Bath & North East Somerset Council

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

Your ref:
Our ref:
Date: 15 June 2012
E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

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

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), 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, 22nd June, 2012

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 22nd June, 2012** at **2.00 pm** in the **Council Chamber - Guildhall, Bath.**

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

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

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, 22nd June, 2012

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

PRELIMINARY ITEMS

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 16TH MARCH 2012 (Pages 5 - 16)

8. ROLES AND RESPONSIBILITIES OF THE COMMITTEE - ANNUAL REMINDER AND CONFIRMATION OF INVESTMENT PANEL MEMBERS (Pages 17 - 32)

STRATEGIC REPORTS

9. CONSULTATION ON SCHEME CHANGES (Pages 33 - 34) (10 MINUTES)

   A briefing paper is attached for the Committee. The Technical and Development Officer will also provide a verbal update at the meeting.

10. CASH MANAGEMENT POLICY (Pages 35 - 44) (15 MINUTES)

11. RESPONSIBLE INVESTMENT POLICY (Pages 45 - 110) (15 MINUTES)

12. BRIEF FOR STRATEGIC INVESTMENT REVIEW (Pages 111 - 114) (15 MINUTES)

13. INVESTMENT PANEL MINUTES AND RECOMMENDATIONS FROM INVESTMENT PANEL (Pages 115 - 150) (15 MINUTES)

14. ANNUAL REPORT TO COUNCIL (Pages 151 - 160) (5 MINUTES)

15. DRAFT ACCOUNTS 2011/2012 (Pages 161 - 194) (5 MINUTES)

MONITORING REPORTS

16. REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2012 (Pages 195 - 254) (20 MINUTES)

17. PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 MARCH 2012 & PERFORMANCE INDICATORS FOR YEAR ENDING 2012 & STEWARDSHIP REPORT (Pages 255 - 296) (20 MINUTES)

FOR INFORMATION

18. WORKPLANS (Pages 297 - 308) (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, 16th March, 2012, 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), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member)

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

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

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

56 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

57 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Steve Paines and Paul Shiner.

58 DECLARATIONS OF INTEREST

The Independent Members, Ann Berresford and Carolan Dobson, and the Independent Investment Adviser, Tony Earnshaw, declared personal and prejudicial interests in respect of Agenda Item 8 "Independent Members and Independent Investment Advisor". Carolan Dobson also declared a personal interest as Chair of Financial and Regulation Group of the Competition Commission.

59 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

61 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

62 MINUTES: 9 DECEMBER 2012

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

63 INDEPENDENT MEMBERS AND INDEPENDENT INVESTMENT ADVISOR

Ann Berresford, Carolan Dobson and Tony Earnshaw withdrew from the meeting in accordance with their declarations of interest.

The Head of Business, Finance and Pensions presented the report. He reminded Members that the appointment of two Independent Members with voting rights had been a feature of the Fund's governance arrangements since 2006. The Independent Members had been initially appointed for 2.5 years until June 2009, and then for a full four-year term ending in June 2013, so that the appointments would provide continuity over the Council's electoral cycle. As the Fund would experience wide-ranging changes over the next few years, it was proposed that it would be beneficial to have some continuity of independent trusteeship over this period. (Governance guidelines suggest that independent members should not be appointed for more than nine or ten years in total, because of the risk of them losing their independence). One Independent Member had indicated a wish to be reappointed for a new full term, whilst the other would be happy to continue for the short term if so appointed. Recruitment of Independent Members is a lengthy process, and would need to be started well before the end of existing appointments.

One option debated was to extend until the end of 2013 the term of the Independent Member not wishing to be reappointed for a full term, when the Strategic Investment Review and valuation should have been concluded, thus providing the necessary continuity. Turning to the Independent Investment Advisor, he said that the current post-holder had been appointed for a three-year term due to expire in October 2012. The appointment had been made before the appointment of JLT as the Fund's investment consultant, and it appeared that it was not common for LGPS funds to have both independent consultants and independent advisors.

The Chair suggested that in future the appointments of the two Independent Members could be staggered, to reduce the risk of losing both at the same time. This would be facilitated by extending one of the appointments to the end of 2013, with the other staying for a further term. The Committee would then have the benefit of the experience of both the current Independent Members during the next valuation cycle.

There was a debate about whether or not to extend the current term for one Independent Member to the end of 2013 in order to retain their experience over the triennial valuation, following which it was agreed that the term for the one Independent Member should not be extended.

Members then discussed the role of the Independent Investment Advisor. The Chair noted that the recommendation was to extend the current appointment to November 2013. The Investments Manager said that the review of the Investment Strategy would commence in October or November of this year, and that it was hoped to complete it by November 2013. The Chair suggested that "or until the conclusion of the review of the Investment Strategy, if later" should be added to the recommendation at 2.1. Members agreed. The Vice-Chair and Chair of the Investment Panel said that because of the uncertainties facing the Fund over the next couple of years, additional independent advice during this period would be valuable, though he would not wish to suggest that the post should continue indefinitely. A Member asked whether it was the role of the Independent Advisor to provide more than just investment advice. The Investment Manager said that the role was to provide independent investment advice to Members, and, if necessary, to challenge the advice given by officers and the investment consultants. Mr Finch commented that he knew of other local authority pension funds which retained an independent advisor in addition to investment consultants. The Chair suggested that Committee should give weight to the view of the Chair of the Investment Panel about the value of the Independent Advisor in the short term.

After discussion it was **RESOLVED:**

(i) that one of the Independent Members should be re-appointed for a further term of four years and that the appointment of the other should terminate, as planned, in June 2013;

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(ii) that the Chair and Vice-Chair in consultation with officers should arrange a recruitment process to commence in 2012 to recruit a new Independent Member;

(iii) that the appointment of the Independent Investment Advisor should be extended to November 2013 or to the conclusion of the review of Investment Strategy, if later.

64 SERVICE PLAN 2012-2015

Ann Berresford, Carolan Dobson and Tony Earnshaw returned to the meeting. Councillor Hall arrived.

The Head of Business, Finance and Pensions presented the report. He said the next three years would be a period of great change. Externally, there would be significant revisions to the Local Government Pension Scheme, automatic enrolment would be introduced and there would be an increase in the number employers, in particular Academies. There was a need for increased capability on the investments side because of the workload arising from the investments strategy and investments management. In addition, a number of key individuals on the investments and actuarial teams would be retiring and a transfer of knowledge was required. The implications of the revised scheme on the administration and communications teams were not yet clear, but it was hoped that it would be possible to bring proposals to the Committee later in the year.

In reply to a question from a Member about the possibility of partnership arrangements, he said that a number of local authority funds in the South West have established framework agreements to procure legal and actuarial/investment consultancy services.

A Member asked about benchmarking with other local authority funds in terms of cost per fund member. The Head of Business, Finance and Pensions said that the Fund participated in the CIPFA Benchmarking Club and regular data about benchmarking with the Fund's peer group was provided to the Committee. The Fund was generally around the average or just above the average, though it tended to spend more on communications than other funds.

A Member asked where downward pressure on costs would come from. The Chair suggested that it was the Committee's role to be that pressure. A Member said she understood the need to keep staff numbers down, but the fact was that there was an increasing amount of work to be done. One of the responsibilities of the Committee was to ensure that officers had the resources they needed. Another Member suggested that at the same time there was a need to assure Fund members that the administration of the Fund was as efficient as possible. The Chair suggested that they ought to find some assurance in the projected costs detailed in the table on page 29 of the Service Plan. The Head of Business, Finance and Pensions said that every effort was made to reduce costs; £20,000 would be saved on communications in 2012-2013. However, the demands placed on pensions administration was growing all the time. Benchmarking data, however, would demonstrate consistency in terms of cost and performance. The Chair asked for benchmarking data to be included in future Service Plans. A Member expressed concern about the projected increase in investment costs. The Chair said this was driven by an increase in investment managers' fees which are based on an expected 6% increase in value per annum.

