rose by 1.4%, despite recent fierce competition between the main supermarket chains.
- **Gross Domestic Product ("GDP"):** In the fourth quarter of 2011 GDP declined by 0.2%. Output of the production industries decreased by 1.2% in Q4 2011, compared with an increase of 0.2% in the previous quarter. The Construction sector output decreased by 0.5% in Q4 2011, compared with an increase of 0.3% in the previous quarter.
- **Interest Rate:** The Bank's Monetary Policy Committee voted on January 12, 2012 to maintain the interest rates at a record low of 0.5%, which has been at this level since March 2009.

Europe market events – Q4 2011

- **European sovereign debt crisis:** Europe has been plunged into a fresh crisis after France was stripped of its coveted AAA credit rating in a mass downgrade of nine Eurozone countries by the ratings agency Standard & Poor's. S&P said austerity was driving Europe even deeper into financial crisis as it also cut Austria's triple-A rating, and relegated Portugal and Cyprus to junk status. The humiliating loss of France's top-rated status leaves Germany as the only other major economy inside the Eurozone with a AAA rating, and rekindled financial market anxiety about a possible break-up of the single currency.
- **Italy:** Italy brought a glimmer of festive cheer to the markets late in December with a debt auction that saw its short-term borrowing costs fall by half. The sale of bills and bonds was the first big test of market sentiment since the European Central Bank provided Eurozone lenders with a €489 billion liquidity injection on 21 December 2011. Italian banks reportedly took up more than €100 billion of the ECB's three-year loans. The results of the auction suggested the offering had made a big impact on the readiness of lenders to buy sovereign debt. The rate on €9 billion of six-month treasury bills

plunged to 3.25% from 6.5% the last time that securities of a similar maturity were auctioned in November 2011. Demand outstripped supply in a ratio of 1.7 to one, compared with 1.5 last month.

- **Greece:** Greece faces its most difficult challenge since the second world war after the unexpected collapse of talks over a debt swap deal with its private creditors in January, the country's finance minister, Evangelos Venizelos, said. Discussions over the deal – key to keeping default at bay and unlocking a second €130 billion (£108 billion) aid package for Greece – stalled when it became apparent that neither side could bridge their differences over interest rates on the new bonds. The accord aims to slice €100 billion from Athens' increasingly unsustainable debt pile by inducing private investors that include banks and insurers to voluntarily accept 50% losses in the value of their Greek government holdings.
- **Spain:** Spain's new government announced in late December that the country's budget deficit is higher than it was previously thought as it announced a new package of spending cuts and tax increases designed to conform to the Eurozone's austerity pact and fend off attack by international financial markets. The principal measure comes in the form of an €8.9 billion budget cut spread across all government departments. There are also across-the-board income tax increases and for home-owners, a one-year freeze on public sector salaries, a freeze on the minimum wage of €641.40 a month and cuts in subsidies to trade unions and political parties. Pensions will rise and the cut-off point for unemployment benefit is to be extended for a further six months.
- **France:** Nicolas Sarkozy promised a last-ditch rush of economic reforms after France's credit rating downgrade was slammed by his political opponents as the mark of failure of his financial policy. As markets brace themselves for a potentially decisive new stage of the Eurozone crisis in the wake of the mass downgrade of single currency members, the beleaguered French president promised to unveil a set of "important decisions" before the end of January and tried to bolster the depressed national mood. Three months before the first round of the presidential election, the loss of France's AAA rating in a downgrade by Standard & Poor came as a blow to Sarkozy, who was already suffering from record unpopularity and facing a tough re-election battle. Faced with very high public debt, low growth, high unemployment and looming recession, the French government pushed through two belt-tightening plans in the course of four months last year, with measures that were less severe than British austerity cuts and focused more on raising taxes.
- **Unemployment:** The EU27 unemployment rate was at 9.9% in December 2011, 0.1% higher compared with October 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (4.1%), the Netherlands (4.9%) and Luxembourg (5.2%), and the highest in Spain (22.9%), Greece (18.8% as at September 2011) and Lithuania (15.3% as at September 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI rose to 48.8 in December 2011 from 47.0 in November 2011, the highest in 3 months. Manufacturing PMI marginally rose to 46.9 from 46.6 in November 2011, a 28-month low. Services PMI rose to 48.8 from 47.5 in November 2011.
- **Inflation:** The inflation rate in the Euro area fell from 3.0% in November to 2.7% in December 2011. This reading is below the initial estimate of 2.8% but still above the ECB's target of 2.0%.
- **GDP:** GDP growth for the fourth quarter was not available at the time of writing, although for the third quarter of 2011, this was 0.2%.
- **Interest Rate:** The European Central Bank cut interest rates by a quarter of a point in December to counter the twin threats of recession and deflation in the Eurozone. This rate cut bought the interest rates back to a record low of 1.0%.

US market events – Q4 2011

- **Unemployment:** The rate of unemployment in the US decreased from 9.1% in September 2011 to 8.6% in December 2011. Nonfarm payroll edged up by 200,000 in December 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.4% in December after having fallen 0.3% in November. For the fourth quarter as a whole, industrial production rose at an annual rate of 3.1%, its 10th consecutive quarterly gain. In the manufacturing sector, output advanced 0.9% in December.
- **Inflation:** The US CPI rate decreased from 3.9% in September 2011 to 3.0% in December 2011.
- **GDP:** US real GDP increased by 2.8% over the fourth quarter of 2011, against a 2.5% increase in the third quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q4 2011

- China's import growth showed an unexpectedly sharp drop in December in a new sign that the world's second-largest economy is slowing. December growth in imports fell to 11.8%, just over half the previous month's 22.1% gain, showed by customs data. Exports rose 13.4%, down slightly from November's growth rate. The country's politically sensitive global trade surplus widened to $16.5 billion (£10.7 billion). The widening of China's trade surplus from $14.5 billion in November might fuel strains with the United States and other trading partners. They complain Beijing is hampering access to its markets, hurting foreign companies at a time when governments worldwide are trying to revive growth and generate new jobs.
- Foreign investment in China fell nearly 13% in December, from a year earlier, in the latest evidence of the rising toll that weakness in the west is taking on the economy. Foreign direct investment covers spending on physical assets such as factories and does not include financial assets such as stocks.
- The beleaguered Indian government has been forced to suspend its decision to allow international supermarkets to invest in India's £300 billion retail market in the face of political opposition. Finance minister Pranab Mukherjee, one of the most senior members of the ruling centre-left Congress party, was reported to have told leaders of both rightwing and communist opposition parties that the government would postpone the implementation of the move to allow global companies such as Walmart, Tesco and Carrefour into India until more people were convinced of its merits.
- Brazil has overtaken the UK to become the world's sixth-largest economy, according to a team of economists. The banking crash of 2008 and the subsequent recession has relegated the UK to seventh place in 2011, behind South America's largest economy, which has boomed on the back of exports to China and the far east.

Global summary

Economy

- The rate of CPI inflation fell from 5.2% to 4.2% during the period under review and is expected to fall further over the coming months. The Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% throughout the quarter and in October, it announced an extension to its policy of quantitative easing, increasing the size of its asset purchase programme by £75 billion to a total of £275 billion. The programme is expected to be completed in February 2012.
- UK retail sales were boosted by a Christmas rush, according to the British Retail Consortium ("BRC"). Despite the pre-Christmas rush, retailers reported very different results with Tesco and Argos reporting a fall in UK sales and John Lewis and Morrisons reporting a rise in sales. Stephen Robertson, Director General of the BRC said, "a better than hoped-for December closed a relentlessly tough year for retailers, but these figures hinged on a dazzling last pre-Christmas week and were boosted by some major one-off factors."
- The Office for National Statistics ("ONS") confirmed unemployment rose to a 17 year high of 2.68m and the number of people working part-time because they could not find full-time jobs reached a record high. Unemployment rose by 118,000 between September and November, taking the unemployment rate to 8.4%.
- The European Central Bank ("ECB") reduced interest rates (by 0.25%) at both its November and December meetings, from 1.5% to 1.0%. The US Federal Reserve kept interest rates on hold at 0.25%. During the quarter the US Federal Reserve, the ECB and the central banks of the UK, Switzerland, Canada and Japan agreed to provide loans to banks, as it became apparent that Europe's banks were struggling to roll over $2 trillion of loans denominated in US Dollars as a consequence of liquidity in the interbank markets falling sharply.
- The sovereign debt crisis facing the Eurozone continues to be extremely challenging, both politically and economically. The cost of borrowing for countries such as Italy and Spain remains a political "hot potato" because the ECB does not have the power to guarantee bonds issued by member countries; a power that would limit speculation and depress bond yields.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Concerns about the ongoing crisis in the Eurozone have resulted in the Euro falling to its lowest level against the US Dollar for 16 months.
- The Greek government remains in negotiations with the EU regarding the second instalment of the bailout package that was agreed in principle in October.

Equities

- Global equities largely ended the year with a positive quarter despite the ongoing sovereign debt crisis in the Eurozone and severe volatility over year that has seen indiscriminate selling across stocks. The fourth quarter saw a reversal in market sentiment driven by company fundamentals rather than macro economic factors driving events.

- The FTSE-All Share Index produced a return over the quarter of 8.4% and Europe equities achieved a return of 3.3%, due to a belief that the markets have priced in the ongoing sovereign debt crisis in the Eurozone. US equities were the strongest performing of the major equity markets producing a return of 11.9% as evidence emerged that the economy was growing at a faster rate than had been forecast. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of 4.4% and 4.2% respectively. The Japanese equity market produced a return of -3.6% and was the only major region in which the equity market produced a negative return.

Fixed Interest

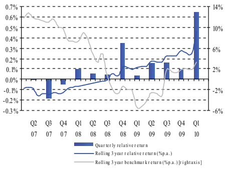
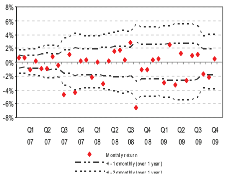
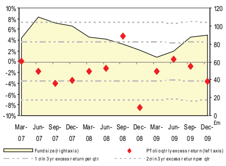
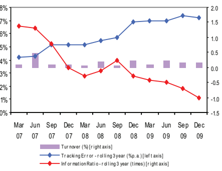
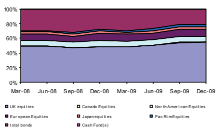
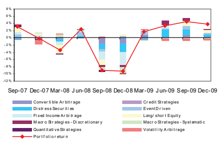
- The UK gilt market continues to be perceived as a safe haven and long-dated gilt-edged securities produced a return of 9.6% over the quarter. Index-linked gilts achieved a strong return over the quarter of 9.8%, whilst long-dated corporate bonds produced a return of 6.4%, despite the prices of bonds issued by financial companies continuing to be extremely volatile.
- Gilt yields continued to fall amid the "flight-to-quality", caused by the continued uncertainty in the European bond markets. Spanish and Italian bond yields continued to remain at a relatively high level over the quarter and as negotiations continued over the second bailout of the Greek economy.

Alternative Asset Classes

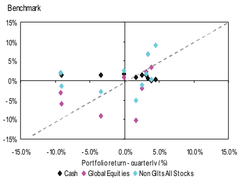
- Commodities produced a 9.2% return over the quarter, reversing the losses achieved in the third quarter and linked to the belief that the US economy was growing faster than had been forecast. High Yield achieved a positive return of 5.6% over the quarter.
- Commercial property continues to produce a positive return that is mainly driven by income from better quality properties, such as offices in central London. Poorer quality assets not in prime locations are suffering and prices, rents and future income is expected to fall as hopes of an economic recovery fade.
- Hedge funds produced an average return of 0.8%, disappointingly underperforming equities over the quarter. Many hedge fund managers have seen severe losses due to the sovereign debt crisis facing the Eurozone.

Appendix B – Glossary of Charts

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

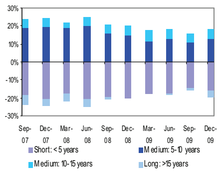
Reference	Description
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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



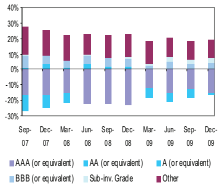
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



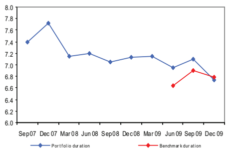
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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-12-005

Meeting / Decision: Avon Pension Fund Committee
Date: 16 March 2012

Author: Liz Feinstein
Report Title: Review Of Investment Performance For Periods Ending 31 Dec 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.

<u>PUBLIC INTEREST TEST</u>

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

Act exempts information which relates to the financial or business affairs of the 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.

Document is Restricted

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**16 MARCH 2012**		
TITLE:	**PENSION FUND ADMINISTRATION - EXPENDITURE FOR 10 MONTHS AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 JANUARY 2012 AND STEWARDSHIP REPORTS FOR THE 3 QUARTERS TO(31 JANUARY 2012**		
WARD	**‘ ALL’**		

AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1 Summary Financial Account: 10 months to 31st January 2012
Appendix 2 Summary Budget Variances: financial year to 31st January 2012
Appendix 3A Balanced Scorecard : 3 months to 31 January 2012 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 January 2012 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 January 2012 *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 31 January 2012 *(Pensions Clinics)*
Appendix 5 Active membership statistics over 24 months to January 2012
Appendix 6 Joiners & Leavers
Appendix 7 Summary Performance Report on Scheme Employers performance (*to be taken in exempt session*) first 3 Quarters 2011 (including late payers)
- **Annex 1 Deferreds**
- **Annex 2 Retirements**

THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 10 months to 31 January 2012. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31st January 2012 and Stewardship Reports on Employer and APF performance in the first 3 Quarters to 31. December 2011

2. RECOMMENDATION

That the Committee notes

2.1 the expenditure for administration and management expenses incurred for the 10 months and Performance Indicators and Customer Satisfaction Feedback for the 3 months to 31 January 2012 and the Stewardship Report on performance.

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 are contained in **Appendix 1.** They have been prepared to cover the period 1 April 2011 to 31 January 2012 showing actual variances against budget to 31 January 2012 and forecast variances for the full year to 31 March 2012.

4.2 The variance for the year to 31 March 2012 is forecast to be £127,000 under budget. Within the directly controlled Administration budget it is forecast that expenditure will be £60,000 below budget as a result of reduced expenditure on Salaries, Communications and Investment Expenses.

4.3 Explanations of the most significant forecast variances for the full year are contained in **Appendix 2** to this Report.

5. BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 31 JANUARY 2012

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 ADMINISTRATION PERFORMANCE

5.2.1 The level of **work outstanding** from tasks set up in the period (Item C5 and graphs 5-7 of Appendix 4A and 4B)) in the 3 month period 3,860 tasks were created and 3,792 cleared (98.23%), leaving an outstanding workload from the period of 68 tasks 1.77% well within the target of 10%. There were 883 outstanding cases from previous periods; however 656 of these are within their target time (effectively work-in-progress) and of the 227 which are beyond their target date most are missing information to allow their completion. Such cases are always followed up on a continuing basis until they are cleared.

5.2.2 In other areas shown in selected **Graphs** the Fund:

- The Fund had excellent feedback on the service to member at clinics *(Chart 1)*
- The trend in use of the Avon Pension Website continues as pensions remain high profile in the media peaking at 6,904 for the month of November (*Chart 2)*
- A continuing low level in short-term sickness (2.16%) and no long-term sickness; the use of temporary staff is within target *(Chart 3)*
- New cases created fell to a 2 year low of 924 in December 2011 but rose sharply in January 2012 to 1,711 (*Charts 6 & 7)*

5.2.3 **CHANGES TO STAFF RESOURCE**: The services of 4 experienced senior benefits staff have been lost in the Pensions Section in the last 12 months due to maternity absence, transfer to other areas in the Section or resignation. Despite this, performance has been only marginally adversely affected in that period. A significant number of acting ups have had to be put in place which created vacancies at lower Assistant Pension Officer and Pension Officer levels. As a temporary measure the three administration teams have been reduced to two following the loss of a team leader.

Five new staff (all with relevant previous experience) were appointed at the end of January 2012. It will of course require resource to train these staff up and it will take time for those staff to operate at their optimum levels. No reduction is expected in the quality or level of service to employers. The Committee are asked to note this when considering the Administration performance in the next few quarters.

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

5.4 2011 **Members Annual Benefit Statements ("ABSs")** All Annual Benefit statements have been issued Statements for active and deferred members for whom valid year end information was received.

6. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 JANUARY 2012

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on 56 questionnaires returned from ***active*** members retiring. On average 78% received their lump sum and 88% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on a small sample of 21 questionnaires returned from *former* active members retiring from ***deferred*** status. 86% received their lump sum and 100% 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 91% (See chart Item 5 on both graphs).

6.2 **C*linics*** In this period 2 standard clinics were held 56 members gave feedback with a good/excellent rating of 96% for the service provided by APF staff. The venue and location was slightly less well-rated scoring a good/excellent rating of 88%. (See **Appendix 4C).** In addition there were 4 member advisory sessions at one employer who is reducing staff pay going forward.

7. LEVEL OF OPT OUTS FROM THE SCHEME

7.1 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.

7.2 APF's Administration processes were amended in June 2011 to identify opt outs in a reportable field. Reports run indicate that only 47 members with more than 3 months service opted out over the 8 month period to the end of January 2012. Of the 1,697 leavers in that period only 47 were opt outs which equates to approximately 2.7% of all ***leavers***. 47 in the eight month period equates to an *annual* figure of only 71 members which when expressed as percentage of the **total** membership of 33,519 is only **0.14 %** per annum and is a very encouraging sign that significant numbers of members are not leaving the Scheme in advance of knowing what the increase to pension contributions and changes to benefits in 2014 will be.

7.3 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.

8. **TRENDS IN MEMBERSHIP/ JOINERS AND LEAVERS**

8.1 The **active membership** statistics are shown in graph format in ***Appendix 5*** and the numbers of **joiners and leavers** feeding into this also in graph format in ***Appendix 6***

The overall membership has remained fairly constant over the last few years between 33,000 and 34,000. The membership at 31st January 2012 is 33,561 compared to 33,515 in May 2009 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.

9. SUMMARY APF & EMPLOYER PERFORMANCE REPORT

9.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Stewardship Report** is now sent to quarterly to the four unitary authorities to report of both their and Avon Pension Fund's administration performance against targets in the SLAs. It is proposed that Stewardship Reports for the remainder of the 130 employers will be sent only once a year due to the lower level of activity.

9.2 A Summary report to the Committee which is now a requirement of the Strategy 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.

9.3 **Appendix 7** contains:

- Graphs for each of the largest employers *(viz. 4 unitaries) showing performance on processing leavers ***(Retirements (Annex 1)*** *and* ***Deferred (Annex 2)****)* for 3rd Quarter 2011 and cumulative 3 quarters to 31 December 2011. A Trend Graph for these 3 quarters is also included.

- Report on *late* pension **contributions** by employers to the Fund for the months of August through to December 2011.

9.4. **MONITORING FUTURE OPT OUTS AND REPORTING TRENDS**

9.4.1 The standard Opt Out form that members sign has been amended to ask them to specify ***why*** they have opted out using 4 simple to use tick boxes.

9.4.2 The Pension Scheme's current software is being amended by Heywood for its release in February 2012 to provide "opt out" as a recordable and reportable reason for leaving. This will make it much easier to monitor the on-going position on opt outs.

9.4.3 **ACTIVE MEMBERSHIP STATISTICS (to assist monitoring of Opt Out trends)**

9.4.3.1 Figures of the current active membership for 24 months to the end January 2012 are shown for information in a graph format in **Appendix 5.** Also enclosed is **Appendix 6** which shows the joiners and leavers movements from May 2009 to January 2012. As can be seen the number of leavers has outweighed the joiners over the period: however this is probably to be expected with the redundancies coming through and less staff being taken on by employers due to austerity measures.

9.4.3.2 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) opt outs by members concerned about future scheme changes and potential increases to their contributions.

10. SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1. **Employer Annual Pensions Conference:** This was the main event in the current quarter was held at a hotel in Bristol. Record numbers of employer delegates (59 representing 35 employers) attended. In addition 9 Pension Committee members attended. Sessions included: u*pdates by officers on the Pensions Administration strategy and the importance of good record keeping, Outsourcing and Academies expected changes to LGP .External speakers gave an investment commentary (Black Rock) and an update on auto enrolment (LGA)*. The conference was well appreciated by attendees with encouraging feedback.

10.2 .**Electronic Access** There was continuing interest in electronic access available to members and employers with the numbers registered rising to 2,356 (**Member Self Service)** and to 45 staff at 27 Scheme employers (**Employer Self Service)**.

Further promotion of these services will continue on the website and through member and pensioner newsletters. A promotion message and logo is included in all correspondence APF send to members and pensioners.

11. RISK MANAGEMENT

11.1 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.

12. EQUALITIES

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

13. CONSULTATION

13.1 None appropriate.

14. ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 This report is for noting only.

15. ADVICE SOUGHT

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

.**Contact person**	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259. Steve McMillan, Pensions Manager (*All except budgets*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records

AVON PENSION FUND **APPENDIX 1**

SUMMARY FINANCIAL ACCOUNT : PERIOD ENDING 31 JANUARY 2012

	TEN MONTHS TO 31 JANUARY 2012			FULL YEAR FORECAST AT 31 JANUARY 2012		
	ACTUAL £	BUDGET £	VARIANCE £	FORECAST £	BUDGET £	VARIANCE £
Investment Expenses	68,691	92,471	(23,780)	91,026	101,026	(10,000)
Administration Costs	58,304	67,411	(9,107)	78,319	78,319	0
Communication Costs	126,982	136,552	(9,570)	158,117	168,117	(10,000)
Information Systems	169,687	165,966	3,721	166,956	166,956	0
Salaries	1,024,246	1,086,200	(61,955)	1,263,440	1,303,440	(40,000)
Central Allocated Costs	323,141	356,039	(32,898)	394,420	394,420	0
Miscellaneous Recoveries/Income	(114,736)	(116,867)	2,131	(139,200)	(139,200)	0
Total Administration	**1,656,316**	**1,787,773**	**(131,457)**	**2,013,078**	**2,073,078**	**(60,000)**
Investment Governance & Member Training	169,802	242,642	(72,839)	259,170	291,170	(32,000)
Members' Allowances	33,710	33,703	8	40,443	40,443	0
Independent Members' Costs	14,229	15,633	(1,404)	18,760	18,760	0
Compliance Costs	289,247	204,930	84,316	314,703	269,575	45,000
Compliance Costs recharged	(141,844)	(52,000)	(89,844)	(132,000)	(52,000)	(80,000)
Governance & Compliance	**365,144**	**444,908**	**(79,764)**	**501,076**	**567,948**	**(67,000)**
Global Custodian Fees	110,221	119,167	(8,946)	143,000	143,000	0
Investment Manager Fees	7,002,166	7,122,458	(120,292)	8,546,950	8,546,950	0
Investment Fees	**7,112,387**	**7,241,625**	**(129,238)**	**8,689,950**	**8,689,950**	**0**
NET TOTAL COSTS	**9,133,846**	**9,474,305**	**(340,459)**	**11,204,104**	**11,330,976**	**(127,000)**

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Summary of main budget variances: Forecast for year, as at 31st January 2012 APPENDIX 2

VariancesAnalysis of the full year forecast expenditure or income against budgetto the year end.