RESOLVED (with one abstention) to approve the 3-year Service Plan and Budget for 2012-2015 for the Avon Pension Fund.

65 TREASURY MANAGEMENT POLICY

The Finance and Systems Manager (Pensions) presented the report. He explained that the policy related only to internally-held cash, which was less than 0.5% of the total assets of the Fund. The proposed policy had been revised in consultation with the Council's Treasury Management Team. Higher maximum limits were proposed, because there were now fewer counterparties with the highest credit ratings, but the higher limits would not normally be used. He drew attention to paragraphs 6.1-6.4 of the report, which described the forecast change in the Fund's cash flow profile, on which a report would be made to the June meeting of the Committee.

A Member noted that it was stated in Appendix 2 on agenda page 47 that the lowest credit rating that would be accepted was A-, while page 48 showed that the current credit ratings for existing counterparties was A. The Investments Manager explained that the policy allowed for further possible downgrades in the future. A-would be accepted for UK banks and building societies, but only for counterparties on the Council's approved list, on which there were none rated A- at present. The Finance and Systems Manager (Pensions) explained that limits had been raised to ensure that the cash held could be placed somewhere. A Member said that she was reassured that A- would only be accepted for UK banks and building societies; she would be concerned about accepting A- for any non-UK financial institutions. Another Member said that A- was acceptable, because cash was deposited for very short periods of time, and it was possible to react very quickly to market changes. The Finance and Systems Manager (Pensions) said that the Government's Debt Management Office was not a preferred option for cash deposits, because whilst it was secure, interest rates were low and transaction costs relatively high. A Member expressed the hope that options for placing the Fund's internally-held cash would continue to be explored.

RESOLVED

(i) to approve the revised Treasury Management policy as set out in Appendix 2 of the report;

(ii) to note the forecast change in the Fund's cash flow profile and the policy decisions that will be required as a consequence.

66 CLG CONSULTATION ON AMENDMENTS TO REGULATIONS - VERBAL UPDATE

The Technical and Development Manager gave a verbal update.

He said that negotiations between the unions and DCLG about amendments to the LGPS were ongoing. Unite had rejoined the negotiations after pulling out earlier. It was thought that agreement might be reached in March or April, and regulations drafted in August. He would give a further update at the next meeting.

In response to a question from the Chair, he stated that there would be no increases in contributions for members of the LGPS in April 2012.

RESOLVED to note the update.

67 ADMISSION BODIES - TERMINATION POLICY

The Investments Manager presented the report. She explained that the issue was the treatment of residual liabilities when an admission body left the Fund. The aim of the new policy was to address risk at the beginning, so reducing costs and work for both parties should an admission agreement be terminated. As this change meant a change to the Funding Strategy Statement, the approval of the Committee was required.

Members asked about transfers of staff to Parish Councils. The Investments Manager said that the transfers would normally be subject to a bulk transfer and the pensions liabilities arising in the future for the transferred staff would be the responsibility of the Parish Council. Parish Councils could also decide whether or not to join the Fund. The Chair pointed out that Parish Councils have the power to tax local residents and could do so to finance pensions liabilities.

RESOLVED

(i) to approve the revised Funding Strategy Statement;

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

68 ACADEMIES - CLG/DOE GUIDANCE

The Investments Manager presented the report. She explained that the Secretaries of State for Education and for Communities and Local Government had issued a joint Guidance Note on 11 December 2011 stating their concern that some Academies had been "set employer contribution rates significantly more than maintained schools in the local area" and making clear their desire that Academies "should not be treated in the LGPS less favourably than maintained schools." The Guidance Note had recommended that "where an Academy wishes to be pooled, administering authorities positively consider this." The Investments Manager stated that the Fund's officers did not did not agree with the concept of "pooling"; however the Fund's approach to setting contribution rates for the academies was consistent with the principles of pooling, while providing greater transparency to all parties. The Fund would be writing to Academies and LEAs in the area to clarify the Fund's policy.

The Chair felt that as Academies were not guaranteed, they would be receiving preferential treatment if charged at the same rate as guaranteed bodies. There was a real risk that an Academy could close.

A Member thought that two schools in South Gloucestershire listed as Academies in Appendix 2 had considered conversion to Academy status, but had decided in the end not to convert. The Investments Manager said that the information would be rechecked.

RESOLVED to note the information set out in the report.

69 REVISED STATEMENT OF INVESTMENT PRINCIPLES

The Investments Manager presented the report. She reminded Members that the Statement of Investment Principles was approved annually. The revised draft incorporated the active currency hedging mandate, which was implemented during 2011, and amendments to the provisions relating to the realisation of investments.

A Member asked about the recently-announced 100-year bonds and proposals for a national infrastructure investment fund. The Investments Manager suggested that there would be few institutions willing to lend money at current low interest for 100 years. The Fund's preference would be for index-linked investments over a 30-60 year timeframe. As far as the infrastructure fund was concerned, she noted that few public projects were completed on time and within budget and therefore the risk return profile of the fund would determine whether it met the Fund's investment objective. However, investment in infrastructure would be considered as part of the investment review. Mr Finch said that 100-year bonds would in effect be a 30-year bond due to duration, which might be of interest to pension funds. However, the market would value them and investment managers would buy if they appeared attractive, so there was no need to mention them specifically in the Statement.

In response to a question from a Member, the Investments Manager stated that 10% of the Fund was invested in property, with 5% in UK property and 5% in global property.

RESOLVED to approve the revised Statement of Investment Principles.

70 INVESTMENT PANEL MINUTES

RESOLVED to note the draft minutes of the Investment Panel meeting held on 22 February 2012.

71 RECOMMENDATIONS FROM INVESTMENT PANEL

The Investments Manager presented the report.

The Vice-Chair and Chair of the Investment Panel said that the Panel had felt that TT were addressing their past underperformance, but thought they should continue to be kept under review.

RESOLVED that officers will continue to closely monitor TT's performance and report back to the Panel any issues resulting in significant underperformance.

72 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2011

The Assistant Investments Manager summarised the key facts in the report. He said that the JLT investment report had not raised any significant concerns.

A Member asked about the rebalancing policy between equities and bonds. The Investments Manager replied that this had been suspended in 2011 because of market volatility. The Member felt that the Committee should either amend the rebalancing policy or explicitly note that it had been suspended. Mr Finch pointed out that because of market volatility, adherence to the policy would require repeated tactical switches, which would incur significant transaction costs. Another Member said that if this was the case, then the policy should be reviewed, not simply suspended.

RESOLVED to note the information set out in the report.

73 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31

JANUARY 2012 & PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JANUARY 2012 & STEWARDSHIP REPORT

The Finance and Systems Manager (Pensions) summarised the budget report. The forecast variance for the year was £127,000 under budget. Investment managers' fees were now on budget.

The Pensions Manager summarised the performance report. He said opt-outs remained very low at only 0.14% over an 8-month period.

Before discussing Appendix 7 the Committee passed the following resolution:

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

After discussing this item, the Committee returned to open session.

A Member noted that there appeared to have dissatisfaction with the venue of one of the two pensions clinics. The Pensions Manager explained that the venues were provided by the employers. The Chair noted that the satisfaction results for two clinics had been combined into a single table, and asked that if there had been particular dissatisfaction with one of the venues, feedback should be given to the relevant employer.

RESOLVED to note 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.

74 AUDIT PLAN 2011-2012

Mr Hackett presented the report. He explained that Bath and North East Somerset Council was responsible for preparing the accounts of the Avon Pension Fund. The Audit Plan, attached as Appendix 1 to the report, set out the overall approach and timetable for the 2011/2012 audit. There had been no increase in the planned audit fee, reflecting a reduction in the Audit Commission's central costs.

The Chair noted that Grant Thornton would be the Council's external auditors in 2012/2013.

A Member referred to the statement in the Audit Plan that the external auditors would review the reports of the Council's internal auditors, and said that he could not recall that any such report had ever come before the Committee. The Head of Business, Finance and Pensions agreed this was the case, and said that internal audit reports would only be brought to the Committee if something significant had been found. The Chair asked who would judge what was significant; would it be the external auditors? Mr Hackett replied that the external auditors would have to report on anything that related to the effectiveness of the control framework. The Chair requested asked that he and the Vice-Chair be provided with copies of internal audit recommendations relating to the Avon Pension Fund, and that significant issues be reported to the Committee.

RESOLVED to note the external audit plan for 2011/2012.

75 WORKPLANS

It was agreed that the meeting scheduled for 29 March 2013, which would be the Good Friday bank holiday, should be brought forward to 22 March 2013.

RESOLVED to note the workplans.

The meeting ended at 4.36 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement		

1 THE ISSUE

1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. These Terms of Reference were approved by the Council at its meeting on 10 May 2012

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

2 RECOMMENDATION

The Committee:

2.1 Notes the:

a) Roles and responsibilities of the members, advisors and officers

b) Terms of Reference of the Committee and Investment Panel

c) Governance Compliance Statement

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

3 FINANCIAL IMPLICATIONS

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

4 ROLES & RESPONSIBLITIES

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

4.2 **The Committee and Investment Panel:** The terms of reference for the Committee and the Investment Panel as agreed by Council can be found in Appendix 1.

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

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

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

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

4.7 Members are encouraged to undertake training to ensure they can discharge their responsibilities.

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

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

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

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

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

5 GOVERNANCE COMPLIANCE STATEMENT

5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. There have been no changes in the governance structure since 2009 when the Committee last approved the statement. This Statement is in Appendix 2 for information only.

6 NOMINATIONS TO INVESTMENT PANEL

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

6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 10 May 2012.

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

7 RISK MANAGEMENT

7.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

8 EQUALITIES

8.1 For information only.

9 CONSULTATION

9.1 For information only

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 For Information only.

11 ADVICE SOUGHT

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

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

Appendix 1

Terms of Reference for the Avon Pension Fund Committee and Investment Panel

The role of the Committee and Investment Panel is set out in the Terms of Reference as agreed by Council at their meeting on 10 May 2012:

1) Avon Pension Fund Committee – Functions and Duties

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

a) Membership

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

b) Meetings
Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

c) Quorum
The quorum of the Committee shall be 3 voting members.

d) Substitution
Named substitutes to the Committee are allowed.

2) Investment Panel – Functions and Duties

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

Among other things, the Panel shall:

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

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

a) Membership

The Panel shall comprise a maximum of 6 voting Members of the APFC, 3 of whom shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the APFC and /or the Vice- Chair and 4 other Members (or 5 if the Vice-Chairperson is not a member of the Panel).
Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

b) Meetings

Though called a "Panel", it is an ordinary sub-committee of the APFC. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the APFC meeting on dates agreed by Members of the Panel.

c) Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

d) Substitution
Substitutes for the Panel must be members of APFC or their named APFC substitute.

e) Minutes
Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the APFC that follows a meeting of the Panel.

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APPENDIX 2

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Governance Policy Statement (see Appendix A to this statement).

Statutory Governance Principles	**Compliance status and justification of non-compliance**
A - Structure	**Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main Committee established by the appointing council.	Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The Committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary Committee established to underpin the work of the main Committee.	The APFC consists of 12 voting members, viz: - 5 elected members from Bath & North East Somerset Council - 3 elected members from the other West Of England unitary councils - 1 nominated by the trades unions - 1 nominated by the Higher/Further education bodies - 2 independent members and 4 non-voting members, viz: - 3 nominated by the trades unions - 1 nominated by the Parish/Town Councils
c) That where a secondary Committee or panel has been established, the structure ensures effective communication across both levels.	The Avon Pension Fund established an Investment Panel in June 2009 to consider matters relating to the management and investment of the assets of the Fund and advise the main Committee on such matters. The Investment Panel is made up of members of the main Committee. The Panel is not a decision –

	making body, it makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main Committee agenda.
d) That where a secondary Committee or Panel has been established, at least one seat on the main Committee is allocated for a member from the secondary Committee or panel.	Every member of the Investment Panel is a member of the main Committee.
B – Representation	**Partial Compliance**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary Committee structure. These include:	
i) employing authorities (including non-scheme employers , e.g. admission bodies);	There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the Committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the Committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders. There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the Committee at the Committee meetings.
ii) scheme members (including deferred and pensioner scheme members);	There are 4 trades union representatives (1 with voting rights and 3 non-voting), nominated by the individual trades unions on the Committee. These Committee members also represent the deferred and pensioner members.
iii) where appropriate, independent professional observers;	The Fund has not appointed an independent professional observer. The Committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, Committee and decision-making process. 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, two members are appointed to the Committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.
iv) expert advisors.	The Fund's independent investment advisor attends all meetings. The Fund's investment consultant attends all Committee and panel meetings and other expert advisors attend on an adhoc basis when appropriate.
b) That where lay members sit on a main or secondary Committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members of the Committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.
C – Selection and role of lay members	**Compliant**
a) That the Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary Committee. b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the Committee. These are circulated to the relevant bodies prior to members being appointed to the Committee. Declarations of interest is a standing item on every Committee agenda.
D – Voting	**Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS Committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
E – Training/Facility time/ Expenses	**Compliant**

a) That in relation to the way in which statutory and related decisions are taken by the administrating authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of Committees, sub-Committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training.	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the Committee agenda. A training log is maintained.
F – Meetings (frequency/quorum)	**Compliant**
a) That an administering authority's main Committee or Committees meet at least quarterly.	The Committee meetings are held quarterly.
b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main Committee meetings.
c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.
G – Access	**Compliant**
a) That subject to any rules in the council's constitution, all members of main and secondary Committees or	All members of the Committee have equal access to meeting papers and advice.

panels has equal access to Committee papers, documents and advice that falls to be considered at meetings of the main Committee.	
H - Scope	**Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund. The Committee annually reviews the risk register, the internal control reports of its key 3rd party suppliers and all statutory policy statements.
I – Publicity	**Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

Approved by Avon Pension Fund Committee on 18 December 2009.

Appendix A

AVON PENSION FUND

GOVERNANCE POLICY STATEMENT

Introduction

This Governance Policy Statement (GPS) sets out the Fund's governance arrangements, including representation and delegations. Under the Local Government Pension Scheme (Administration) Regulations 2008, the administering authority is required to prepare a Governance Compliance Statement and this GPS forms the base for the compliance statement.

1 Executive Responsibility

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund. The Committee is subject to the Council's standing orders and financial regulations including the Codes of Practice.

2 Avon Pension Fund Committee

The Avon Pension Fund Committee's terms of reference were agreed by the Council at its meeting in May 2009. The terms of reference are as follows:

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

The Avon Pension Fund Committee meets quarterly, with special meetings and workshops arranged as necessary.