Expenditure Heading	Amount of Variance *	Most Significant Reasons for Variance
Investment Expenses	(10,000)	Fewer issues incurring legal fees have been referred than was provided for in the original budget.
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.
Salaries	(40,000)	Staff vacancies have been temporarily left unfilled and the superannuation budget cost was higher than required. This has not currently affected the level of service provided.
Investment Governance & Member Training	(32,000)	The Fund has commissioned less investment advice than was anticipated at the start of the year.
Compliance Costs	45,000	The forecast increase of £45,000 in expenditure against budget is partly due to a £70,000 increase in Actuarial charges(driven by the increase in new bodies and the interim valuationas well as resolving specific funding issues). This is partly offset by the result of an audit requirement to recognise the cost of the triennial valuation in the year the valuation was performed (2010/11) and not in 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 (see below).
Compliance Costs Recharged	(80,000)	Increased recharges of actuarial fees as per above.
Total Underspend	**(127,000)**	

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

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PENSIONS SECTION ADMINISTRATION

APPENDIX 3A to Budget Monitoring Report at 31st January 2012

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2010/11 Actual	Target for 2011/12	Actual - 3 months to 31/01/2012	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	96%	6 clinics held during period.(including 4 spaecial sessions at Learning Partnership West due to staff pay reductions	**Graph 1**
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	98.66%	Generally good from response from retirees	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future See separate appendix	
3	Level of Equalities Standard for Local Government	G		100%	100%	100%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	76%	90%	86.67%	39 of 45 tasks were completed within target.	
	Retirements [15 days]	G	Admin	82%	90%	84.35%	361 of 428 tasks were completed within target.	
	Leavers (Deferreds) [20 days]	A	Admin	62%	75%	61.10%	759 of 1242 tasks were completed within target.	
	Refunds [5 days]	G	Admin	85%	75%	75.76%	50 of 66 tasks were completed within target.	
	Transfer Ins [20 days]	G	Admin	64%	75%	80.77%	84 of 104 tasks were completed within target.	
	Transfer Outs [15 days]	G	Admin	74%	75%	82.98%	78 of 94 tasks were completed within target.	
	Estimates [10 days]	G	Admin	94%	90%	85.46%	917 of 1073 tasks were completed within target.	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
5	Number of complaints	G	Admin	2	0	0	No complaints received in the period	
6	Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
7	Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	on time	100%	100%	due next quarter	
8	Number of hits per period on APF website	G	Admin	49256	36000p/a 3000p/q	17,884	5961 per calendar month for reporting period	**Graph 2**
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	n/a	none this quarter	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%	Pensioner Newsletter sent	
11	Annual Benefit Statements distributed by 30 September each year	G	Admin	70%	100%	N/A	due by 30th September 2012	

B People Perspective

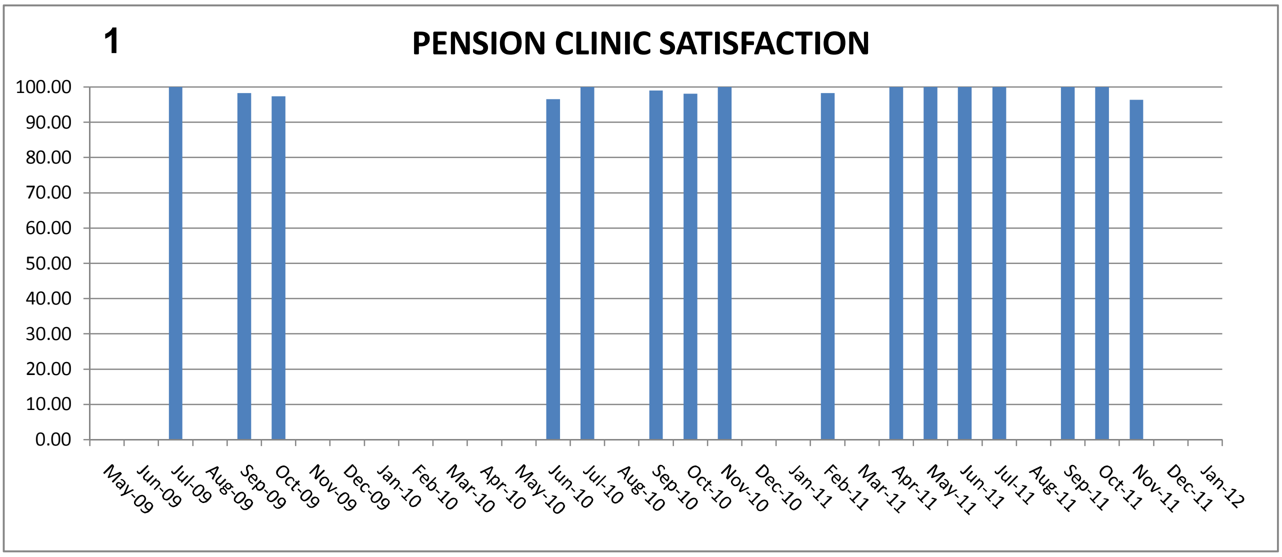
1	Health & Safety Compliance	**G**	All	100%	100%	100%		
2	% of staff with Investor in People Award (IIP)	**G**	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
3	% of new staff leaving within 3 months of joining	**G**	All	0%	4%	0%		
4	% of staff with up to date Performance Reviews	**G**	All	97%	100%	n/a	None due in this period	
5	% Sickness Absence / a) Short Term / b) Long Term	**G**	All	2.50%	a) 3% b) 3%	a) 2.16 % b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
6	% of staff with an up to date training plan	**G**	All	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

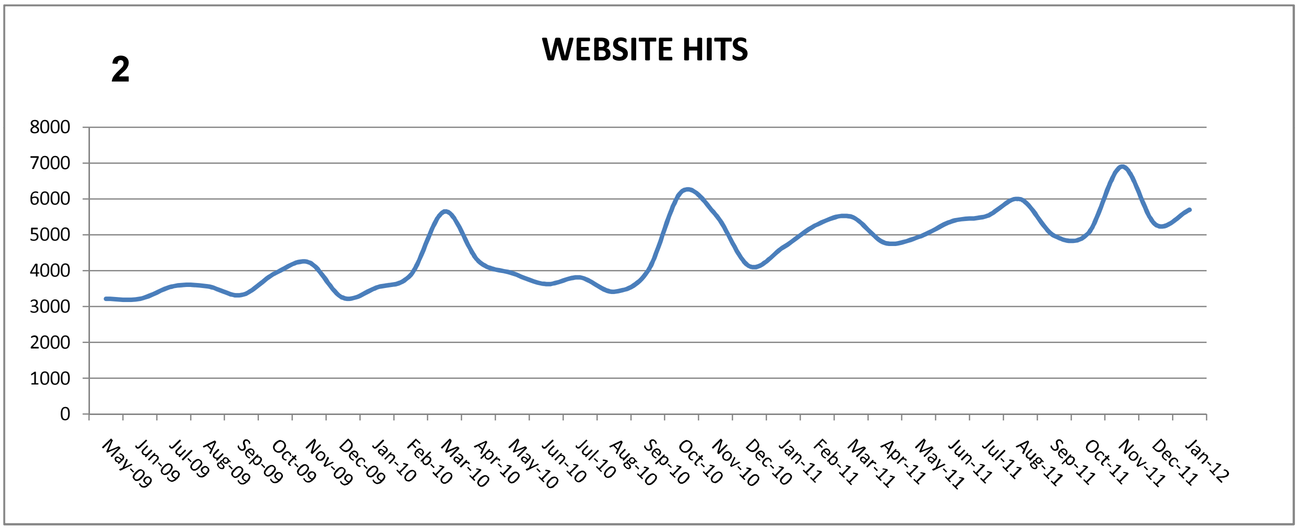
C Process Perspective

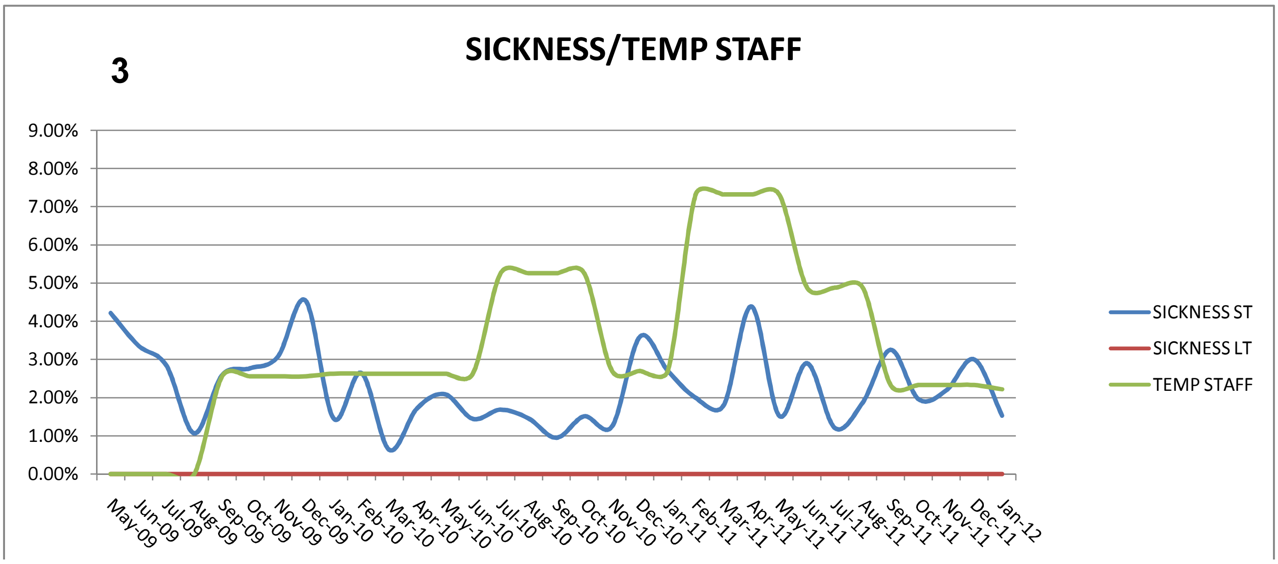
1	a) Services actually delivered electronically / b) Services *capable* of delivery to members	**G**	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 2000 members are happy to receive info electronically b) Section able to deliver all targeted services electronically (See Admin Report)	
2	% Telephone answered within 20 seconds	**G**	Admin	99%	98%	97.9%	8626 calls, 8442 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	**G**	Admin	100%	100%	100%		
4	Letters answered within corporate standard	**G**	Admin	95%	95%	100%	Ahead of target	
5	Maintain work in progress/outstanding at **below 10%**	**G**	Admin	5.77%	10%	1.77%	3860 cases created, 3792 cases cleared (98.23.% leaving 1.77% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions	**G**	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 2.3% b) 0.03%	3 out of 106 employers sent their contributions in late. **No persistent late-payers. Average delay of late payers 3 days.** Employers are reminded regularly of their legal obligations to pay on time and the possibility (under the 2007 Admin Regs) of billing them for extra charges if unnecessary additional work is created for APF.	
7	Year End update procedures (conts & salaries received by 31/08/2011)	**G**	Admin	81%	100%	98%	All Pen Conts and Pen Rems now received however, North Somersets Pen Rems returned as 1500 post numbers missing.	
8	No. of customer errors (due to incomplete data)	**G**	Admin	2%	3%	2%	Acceptable error level	

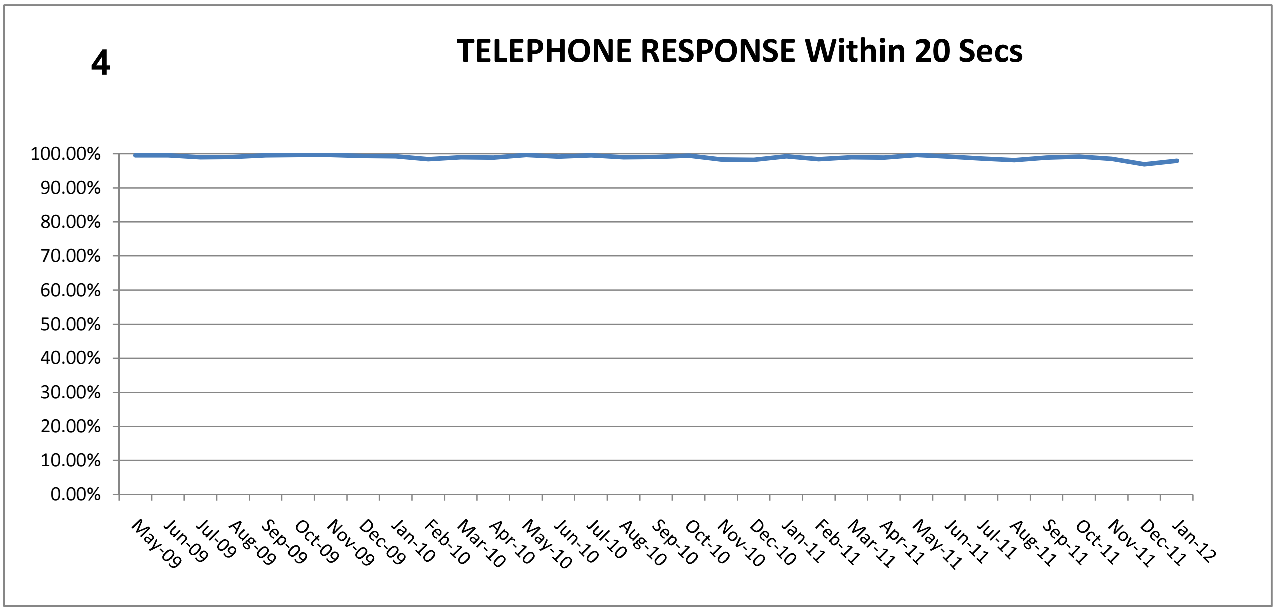
D Resource Perspective

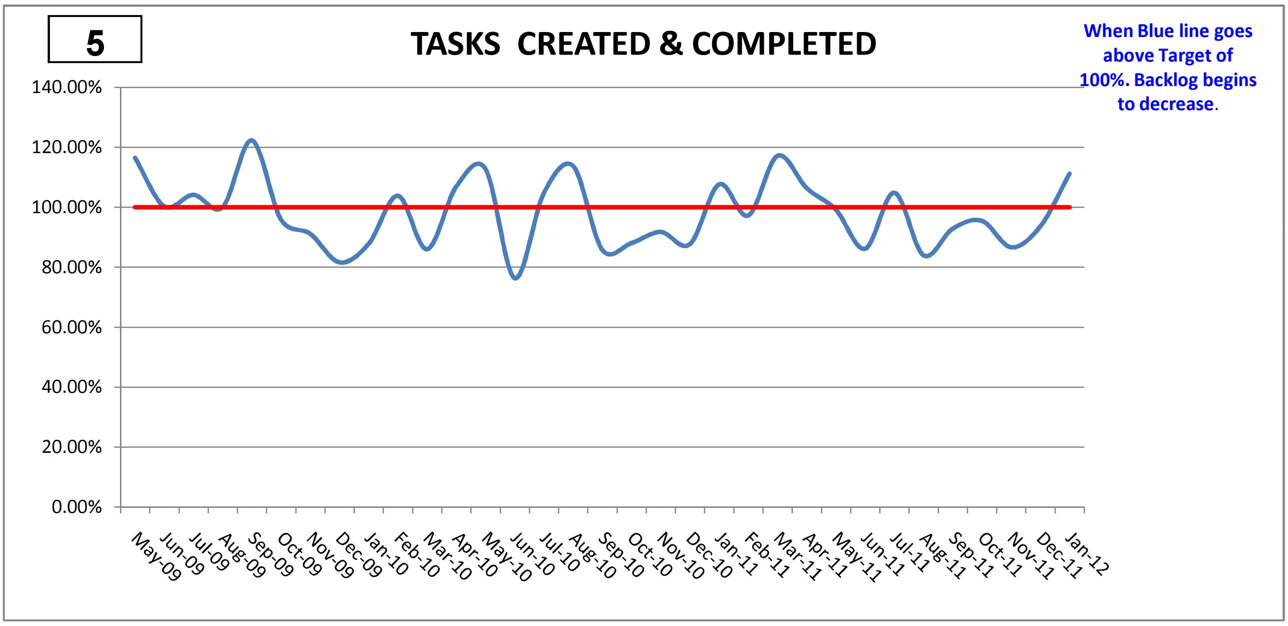
1	% Supplier Invoices paid within 30 day or mutually agreed terms	**G**	Admin	91%	94%	98.00%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	**G**	All	0.40%	3%	2.33%	Below target
3	% of IT plan achieved against target	**R**	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm. New Empoyer Access module to be rolled out in 2011 will allow employers to key information electronically into the pensions database.
4	% of Training Plan achieved against target	**G**	Supp & Dev	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.

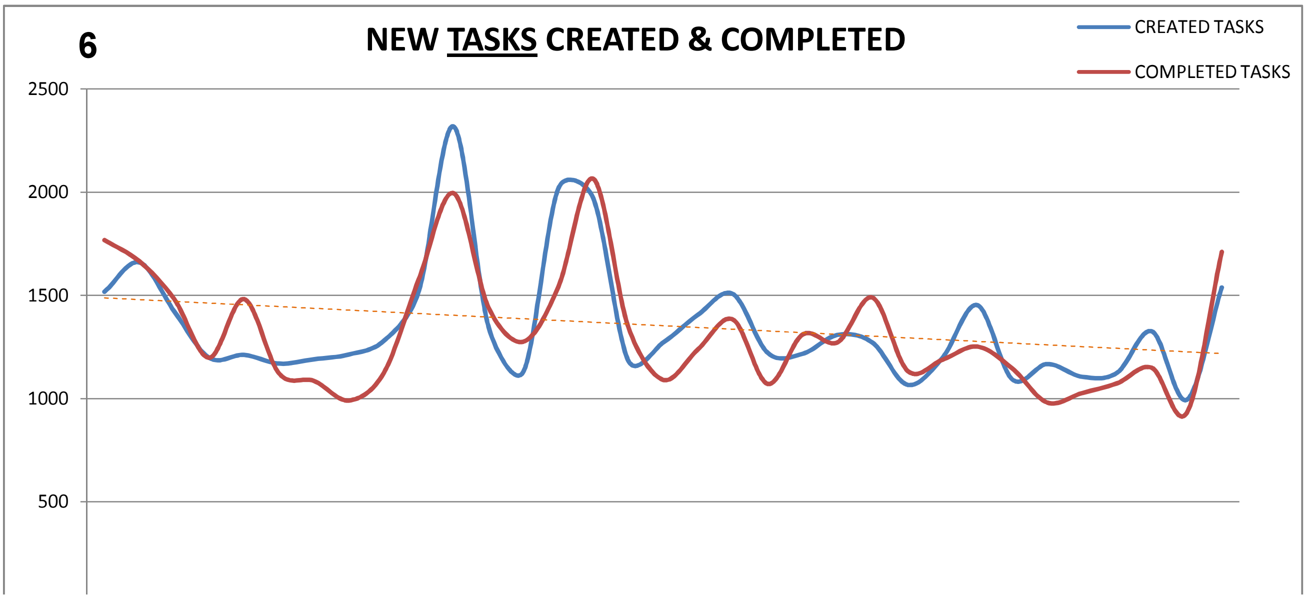

1
PENSION CLINIC SATISFACTION
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12

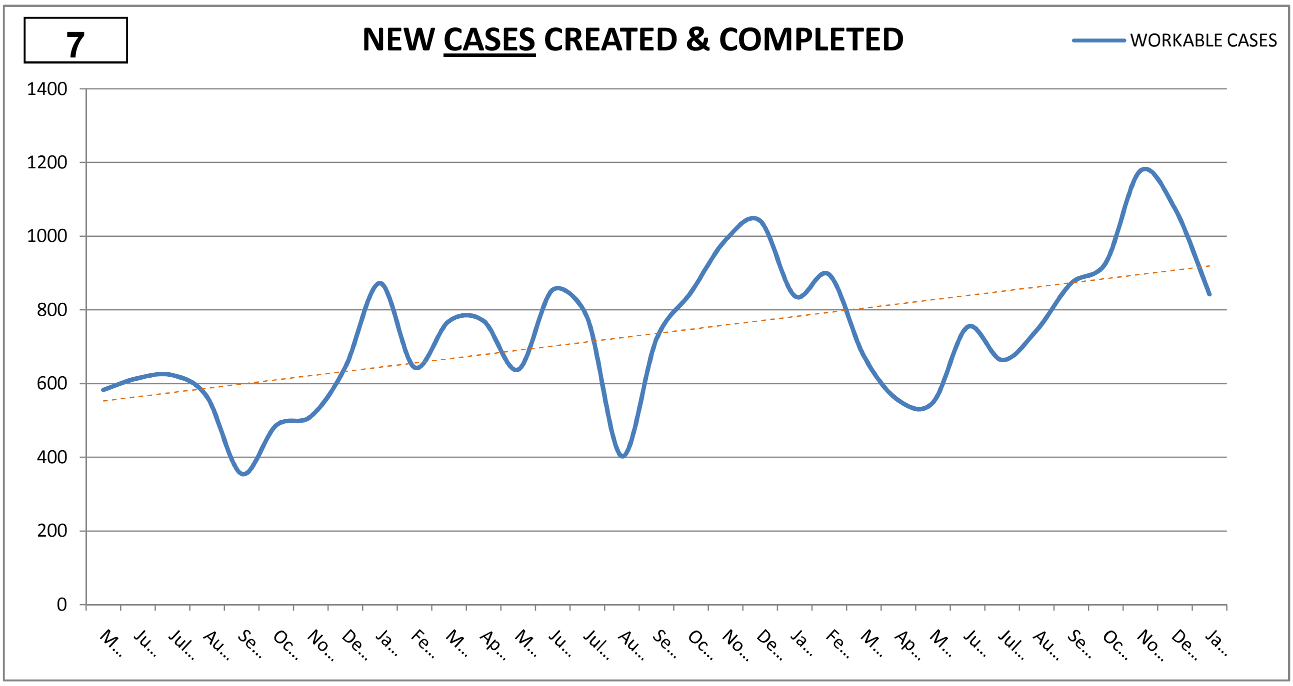

2
WEBSITE HITS
8000
7000
6000
5000
4000
3000
2000
1000
0
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12


3
SICKNESS/TEMP STAFF
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
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 Nov-11 Dec-11 Jan-12
SICKNESS ST
SICKNESS LT
TEMP STAFF


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 Oct-11 Nov-11 Dec-11 Jan-12


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 Nov-11 Dec-11 Jan-12


6
NEW TASKS CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
2500
2000
1500
1000
500


7
NEW CASES CREATED & COMPLETED
WORKABLE CASES
1400
1200
1000
800
600
400
200
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... No... De... Ja...