The Committee comprises 12 voting members, made up as follows: 5 elected members from Bath & North East Somerset Council, 1 elected member from each of the 3 other West of England unitary councils, 1 trades union representative, 1 representative from the Higher/Further Education bodies and 2 independent members. The independent members have the same role, responsibilities and powers as the other voting members.

In addition to the voting members, there is a maximum of 4 non-voting members on the Committee as follows: 3 trades union representatives and 1 representative of the Parish/Town Councils.

Job descriptions setting out role and responsibilities Committee members are circulated to the relevant bodies prior to members being appointed to the Committee.

The role of the non-voting members is different from that of the voting members in that the non-voting members specifically represent the interests of the employing body, group of employing bodies or scheme members and to report back to those bodies as appropriate. They do have the right to participate in Committee meetings, receive all papers at the same time as the voting members and to make representations to the Committee on behalf of the represented body.

3 Investment Panel

The Avon Pension Fund established an Investment Panel in August 2009 to consider matters relating to the management and investment of the assets of the Fund and advise the main Committee on such matters. The Panel is not a decision-making body. Instead it makes recommendations to the main Committee. Recommendations from, and minutes of, the Investment Panel meetings appear as agenda items for the main Committee.

The Panel is made up of members of the main Committee. The Panel will have a maximum of six members including the Chairperson and/or vice chairperson of the main Committee.

The Terms of Reference of the Investment Panel are as follows:

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

4 Representations to the Avon Pension Fund Committee and Investment Panel

There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund, to make representations to the Committee and/or the Investment Panel, by giving written notice (at least two working days in advance) that they wish to ask a question or raise an issue at the Committee or Investment Panel meeting.

5 Training and expenses

The Fund requires all voting members to attend training courses to ensure they understand the principles of investing and have adequate knowledge to understand and challenge the advice they receive. The Fund also provides training for non-voting members which they can utilise at their discretion (the cost of approved courses are reimbursed by the Fund).

6 Access

All Committee papers, documents and advice is made available to all members of the Committee on a timely basis, in both hard copy and electronic format. The Investment Panel provides the same level of access to its members.

7 Officer Delegations

The Avon Pension Fund has delegation arrangements in place as they relate to Administering Authority discretions contained within the Local Government Pension Scheme (LGPS). The Avon Pension Fund Committee approved the delegations of decisions to officers at its meeting on 13 June 2008, following changes to the LGPS regulations.

In the case of investments all decisions of a strategic nature are taken by the Avon Pension Fund Committee. The day-to-day functions of investment management and custody are outsourced. In these circumstances the only officer delegations required are the facility to amend investment and custody agreements in certain circumstances and to allocate and withdraw monies from portfolios. In those cases where urgent action is required to safeguard the Fund's investments, there are general emergency arrangements empowering the Section 151 Officer to act.

In the case of benefits administration the delegations relate to the way in which the Council exercises discretionary powers within a statutory framework. As a general principle it was agreed that these powers should be exercised by the Section 151 Officer on the Committee's behalf. For practical reasons some of these powers are further delegated to the Head of Business Finance and Pensions, Pensions Manager and Investments Manager.

APF 18 December 2009

Pension Committee Item 9 Verbal Update (Briefing Paper)

Background information

LGPS 2014 – Informal Consultation

The Local Government Association and the Unions have issued an informal consultation on the LGPS going forward from 2014

The main details of changes are set out below. This consultation is for the parties concerned to discuss with their members.

If agreed the project will then follow the following processes

By	New Scheme Process
Autumn 2012	DCLG release statutory consultation 12wks
Jan – Mar 2013	Draft and Actual Regulations issued
Apr 13 – Mar 14	Software providers to update systems
	Actuarial Valuation using new regulations.
1 April 2014	New Scheme implementation

The full implications on the Fund will be assessed by the Fund Actuary during the summer and Employers will be informed accordingly.

Information for Scheme Members is being produce in the form of links on the Avon Pension website and Newsletter.

As this is only an informal consultation, only general information will be given at this stage but once regulations are made there will be a series of roadshows and clinics rolled out through the employers

	LGPS 2014 Main Provisions	
1	A Career Average Re-valued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).	
2	The accrual rate would be 1/49th (the current scheme is 1/60th).	
3	There would be no normal scheme pension age; instead each member's Normal Pension Age (NPA) would be their State Pension Age (the current scheme has an NPA of 65).	
4	Average member contributions to the scheme would be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief (see table below).	
5	Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no flexible option).	
6	For current scheme members, benefits for service prior to 1st April are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.	
7	Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).	

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **22 JUNE 2012**	**AGENDA ITEM NUMBER**	
TITLE: **CASH MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Description of the Cash Flow Model and its current forecasts
Appendix 2 Graph illustrating the Fund's cash accumulation 2010 to 2012
Appendix 3 Graph illustrating the Fund's forecast cash accumulation 2012 to 2018.

THE ISSUE

1.1 At the March 2012 Committee it was reported that the Fund's rate of cash accumulation had fallen from c. £1m per month to close to zero and that it was expected to become negative within a few months. The Committee were told that further research would be undertaken with regard to the forecasting of future cash flows and that the results of that research together with proposals regarding the future management of the Fund's cash would be presented to the June Committee.

1.2 The purpose of this report is to:-

a) explain the background to the emerging gap in the monthly cash receipts and payments

b) describe the procedures that have been put in place to allow the management of the Fund's short term cash position.

c) propose a policy of utilising income and divestment that can be applied to meet the Fund's cash flow requirements over the longer term.

2. RECOMMENDATION

That the Committee:

2.1 notes the forecast change in the Fund's cash flow profile and the monitoring procedures including reporting activity to Committee (as set out in 6.3.)

2.2 approves the proposed policy for cash management as set out in Section 6.

2.3 delegates responsibility to the Head of Pensions to implement the policy in line with 6.2

3 FINANCIAL IMPLICATIONS

3.1 The Fund requires short term cash to meet its day to day operating requirements, predominantly the payment of pensions. In the event that cash received as contributions does not meet the cash required to pay pensions any shortfall must be met from an alternative source. The Fund requires a coherent policy to allow the structured sourcing of its cash requirements.

4 BACKGROUND

4.1 As a result of the Local Government pay freeze and reductions in Local Government and other public sector employee numbers, the level of contributions has started to decline. This trend is expected to continue. At the same time pension payments are expected to continue to rise. Pensions are linked to inflation and the total number of pensioners entitled to benefits increases each year due to improving longevity. In common with other Funds in the Local Government Pension Scheme these factors have over the last twelve months accelerated the maturity of the Fund. The graph at Appendix 2 shows the accumulation of cash since April 2010 illustrating the recent slow-down in the accumulation of cash. The periodic reduction in the accumulated balance is due to transfers to the Investment Managers as cash is accumulated. This accumulation can be seen to have flattened out in recent months.

4.2 In the normal life cycle of a Pension Fund a point is reached at which the amounts paid in pensions starts to exceed the contributions being paid in from active members. At this point the Fund becomes “mature”.

4.3 In the past the Fund has had positive monthly cash flow as contributions and other cash income (excluding investment income) have averaged £11.5m, exceeding the average payments of pensions and administration costs of £10.3m by c. £1.2m per month. The policy has been to transfer excess cash to Investment Managers in £5m tranches.

4.4 **Investment Income:** The Fund’s policy is for the Investment Managers to retain investment income for reinvestment within their portfolio. However, most of the investments are in pooled funds where the income is not distributed. Therefore within the current portfolio structure the Fund can only access income from the passively managed conventional and index linked gilt portfolios (income c. £6m p.a.), the actively managed UK equity portfolios (income c. £5m p.a.) and the UK property portfolio (income c. £2m p.a.). Given the nature of these mandates, the most convenient and predictable income to utilise for cash management is the passively managed conventional and index linked gilt income.

5 THE CASH FLOW MODEL

5.1 A model developed to forecast the Fund’s cash flows is described in detail in Appendix 1. This also sets out the current assumptions and resulting forecasts for best case, neutral and worst case scenarios. For operational reasons the Fund needs to maintain the average monthly cash balance above £12m.

5.2 The Neutral scenario currently forecasts that if gilt income is used to support the Fund’s cash flow, additional cash from divestments will be required to maintain the average balance above £12m from December 2014. However, divesting could be required as early as February 2014 in the worst case scenario or as late as December 2016 in the best case scenario. Assuming gilt income is used, in order to support the Fund’s cash position for twelve months from these dates divestments of

£9m, £12m or £15m would be required for best case, neutral or worst case scenarios respectively.

5.3 The table below summarises the model's forecast of annual cash flow, on the basis of the neutral assumptions up to March 2017. Please note that this is the forecast for each year and is not cumulative.

FORECAST PER YEAR (Neutral assumptions Not cumulative)	**2011/12 Actual £m**	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Contributions	138	138	137	137	138	138
Benefits paid	-129	-137	-143	-149	-155	-161
Net transfers / Leavers etc.	1	1	1	1	1	1
Administration and Management Fees paid (i.e. excludes management charges deducted by managers)	-7	-5	-5	-5	-6	-6
Gilt Income	9	6	9	9	9	9
Net Total for year	12	3	-1	-7	-13	-19

6 PROPOSED CASH MANAGEMENT POLICY

6.1 To address the requirements of the Fund's cash flow position the following policy and procedures are proposed:-

i. The cash flow model will be updated with actual data each month to monitor the forecast cash flow against actual cash flow and consequently allow the review and possible adjustment of Best case, Neutral and Worst case assumptions.

ii. The cash position will be monitored on a monthly basis by the Investments Manager and the Finance and Systems Manager. The Head of Business Finance and Pensions will be informed of the Fund's cash position on a quarterly basis or more frequently if required.

iii. With immediate effect gilt and index linked gilt income will no longer be automatically reinvested. Cash from gilt income will only be reinvested at the discretion of the Investment Manager taking account of the Fund's cash flow requirements.

iv. The Investments Manager will explore options for switching the passively managed pooled equity funds from accumulated units to distributing units. The estimated dividend income on the passively managed UK equity fund is c. £7m p.a.

v. As it becomes necessary as a result of the cumulative reduction in cash balances, divestments will be made from the Fund up to the forecast annual requirement of £15m. During any year, if the cashflow requirement exceeds this annual forecast, divestment will only occur following consultation with the Chair and Director of Resources.

vi. Any divestment will be implemented following these principles:

a. to bring asset allocation in line with the strategic policy, taking into account any tactical asset allocation

b. to divest from portfolios that exceed their strategic allocation, taking into account any tactical allocation

c. if no manager significantly exceeds their strategic allocation, to divest from the passive portfolio

d. if the Fund does not deviate from the strategic allocation to divest pro-rata between bonds and equities.

6.2 Implementation of the policy will be delegated to Officers.

6.3 The Committee will be informed of all divestments, and of any significant changes in the forecast of cash balances or the level of investment income, through the quarterly investment monitoring report.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 None appropriate.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues are detailed in the report.

10 ADVICE SOUGHT

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

Contact person	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records

1 THE CASH FLOW MODEL

As the accumulated cash balance transitions to a negative trend there is a need to actively manage the Fund's cash position. A model has been developed to monitor the cash flows and allow forecasting of future cash flows based on stated assumptions. The model analyses the Fund's cash flow between:-

- Contributions
- Pensions paid
- Lump sums paid
- Transfers in
- Transfers out and leavers
- Administration costs

Each of these will be affected by such factors as inflation, public sector expenditure levels, pay settlements, changes in the LGPS scheme structure, and the decisions of individual members to join the fund, retire, take lump sums, transfer their accrued benefits etc.

It is recognised that with this number of factors and many different employers and employees determining those factors, the model represents the sum of a complex combination of decisions. In order to address this complexity without an inappropriate allocation of resources:-

- Within each of the categories the model permits assumptions to be made separately for each unitary authority and for the other employers as a whole.
- The model is designed to be updated with actual cash flow data each month allowing for an on-going comparison between the forecast and the actual cash flow. This will permit the adjustment of assumptions with the intention of continually improving the accuracy of the forecasts.
- The model can be run for different sets of assumptions. Modelling can then be done for a range of scenarios.

2 THE CURRENT CASH FLOW MODEL FORECASTS

The cash flow model has been run with three different sets of assumptions to provide "Best", "Neutral", and "Worst case" scenarios. In the resulting forecasts the cash balance consists of:

(i) the starting cash balance, plus

(ii) any excess of contributions over expenditure, plus

(iii) income from conventional and index linked gilts which is currently re-invested by the managers.

Note, the model assumes the gilt/corporate bond tactical switch will remain in place for 2012/13 financial year. As explained in paragraph 4.4, income from the gilt portfolios is the most conveniently available investment income to use to meet the Fund's cash flow requirements.

Appendix 2 shows the volatility of the cash balance on a daily basis. Appendix 3 illustrates the forecast **cumulative** cash balance from 2Q12 (calendar) to the 1Q18 for each of the three scenarios quarter by quarter. For operational reasons the Fund requires a minimum average monthly cash balance of £12m (to manage the intra-month volatility). The horizontal grid lines on Appendix 3 are set at £12m intervals to show this critical level more clearly.

The tables below show the assumptions made and resulting forecasts for the three scenarios. All scenarios are based on the Fund's current cash balance as the starting point and include the alternative assumptions that Gilt Income will be used to meet the Fund's cash flow requirements with effect from 1 April 2012 and that it will not be used.

The forecasts indicate the dates at which divestments will be required and amount of divestment required to support the Fund's cash flow for 12 months assuming gilt income is used.

Neutral Scenario

Assumptions	Year 1	Year 2	Year 3
% Change in Contributions received	-4%	-3%	-2%
% Change in Pensions and Lump sums paid	2%	2%	2%
Forecast			
Date of required cash transfer assuming no Gilt Income used	February 2013		
Date of required cash transfer assuming Gilt Income used.	December 2014		
Divestment required to fund for 12 months assuming Gilt income used	£12m		

Worst Case Scenario

Assumptions	Year 1	Year 2	Year 3
% Change in Contributions received	-5%	-4%	-3%
% Change in Pensions and Lump sums paid	3%	3%	3%
Forecast			
Date of required cash transfer assuming no Gilt Income used.	December 2012		
Date of required cash transfer assuming Gilt Income used.	February 2014		
Divestment required to fund for 12 months assuming Gilt income used	£15m		