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Pension Fund Administration Report APPENDIX 4A

Active Retirements 1 November 2011 - 31 January 2012

Responses to Retirement Questionnaire from Actives

	Number of Questionnaires in this period		56		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	54	96%
			NO	2	4%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	31	55%
		B	Within 10 working days after R'ment date	19	34%
		C	Later than 10 days after R'ment date	6	11%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	26	84%
			Later than 10 days after R'ment date	5	16%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	13	68%
			Later than 10 days after returning Opt Form	6	32%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	3	50%
			Later than 10 days after returning Opt Form	3	50%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	49	88%
			Later than 1 month after R'ment date	7	13%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	30	54%
			Good	20	36%
			Average	6	11%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	10	18%
			No	46	82%
7	Were you treated with sensitivity & fairness?		Yes	55	98%
			No	1	2%

Pension Fund Administration Report APPENDIX 4B

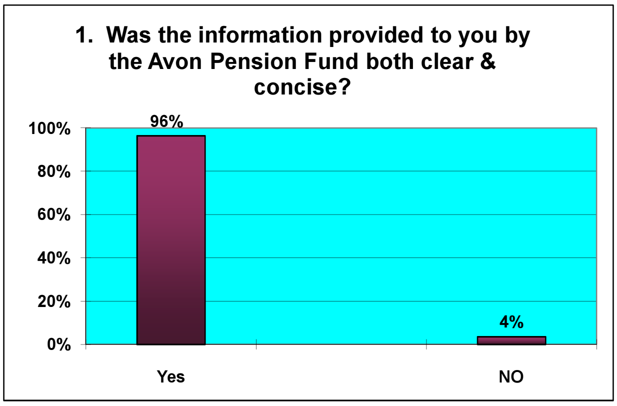
Deferred Retirements 1 November 2011 - 31 January 2012

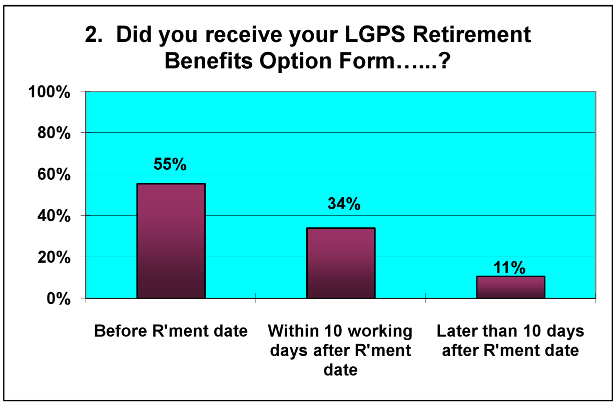
Responses to Retirement Questionnaire from Deferreds

Number of Questionnaires in this period	21

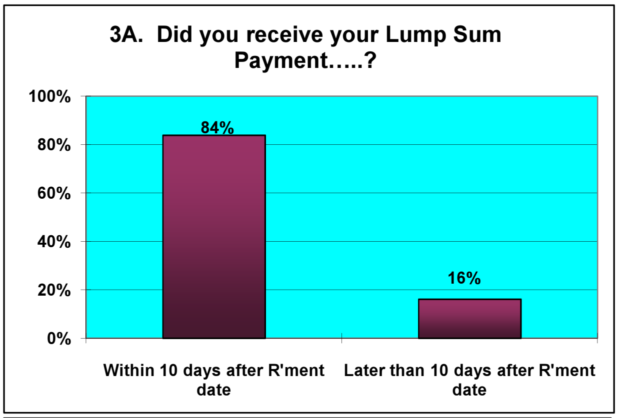
No.	Question		Response	Number	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	20	95%
			NO	1	5%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	21	100%
		B	Within 10 working days after R'ment date	0	0%
		C	Later than 10 days after R'ment date	0	0%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	18	86%
			Later than 10 days after R'ment date	3	14%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	0	N/A
			Later than 10 days after returning Opt Form	0	N/A
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	0	N/A
			Later than 10 days after returning Opt Form	0	N/A
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	21	100%
			Later than 1 month after R'ment date	0	0%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	15	71%
			Good	5	24%
			Average	1	5%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	2	10%
			No	19	90%
7	Were you treated with sensitivity & fairness?		Yes	21	100%
			No	0	0%

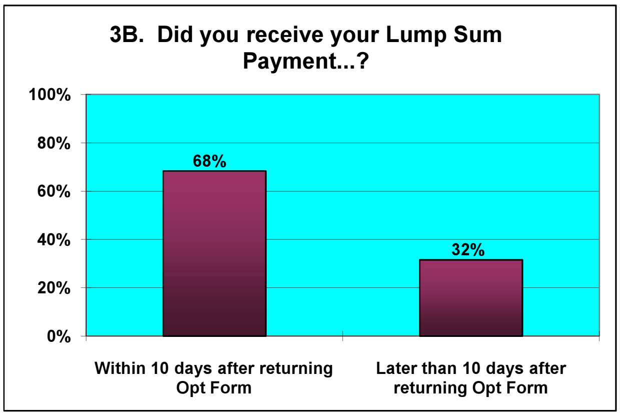
Active Retirements 1 November 2011 - 31 January 2012

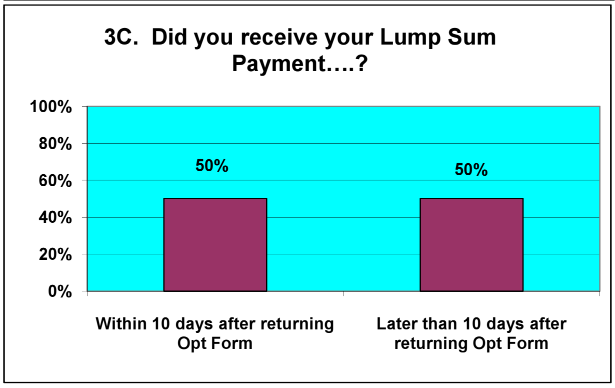


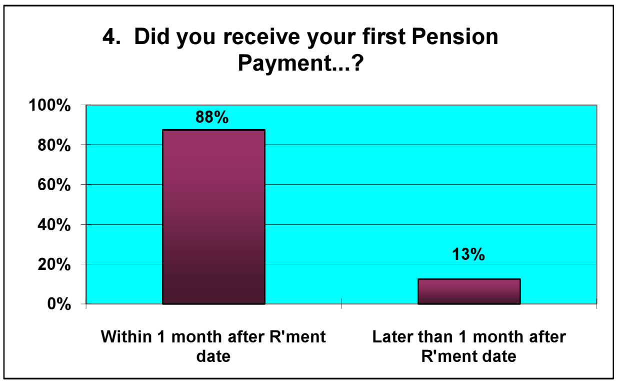


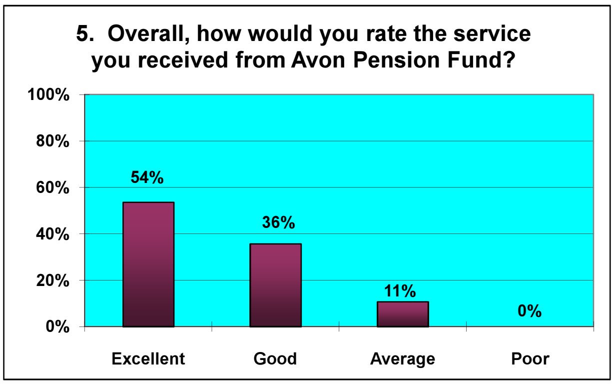
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

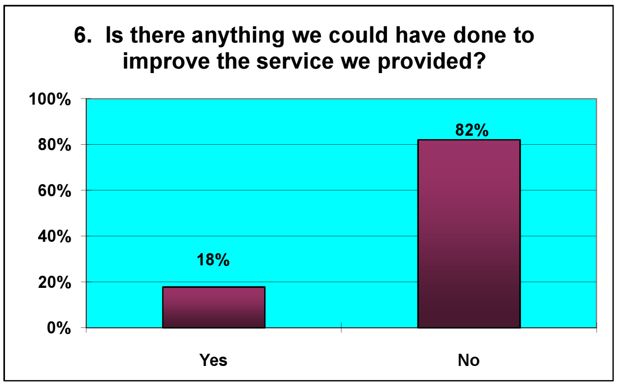


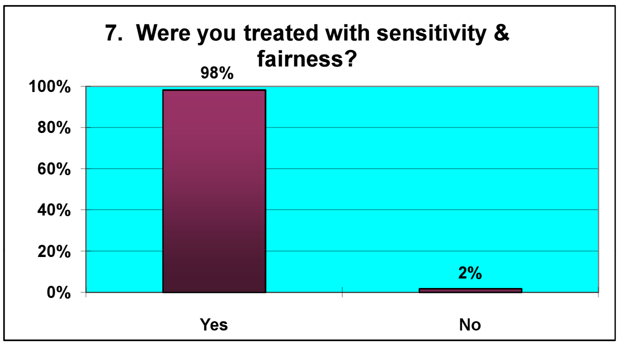




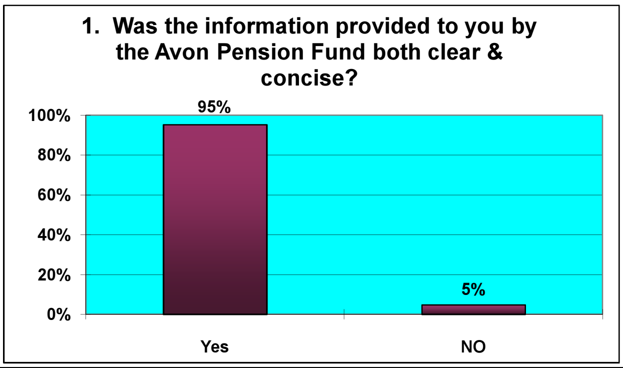


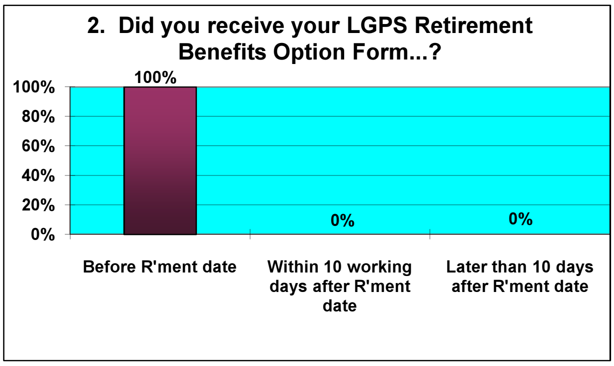




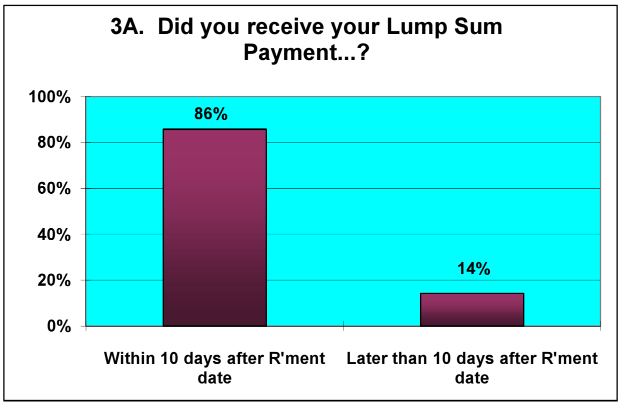


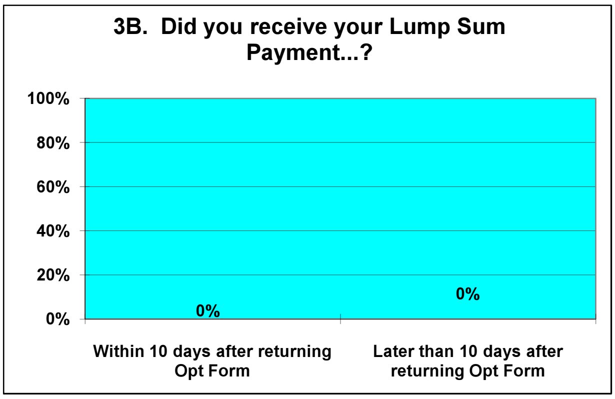
Deferred Retirements 1 November 2011 - 31 January 2012

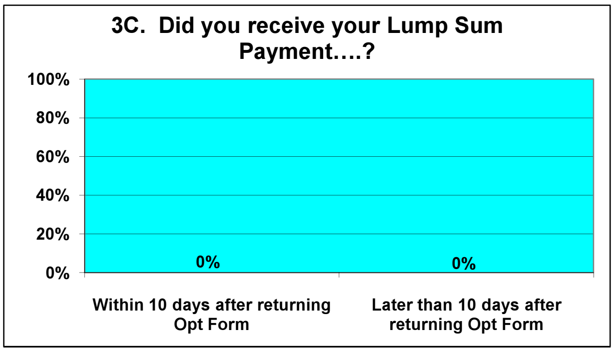


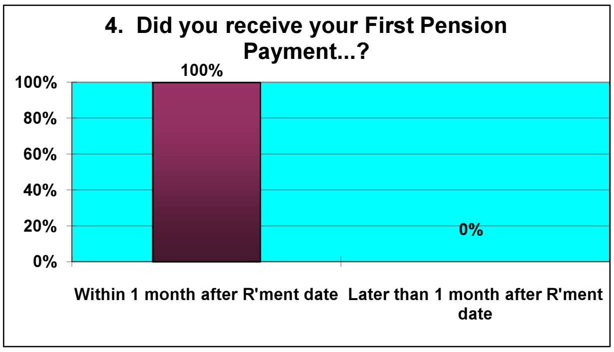


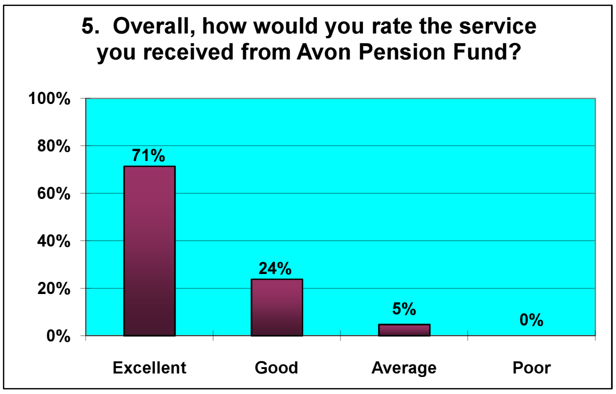
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

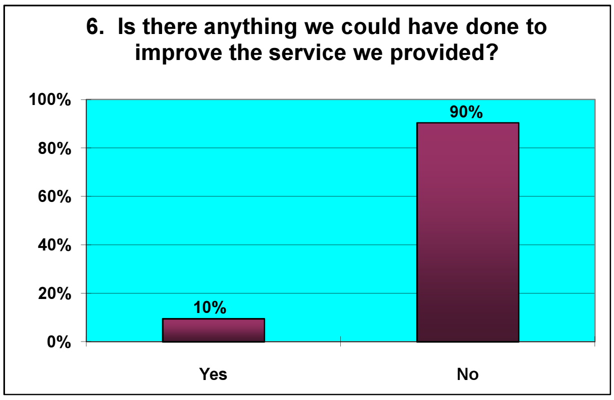


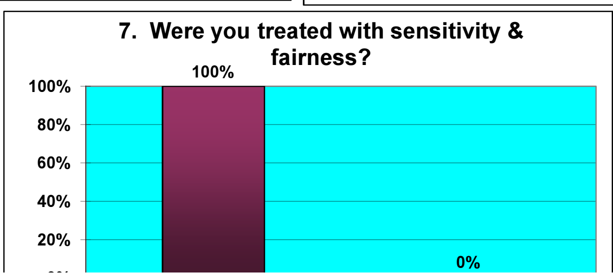












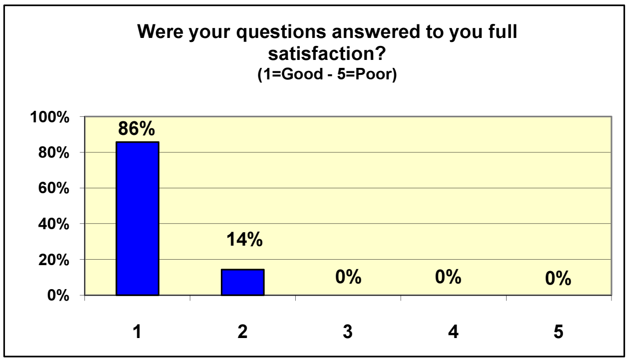
Clinic Feedback Results Aug - Oct 2011

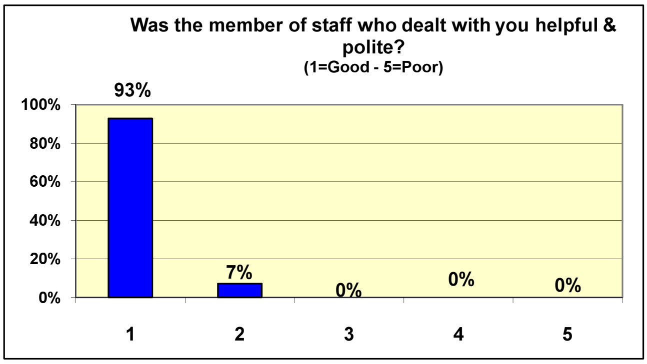
Banes (Guildhall) 16 - 11 - 11

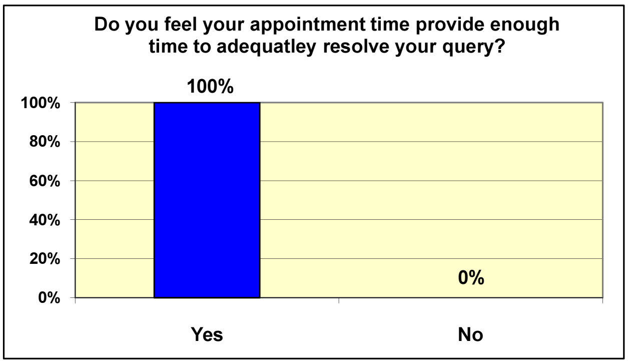
South Glos (Thornbury) 23 - 11 - 11

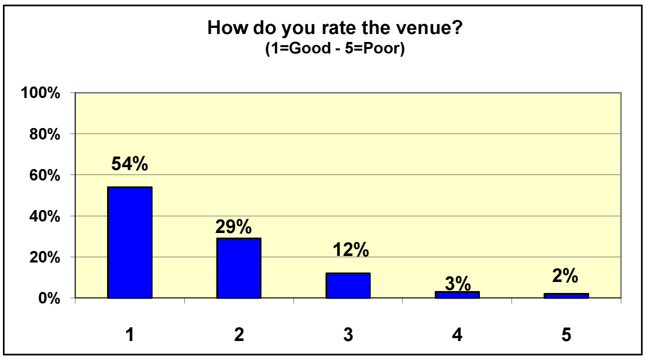
Number of questionnaires 56

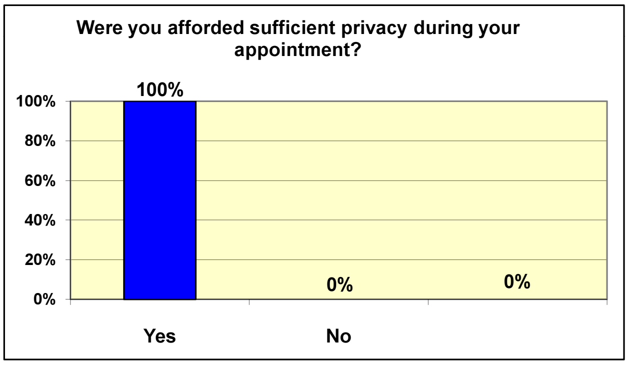
Question		No.	%
Were your questions answered to your full satisfaction?	5	48	86%
	4	8	14%
	3	0	0%
	2	0	0%
	1	0	0%
Was the member of staff who dealt with you helpful and polite?	5	52	93%
	4	4	7%
	3	0	0%
	2	0	0%
	1	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	56	100%
	No	0	0%
How do you rate the venue?	5	30	54%
	4	16	29%
	3	7	12%
	2	2	3%
	1	1	2%
Were you afforded sufficient privacy during your appointment?	Yes	56	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	52	93%
	No	4	7%
	No response	0	0%
Was this location convenient for you?	Yes	49	88%
	No	7	12%

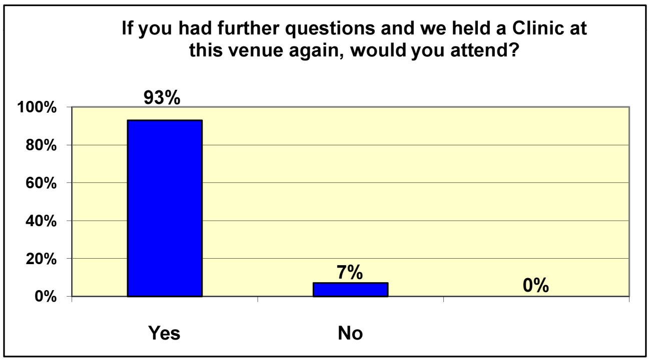

Were your questions answered to you full satisfaction?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
86%
14%
0%
0%
0%
1
2
3
4
5

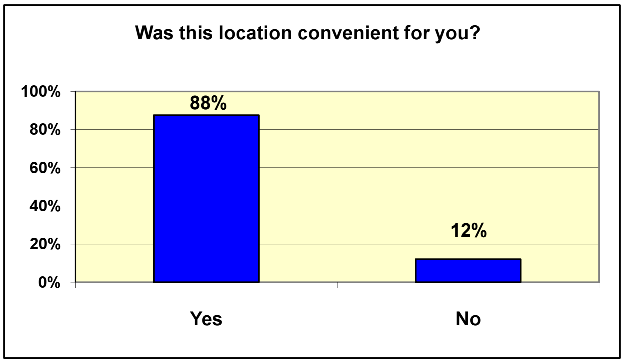

Was the member of staff who dealt with you helpful & polite?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
93%
7%
0%
0%
0%
1
2
3
4
5


Do you feel your appointment time provide enough time to adequatley resolve your query?
100%
80%
60%
40%
20%
0%
100%
0%
Yes
No


How do you rate the venue?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
54%
29%
12%
3%
2%
1
2
3
4
5