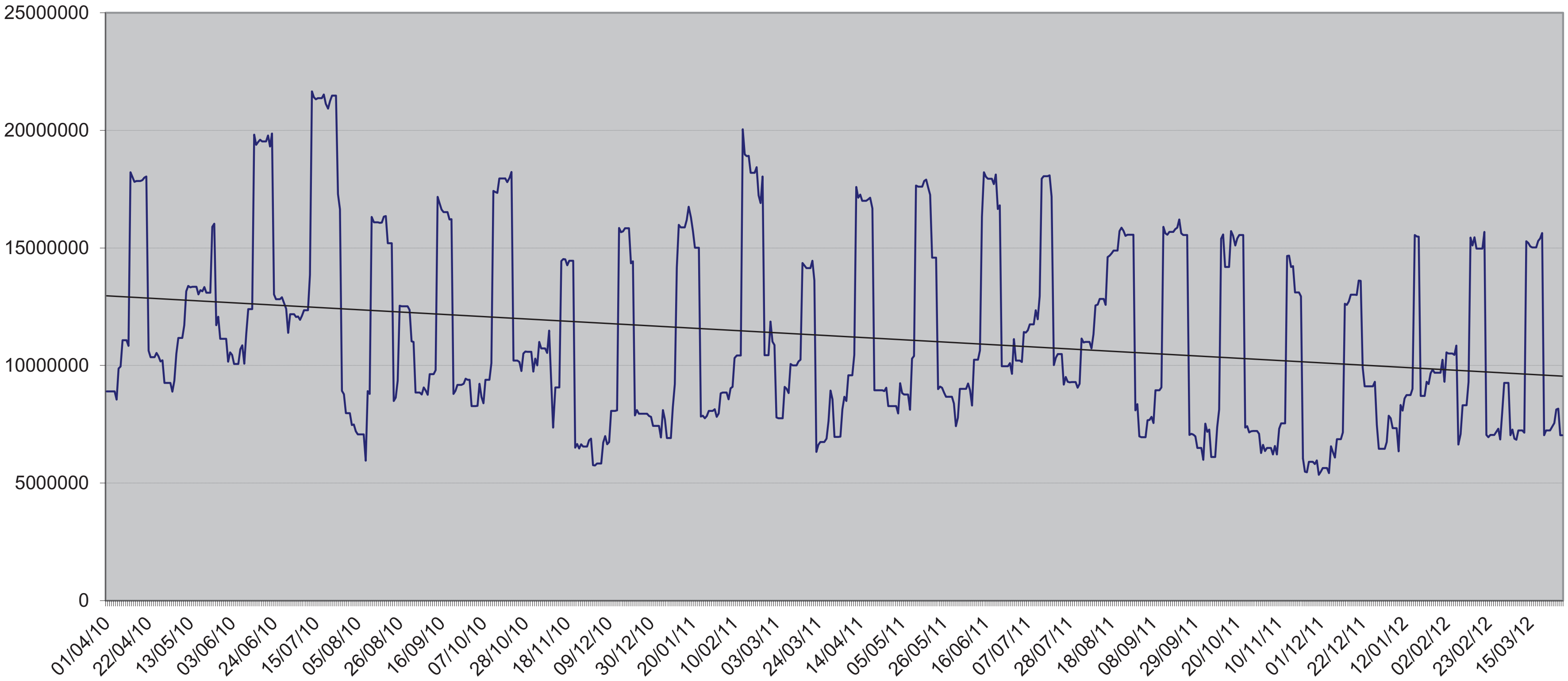
Best Case Scenario

Assumptions	Year 1	Year 2	Year 3
% Change in Contributions received	-3%	-2%	-1%
% Change in Pensions and Lump sums paid	1%	1%	1%
Forecast			
Date of required cash transfer assuming no Gilt Income used	May 2013		
Date of required cash transfer assuming Gilt Income used.	December 2016		
Divestment required to fund for 12 months assuming Gilt income used	£9m		

APPENDIX 2

CASH BALANCE: 1/4/10 TO 31/3/12
illustrating intra month cash variation and overall trend

Cash and Bank



The abnormal reduction in cash in November 2011 was due to an unusually high number of lump sum payments. Previous month to month reductions were the result of transfers of cash to Investment Managers.

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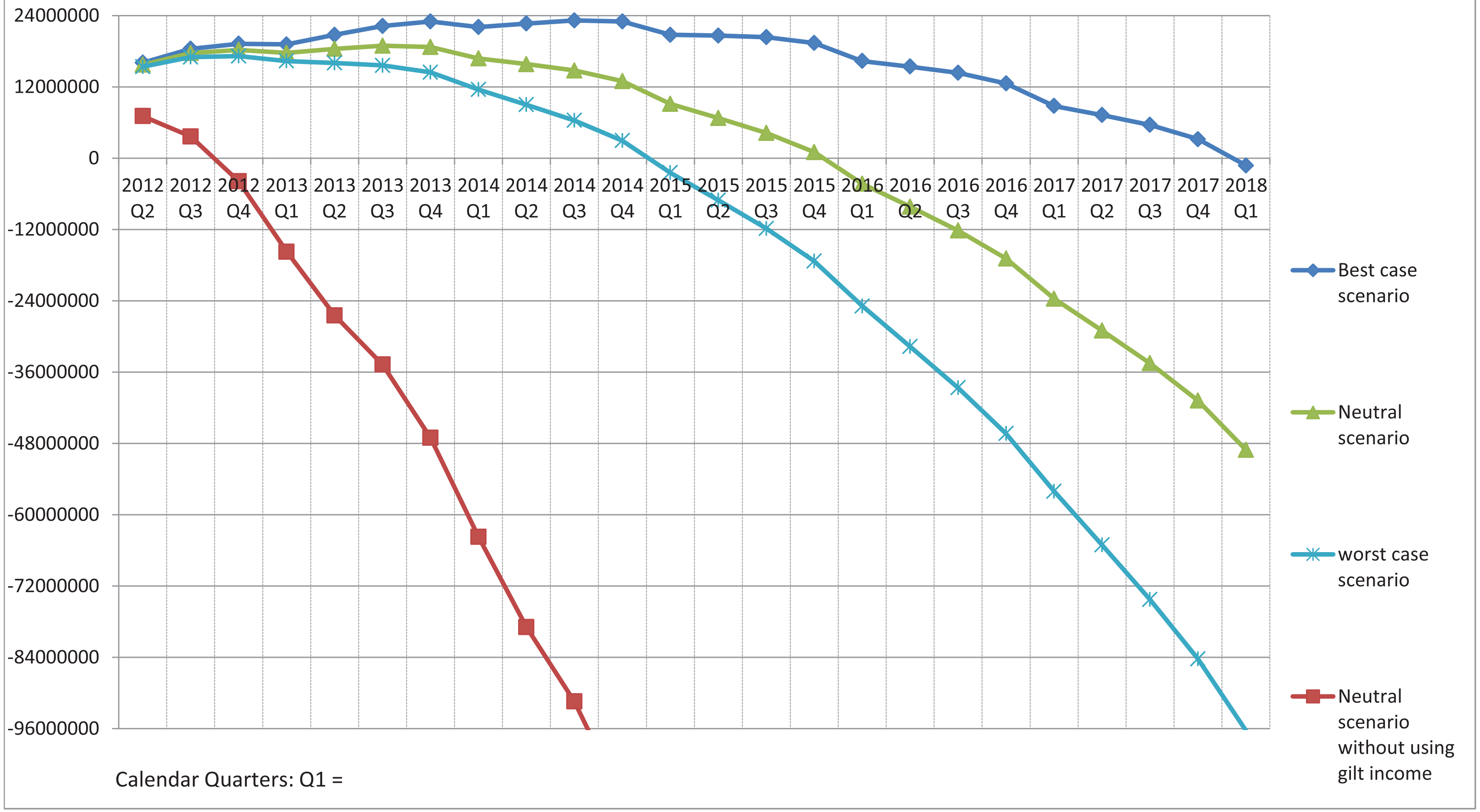
**Cumulative cash flow,
best, worst and neutral scenarios using gilt income,
and neutral scenario without using gilt income**



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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**RESPONSIBLE INVESTMENT POLICY**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary Exempt Appendix 2 – Responsible Investing Stage 2 Report Exempt Appendix 3 – Report on Investment Duties Exempt Appendix 4 – Proposed Responsible Investment Policy		

1 THE ISSUE

1.1 Responsible investing issues can have a material impact on investment risk and return in the long term and therefore should be considered within the Fund's strategic investment policy. In addition, as an asset owner, the Fund has a duty to ensure it carries out its stewardship duties effectively.