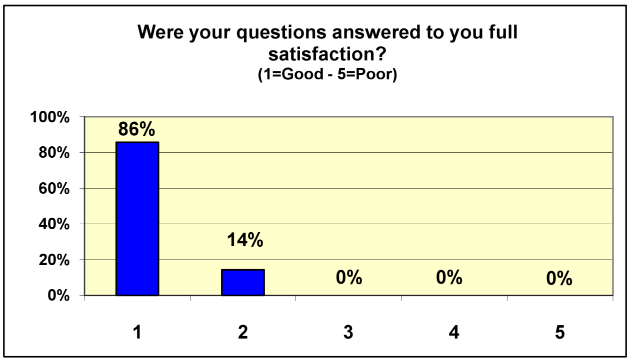

Were you afforded sufficient privacy during your appointment?
100%
80%
60%
40%
20%
0%
100%
0%
0%
Yes
No


If you had further questions and we held a Clinic at this venue again, would you attend?
100%
80%
60%
40%
20%
0%
93%
7%
0%
Yes
No


Was this location convenient for you?
100%
80%
60%
40%
20%
0%
88%
12%
Yes
No

Appendix 4C to Repbudmon
Clinic Feedback Results 1 November 2011 to 31 January 2012
Banes (Guildhall) 16 - 11 - 11
South Glos (Thornbury) 23 - 11 - 11

Question	Response	No.	%
Number of questionnaires	56		
Were your questions answered to your full satisfaction?	5	48	86%
	4	8	14%
	3	0	0%
	2	0	0%
	1	0	0%
Was the member of staff who dealt with you helpful and polite?	5	52	93%
	4	4	7%
	3	0	0%
	2	0	0%
	1	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	56	100%
	No	0	0%
How do you rate the venue?	5	30	54%
	4	16	29%
	3	7	12%
	2	2	3%
	1	1	2%
Were you afforded sufficient privacy during your appointment?	Yes	56	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	52	93%
	No	4	7%
	No response	0	0%
Was this location convenient for you?	Yes	49	88%
	No	7	12%


Were your questions answered to you full satisfaction?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
86%
14%
0%
0%
0%
1
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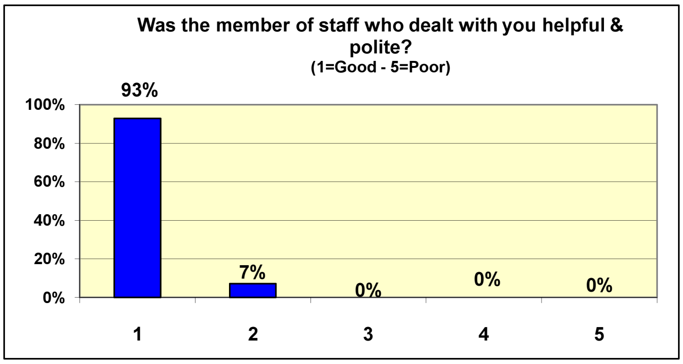
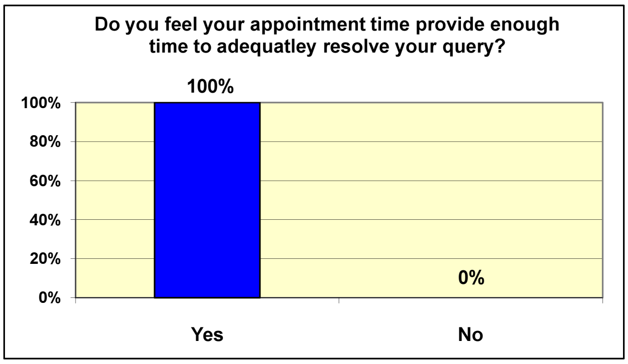
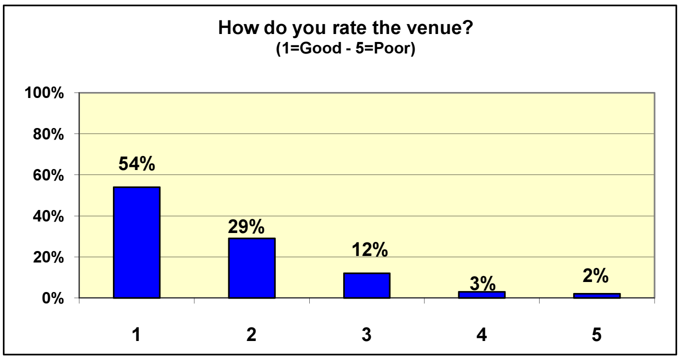
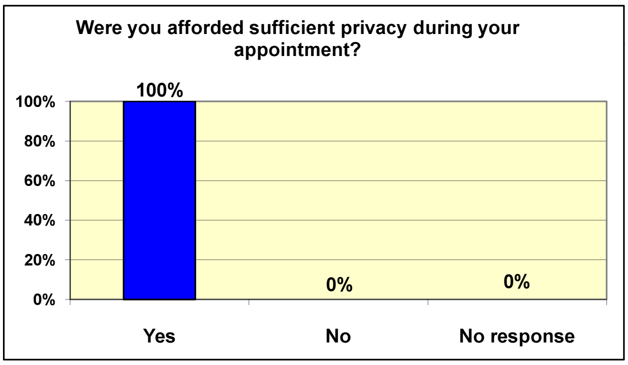
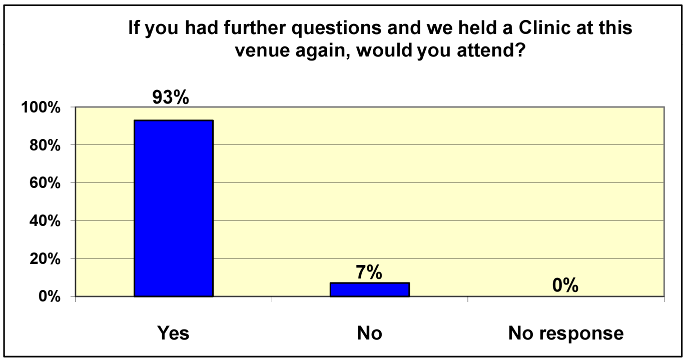
4
5


Was the member of staff who dealt with you helpful & polite?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
93%
7%
0%
0%
0%
1
2
3
4
5


Do you feel your appointment time provide enough time to adequatley resolve your query?
100%
80%
60%
40%
20%
0%
100%
0%
Yes
No


How do you rate the venue?
(1=Good - 5=Poor)
100%
80%
60%
40%
20%
0%
54%
29%
12%
3%
2%
1
2
3
4
5


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


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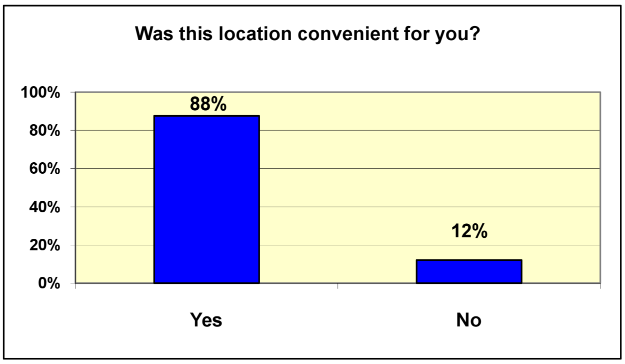
No response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No

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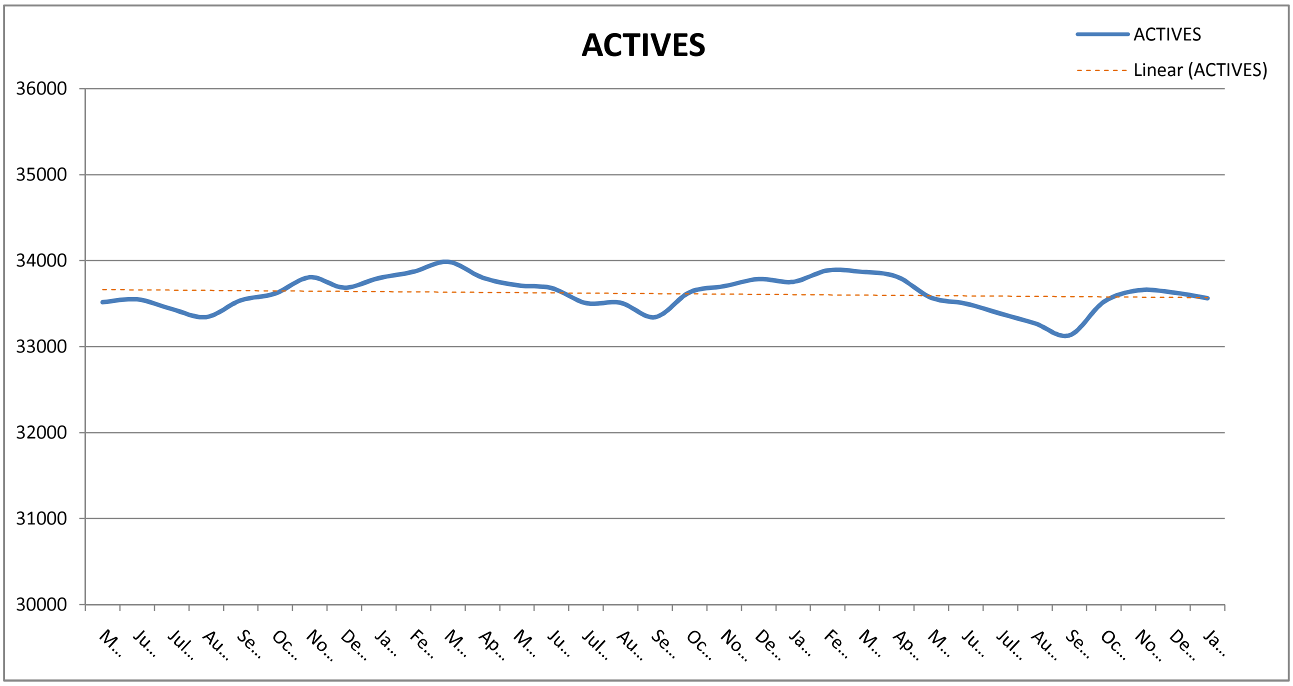
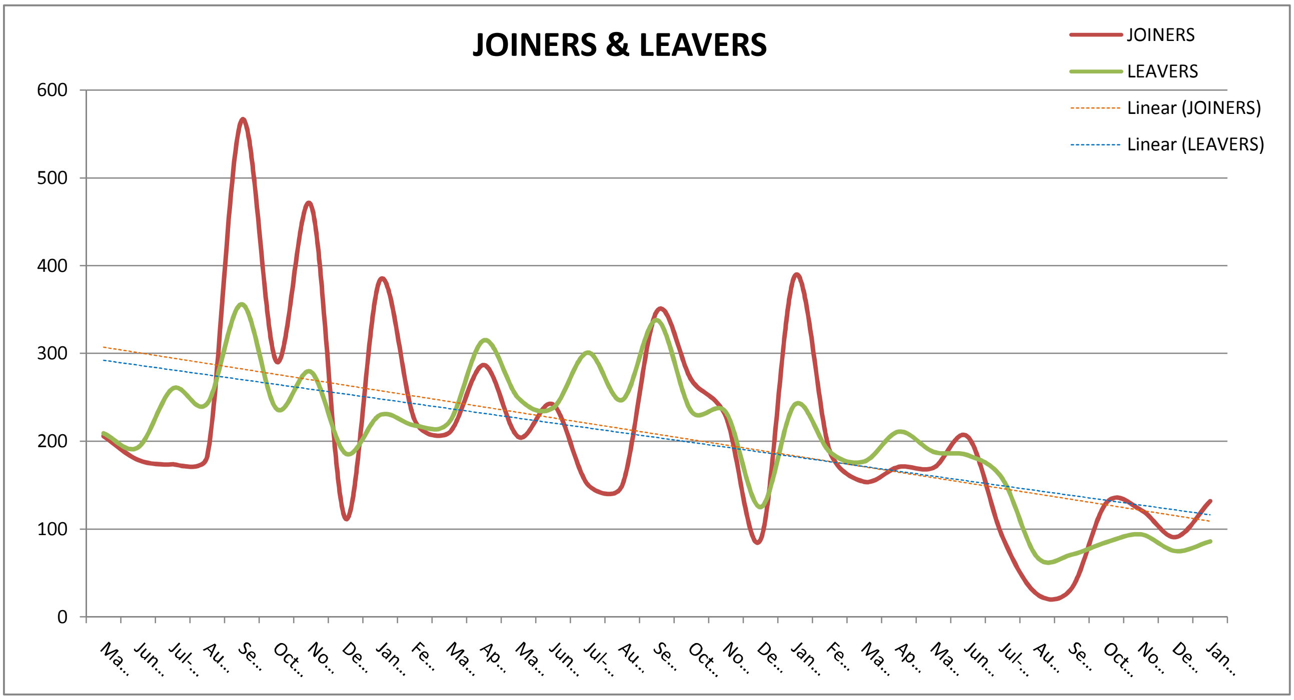
Pension Fund Administration Report

APPENDIX 5



APPENDIX 6



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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-12-003

Meeting / Decision: Avon Pension Fund Committee
Date: 16 March 2012

Author: Steve McMillan
Report Title: Pension Fund Administration Exempt Appendix Title: Exempt Appendix 7 - Summary Performance Report on Scheme Employers performance first 2 Quarters 2011 - Annex 1 Deferreds / Annex 2 Retirements

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 7 and the annexes contain details of individual employers and their performances in a league table. The appendix shows any poor performing employers which need to improve. It is important that the Committee are aware of these issues and can freely discuss them.

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, if disclosed could prejudice the commercial interests of the employers.

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 information relating to the performance of the fund has been made available by way of the main report and additional appendices.

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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of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 MARCH 2012**	**AGENDA ITEM NUMBER**
TITLE:	**AUDIT PLAN AND FEE 2011-12**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Audit Plan 2011-12**		

1 THE ISSUE

1.1 The Pension Fund Audit Plan, prepared by the Audit Commission, was approved by the Corporate Audit Committee at its meeting on 7 February 2012 (as the Audit Committee is charged with the governance of the pension fund).).

1.2 The Plan sets the audit fee, based on an assumed level of risk consistent with that for 2010-11. Where this assumption is not met there is likely to be an increase in the audit fee.

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

3.1 The fee for the audit of the 2011-12 accounts is £46,622. The fee for the 2011-12 audit is charged against the 2011-12 budget.

4 THE AUDIT PLAN

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

4.2 The Plan sets out the work which the Audit Commission intend to carry out for the 2011-12 audit and which will cost the Avon Pension Fund £46,622. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on their work and key dates for the completion of its work.

4.3 The Plan is in Appendix 1.

5 RISK MANAGEMENT

5.1 The officers have addressed the potential risks identified in the Audit Plan.

6 EQUALITIES

6.1 This report is primarily for information only.

7 CONSULTATION

7.1 Section 151 Finance Officer

8 ADVICE SOUGHT

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

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

Audit plan

Avon pension fund

Audit 2011/12

Contents

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

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

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

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

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

My audit of the accounting statements does not relieve management or the Corporate Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

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

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. I have identified one which I set out below.

Table 1: **Significant risks**

Risk	Audit response
Pooled investment vehicles Avon pension fund has some £1.8bn billion of units in pooled investment securities. A large portion of these investments is in unquoted securities. There is an inherent risk to the valuation of these investments because there is no direct market to independently check the valuation of these units, although we understand the underlying securities are quoted.	I will review and place reliance on reports from the auditors of the fund managers responsible for these pooled investment vehicles. These reports confirm the effectiveness of internal control arrangements at fund mangers. I will substantively test the value of all material investment balances to fund manager's reports and custodian reports. Where possible I will agree the units held by Avon Pension Fund in pooled investments back to the underlying quoted securities. I will review how management has ensured the valuations for the unquoted investments were prepared in a suitable way. I will review the valuations in relation to accounting standards (IAS 39).

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Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Testing**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit	Pensions payroll	Reliance on auditors to admitted bodies over controls on pension contributions		General Ledger	Completeness and accuracy of information on pensions liabilities provided to the actuary.
Final visit		SAS70 reports/AAF01 - fund managers and custodians	Pensions liabilities – Mercers and my consulting actuary PWC.		All material accounts balances and amounts Year-end feeder system reconciliations Investments

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

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	March 2012	Interim memorandum if required
Opinion: receipt of accounts and supporting working papers	June 2012	
Opinion: substantive testing	August 2012	
Present Annual Governance Report at the Corporate Audit Committee	25 September 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor's report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter to B&NES Council

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

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

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and do what he can to resolve the position.

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

Fees

The fee for the audit is £46,622, as set out in my letter of 5th April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £46,622. The audit fee for 2010/11 was £47,000. The scale fee reflects the Audit Commission's decision not to increase fees in line with inflation.

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

The Audit Commission can provide discretionary non-audit services under the Audit Commission's advice and assistance powers. No work is planned presently.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Financial Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice's Director – Standards and Technical, who serves as the Audit Practice's Ethics Partner.

Table 5: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised. Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission. Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively;
  - I secure the co-operation of other auditors;
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on systems that provide material figures in the accounts on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - the full text of the Pension Fund Annual Report by early September 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.

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

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

AAF01 reports

These are industry standard reports on the effectiveness of internal control arrangements at fund mangers. They are normally issued by the auditors to the fund managers. (Auditors also sometimes issue standard letters on internal controls referred to as SAS70 letters.)

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the Corporate Audit Committee before the auditor issues their opinion.

Audit of the accounts

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

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

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

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

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

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, (as well as their responsibility to give an opinion on the accounting statements), which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Corporate Audit Committee and the Pension Fund Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

www.audit-commission.gov.uk

December 2011

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**16 FEBRUARY 2012**	**AGENDA ITEM NUMBER**
TITLE:	**WORKPLANS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Investments Workplan to 31 March 2013

Appendix 2 – Pensions Benefits Workplan to 31 March 2013

Appendix 3 – Committee Workplan to 31 March 2013

Appendix 4 – Investments Panel Workplan to 31 March 2013

Appendix 5 – Training Programme 2012-13

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 31 March 2013 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 2012-13 is included as Appendix 5.

1.4 The workplans are consistent with the 2012-15 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 2013 be noted.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 FINANCIAL IMPLICATIONS

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 Planwhile 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 The provisional training plan for 2012-13 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(Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	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	

Appendix1

INVESTMENTS TEAM WORKPLAN TO 31 MARCH 2013

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars	On-going
Review manager performance	Officers to formally meet managers annually See IP workplan for Panel meetings	ongoing
SRI Review	Workshops planned for April 2012	June 2012
Treasury Management Policy	Set out proposed Treasury Management Policy once analysis of cashflows complete	June 2012
Review of investment strategy	Committee to review investment strategy once clearer picture emerges of new scheme Review potential of infrastructure and the various approaches for investing.	Commence 3Q2012
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	December 2012
Triennial valuation	Commission pre-valuation work Arrange workshop to discuss assumptions and potential outcome	1Q2013
Budget and Service Plan 2013/16	Preparation of budget and service plan for 2012/15	March 2013
Statement of Investment Principles	Revise following any change in Fund strategy/policies.	On-going
Appointment of Independent Members and Independent Investment Advisor	Manage the appointment process as required	As required
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 JANUARY 2013APPENDIX 2

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2013

Project	Proposed Action	Report
Employer Self Service	*Employer Self Service* a1eywood software application). Next release in February 2012 will allow employers to go on line and do starters and leavers electronically. Expected roll out to employers in Mid – 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 during 2012 2. Electronic reporting of member data changes either by bulk Electronic Data Interface *or* via Employer Self Service (*see above*) in 2012,	N/A
Electronic Delivery of information to members	Implement the 3 year 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
Member opt out rates	Monitor and report on these to Committee at each meeting	N/A
AVC Strategy	Finalise new AVC Investment Strategy forapproval by Committee	TBA
Auto-enrolment	Devise and agree a strategy with employers to cope with the government initiative being introduced from October 2012 for auto-enrolment of opted out members every 3 years	

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Appendix 3

Committee Workplan to 31 March 2013

JUNE 2012
Roles & Responsibilities of Committee
Review of Investment Performance for Year Ending 31 March 2012
Pension Fund Administration – Budget Outturn 2011/12, Performance Indicators for Quarter Ending 31 March 2012 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Approve draft accounts 2011/12 prior to formal approval by Corporate Audit committee
Review of SRI Policy
Approve Treasury Management Policy
Approve Committee's Annual Report to Council
Workplans
Planned Workshop – SRI Policy Review - Stage 2 planned for 25 April 2012 (Aix-en-Provence Room, Guildhall)

SEPTEMBER 2012
Review of Investment Performance for Quarter Ending 30 June 2012
Pension Fund Administration – Budget Monitoring 2012/13, Performance Indicators for Quarter Ending 30 June 2012 and Risk Register Action Plan
Responsible Investing Policy
Investment Panel Minutes
Review Investment Panel Recommendations
Approve final accounts 2011/12, and governance report prior to formal approval by Corporate Audit committee
Workplans

DECEMBER 2012
Review of Investment Performance for Quarter Ending 30 September 2012
Pension Fund Administration – Budget Monitoring 2012/13, Performance Indicators for Quarter Ending 30 September 2012 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Annual review of internal control reports of external service providers
Workplans
Planned Workshop – Investment Review – alternative assets workshop planned 18 October 2012 (Aix-en-Provence Room, Guildhall)

MARCH 2013
Review of Investment Performance for Quarter Ending 31 December 2012
Pension Fund Administration – Budget Monitoring 2012/13, Performance Indicators for Quarter Ending 31 December 2012 and Risk Register Action Plan
Budget and Service Plan 2013/16
Investment Panel Minutes
Review Investment Panel Recommendations
Review Statement of Investment Principles

Appendix 3

Committee Workplan to 31 March 2013

Audit Plan 2012/13
Workplans
Planned Workshop – 2013 Actuarial valuation assumptions and New Scheme

Appendix4

INVESTMENT PANEL WORKPLAN to 31 March 2013

Panel meeting / workshop	Proposed reports	Outcome
22 Feb 2012 Meeting and workshop	• Review mangers performance to Dec 2011 • Review TT UK Equity Mandate • Meet the managers workshop (Partners, Schroder equity)	• Agree any recommendations to Committee • Agree any recommendations to Committee • Agree any recommendations to Committee
19 Apr 2012 Workshop	• Meet the managers workshop (Intro to Hedge Funds, Man, Signet)	• Agree any recommendations to Committee
17 May 2012 Meeting and workshop	• Review mangers performance to March 2012 • Meet the managers workshop (Gottex, Stenham)	• Agree any recommendations to Committee • Agree any recommendations to Committee
5 Sept 2012 Meeting and workshop	• Review mangers performance to June 2012 • Meet the managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee
14 Nov 2012 Meeting and workshop	• Review mangers performance to Sept 2012 • Meet the managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee

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Appendix 5

Avon Pension Fund Committee Training Programme 2012-14

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	4Q12 onwards as part of Strategic review

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	4Q12 onwards as part of Strategic review
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	1Q13 Actuarial assumptions and New Scheme

Planned Committee Workshops 2012/13

Workshop	Content	Timing
SRI – Stage 2	Implementation options	1Q12
Alternative/new assets	To consider new / alternative assets in Strategic review	4Q12
Triennial Valuation	Pre – valuation eview of assumptions and potential impact of new scheme	1Q13