1.2 This paper proposes a Responsible Investment (RI) Policy for the Fund which follows two workshops at which RI issues and the wider investment context were explored in detail.

1.3 The policy seeks to ensure the long term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor. The proposed policy is appropriate, proportionate and achievable to implement within the Fund's resources and governance framework.

2 RECOMMENDATION

That the Committee agrees:

2.1 **To adopt the proposed Responsible Investment Policy included at Exempt Appendix 4.**

2.2 **The implementation process included at Exempt Appendix 1.**

3 FINANCIAL IMPLICATIONS

3.1 Any changes to the investment strategy that may arise from the policy could lead to changes in the cost structure and could incur one-off fees associated with changes to the portfolio, such as transition fees and advisor fees. Cost implications would be considered fully within any decision to alter the investment strategy or structure of the Fund.

4 CURRENT RESPONSIBLE INVESTMENT POLICY

4.1 The current policy is an aggregation of policy factors that fall within the responsible investment arena. The proposed policy is the first time the Fund has considered its RI policy in a holistic way.

5 POLICY REVIEW PROCESS

5.1 The review process consisted of the following:

Stage 1 – The Stage 1 Report set out the issues, drivers and trends of responsible investing, the impact on investment risk and performance, and the ways of incorporating RI into investment strategy. This was considered at Workshop 1 (December 2011) where the Committee agreed the RI Beliefs underpinning the policy framework and put forward a policy framework for further analysis in Stage 2.

Stage 2 – The Stage 2 Report (included in exempt Appendix 2) comprised a gap analysis between the current policy and proposed policy framework, identifying actions required to achieve the stated beliefs. This was considered at Workshop 2 (April 2012) at which the Committee came to a consensus on the majority of the elements of the proposed policy and asked for clarification of other points.

5.2 The RI beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

5.3 The Fund has sought advice to clarify the responsibility of the Committee when considering investments. This advice is included in Exempt Appendix 3.

5.4 It should be noted that the proposed policy allows flexibility for all investment approaches to managing RI risks to be adopted as long as it is aligned with the strategic investment objective.

6 PROPOSED RESPONSIBLE INVESTMENT POLICY

6.1 The proposed Responsible Investment Policy is set out in Exempt Appendix 4 with a summary of the issues considered in Exempt Appendix 1. The policy is based on the framework that was debated at the Committee workshops. In addition, care has been taken to ensure that the policy and actions required to implement it are appropriate, proportionate and achievable to implement within the Fund's resource and governance framework.

6.2 The policy sets out the underlying beliefs on which the policy is based. It demonstrates how the Fund will implement these beliefs within its strategic and operational decision-making processes. It recognises that the Fund's strategic investment policy will develop over time as the economic outlook and expected investment risks and returns vary, and therefore allows flexibility to manage RI issues within an evolving strategy, rather than be prescriptive. The objective should not be for the strategic policy to reflect every RI investment approach, but to ensure RI risks and opportunities are integrated into the Fund's strategic investment policy.

7 IMPLEMENTATION

7.1 Once the responsible investment policy has been agreed, the Fund's Statement of Investment Principles will be amended to reflect the beliefs and policy framework. Full details of the implementation plan are included in Exempt Appendix 1.

7.2 Some elements of the policy that are not already in place can be implemented fairly quickly with little resource or cost implications, whereas others may require longer term structural changes to the investments structure. Because of this, the implementation timeframe for any agreed policy is over the medium term and as such the policy should be viewed as a roadmap for future activity rather than an immediate mandate for wholesale change.

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.

8.2 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. Responsible investing issues can have a material impact on investment risk and return in the long term and therefore should be considered within the strategic investment policy

9 EQUALITIES

9.1 An equalities impact assessment is not necessary.

10 CONSULTATION

10.1 N/a

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The issues being considered are contained 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	Liz Feinstein, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-12-007

Meeting / Decision: Avon Pension Fund Committee
Date: 22 June 2012

Author: Liz Woodyard
Report Title: Responsible Investment Policy Exempt Appendix Title: Appendix 1 – Summary Appendix 2 – Responsible Investing Stage 2 Report Appendix 3 – Report on Investment Duties Appendix 4 – Proposed Responsible Investment Policy

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).* 5. *Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.*

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. Paragraph 5 of the revised Schedule 12A of the 1972 Act exempts information which a claim to legal professional privilege could be maintained in legal proceedings. The officer responsible for this item believes that the information in appendix 1, 2 and 4 falls within the exemption under paragraph 3 and appendix 3 falls within the exemption under paragraph 5. 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 (1, 2 & 4) 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.

Exempt appendix 3 contains legal advice regarding the Fund's legal obligations in relation to ethical investments. It is important that public authorities are allowed to conduct a free exchange of views as to their legal rights and obligations with those advising them without fear of intrusion. Without such confidence there are risks of lack of openness between client and lawyer and threats to the administration of justice. This thereby enables a public body to have confidence in that legal issues are being discussed fully. There is an important public interest in such confidence.

It is important for public authorities to be able to obtain unfettered legal advice in respect of their obligations and to be able to ask questions of Officers to enable the Elected Members, tasked with representing the local community, to reach a decision after having taken such advice into account.

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.

The Council considers that the public interest has been served by the fact that information has been made available on the issue – by way of the main report.

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By virtue of paragraph(s) 3, 5 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:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**STRATEGIC INVESTMENT REVIEW**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: NIL		

1 THE ISSUE

1.1 In line with best practice the Fund periodically reviews its strategic policy in order to ensure the investment strategy is aligned with the funding objective. The last review was in 2009, following the 2008 downturn in financial markets.

1.2 The Fund has commissioned a strategic review to commence in 4Q12. This report outlines the scope of the review and sets out the provisional timetable for completion.

2 RECOMMENDATION

That the Committee notes:

2.1 **The scope of the Strategic Review.**

2.2 **The provisional timetable for the review.**

3 FINANCIAL IMPLICATIONS

3.1 There is a provision in the 2012/13 for the costs of the Strategic review and the 2013/14 budget allows for some project work as a result of the review.

4 SCOPE OF REVIEW

4.1 The Fund is confronted by significant challenges, primarily a weak and volatile economic environment and an accelerating maturity profile (which negatively affects cashflow), both of which could impact the ability of the current investment strategy to meet the funding objective.

4.2 In addition the 2013 triennial valuation will commence in 2013. Separate meetings will be arranged to discuss the valuation; however, the actuary will provide input to the Strategic Review as required.

4.3 Therefore the scope of the review will be wide ranging to ensure that the strategy is designed both to meet the long term funding objective but has flexibility within it to protect the Fund value and take advantage of investment opportunities over a shorter time frame. The overriding investment objective will be to generate returns to meet the Fund liabilities with the minimum possible level of risk.

4.4 Therefore the review will cover the following main elements:

(1) An analysis of the Fund's Liability profile to determine the liability and asset risks, including sensitivity analysis around these risks

(2) A review of current and potential assets classes, expected return and risk models over differing timescales and economic environments, evaluation of ESG risks (at asset level)

(3) The Fund's risk "appetite" and how the "risk budget" could be allocated between assets, investment approaches and managers

(4) Define investment objective in terms of return and risk target and agree revised strategy and investment structure. Agree ongoing monitoring of policy.

5 PROVISIONAL TIMETABLE

5.1 The review process will be implemented via a number of workshops that will provide the information and understanding to agree the final strategy. It is proposed that the final workshop will be in the form of a Special Committee meeting to ensure enough time is allowed for a full Committee debate.

5.2 The timetable is as follows:

(1) **Workshop 1** – 18 October 2012 covering

(i) Background to asset/liability study, asset allocation

(ii) Risk decomposition – how do the asset and liability risks affect the funding position

(2) **Workshop 2 –** late November 2012 covering

(i) Review assets classes – current and potential, risk and return profiles

(ii) Discuss risk appetite between assets, approaches to investing (active/passive/specialist), and managers

(3) **Workshop 3 –** Special Committee meeting in late February 2013

(i) Define investment objective

(ii) Agree revised strategic policy

(iii) Monitoring of strategic policy

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.

6.2 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. The strategic investment policy determines the optimal investment structure given the risk adjusted return that is required to meet the funding requirement. The policy is regularly monitored to ensure the risk of the strategy not delivering as expected is effectively managed.

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	
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**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**RECOMMENDATIONS FROM THE INVESTMENT PANEL & MINUTES** • **REVIEW OF REBALANCING POLICY**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 17 May 2012 Appendix 2 – Current Rebalancing Policy Appendix 3 – Rebalancing Policy Paper from JLT Appendix 4 – Proposed Rebalancing Policy		

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 March 2012 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 *draft* minutes can be found in at Appendix 1.

1.3 The Fund's rebalancing policy seeks to ensure the Fund is invested in line with its strategic benchmark. Because of a period of increased investment market volatility, the Fund's rebalancing policy is currently suspended. In response to Committee members expressing the view that the policy should be reviewed rather than remain suspended indefinitely, the Investment Panel proposes changes to the rebalancing policy so that it can be implemented across all market environments.

2 RECOMMENDATION

That the Committee:

2.1 **Notes the draft minutes of the Investment Panel meeting held on 17 May 2012**

2.2 **Approves the revised Rebalancing Policy set out in Appendix 4 which incorporates the recommendations from the Investment Panel**

3 FINANCIAL IMPLICATIONS

3.1 The rebalancing policy will be implemented by the Investments Team in consultation with the Investment Consultant where required. Where the Officers need to seek the Investment Consultant's advice in detail, there will be extra advisory charges.

3.2 There will be normal transaction costs in the event that any rebalancing is required.

4 BACKGROUND

4.1 The Fund's current rebalancing policy was agreed by Committee in September 2009 (see Appendix 2). Following recent market volatility, the rebalancing policy has been suspended to avoid incurring costs due to overtrading.

4.2 In the Committee meeting on 16 March 2012, some Committee members expressed the view that the policy should be reviewed rather than remain suspended indefinitely.

4.3 In response, the Investment Panel considered a report by the Investment Consultant at their meeting on May 17 2012 and recommended the Committee make changes to the rebalancing policy as set out in 6.3 below.

5 REBALANCING POLICY

5.1 The Fund's current rebalancing policy is to rebalance between equities and bonds when the ratio of equities to bonds deviates by +/-2% from 75%:25% ratio. The hedge fund portfolio and the investments in property are not included in the rebalancing mechanism but are included in the broader policy for reviewing their allocation against the strategic benchmark.

5.2 In addition, rebalancing is subject to an additional trigger based on the relative value between equities and gilts (estimated using the equity gilt ratio). This additional trigger aims to minimise overtrading and ensure rebalancing only occurs if market valuations were favourable.

5.3 The current policy operates using a mechanical process and as such there is no opportunity for tailoring the process to market conditions except for the policy to be suspended.

6 PROPOSED CHANGES

6.1 The Fund's investment consultant has produced a report at Appendix 3 that proposes changes to the current rebalancing policy, focusing on the triggers for rebalancing.

6.2 The rationale behind the proposed changes is to make it less 'mechanical' by introducing an element of flexibility that allows for tactical views to be incorporated into the decision making and so avoid trading at inopportune times. The proposal also seeks to formally include the triggers for rebalancing the less liquid assets into the framework.

6.3 The changes to the policy recommended by the Panel are as follows:

(1) For the ratio between and equities / bonds, amend the thresholds for rebalancing by introducing a two-tiered set of boundaries;

(i) A deviation of 2% to 5% is subject to tactical review by Officers, having consulted the Investment Consultant, and

(ii) A deviation of 5% or more results in 'automatic' rebalancing back to at least the 2% threshold. An additional tactical decision is then taken by the Officers supported by the Fund's consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise, recognising market conditions.

(2) Introduce soft boundaries for hedge funds and property allocations that trigger a review by the Investment Panel, no-less than 6 monthly:

(i) Property +/- 5% (i.e. a range of 5% to 15% of Fund assets)

(ii) Fund of Hedge Fund +5% (i.e. a max range of 15% of Fund assets)

6.4 The rebalancing policy will be implemented by Officers, having consulted the Investment Consultant. Any recommendations from the Panel regarding 6.3(2) would have to be agreed by the Committee.

6.5 Any rebalancing activity will be reported to Committee at the following quarterly meeting.

6.6 Prior to any rebalancing, officers will take into account any cashflow requirement that may be imminent.

6.7 The revised Rebalancing Policy incorporating the proposed changes to is set out in Appendix 4.

6.8 For clarity, the percentages referred to in 6.3(1) refer to the *ratio* allocation between equities and bonds which is currently 75% equities to 25% bonds. It is the changes in this allocation that will trigger the rebalancing as outlined in the policy. The 75%:25% ratio reflects the strategic benchmark allocations of 60% to equities and 20% to bonds. Therefore the corresponding trigger levels expressed in terms of the strategic benchmark allocations are as follows:

	Equity Bond Ratio for Rebalancing	**Corresponding Strategic Benchmark Allocation**
Strategic Allocation	75% : 25%	60% Equities, 20% Bonds
Boundary for tactical review by officers	73% : 27% or 77% : 23%	58.4% Equities, 21.6% Bonds or 61.6% Equities, 18.4% Bonds
Boundary for 'automatic' rebalancing	70% : 30% or 80% : 20%	56% Equities, 24% Bonds or 64% Equities, 16% Bonds

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. 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.

7.2 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. The rebalancing policy has the objective of avoiding significant drift from the strategic benchmark.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues being considered are contained in the report.

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

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 17th May, 2012, 2.00 pm

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt. Andy Riggs substituted for Bill Marshall.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22 FEBRUARY 2012

The public and exempt minutes for the meeting of the 22 February 2012 were approved as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2012

The Assistant Investments Manager highlighted the following issues:

a) The quarterly return had been driven by positive returns from all equity markets, supported by small returns from hedge funds and property. Fixed income assets had negative returns in the quarter, except UK corporate bonds.
b) Monitoring of TT had continued since the previous meeting. Overall their stock selection, including financials and oil and gas, had produced a positive return in the quarter.
c) Meetings had been held with Man and Signet, as reported in exempt appendix 3.
d) The funding level had improved over the quarter from 66% to 70%.
e) The benchmark data was not complete, because the Panel was meeting earlier than usual.
f) There had been a significant downturn in markets since the end of the quarter.

Mr Finch commented on the JLT report in appendix 1. Referring to page 11 of the report, he said that in aggregate managers had done quite well. There was, however, concern about Man's ongoing performance. On the wider economic front, it was fortunate that inflation was not triggering wage inflation. Inflation could have a beneficial effect in reducing debt. In response to questions from Members, Mr Finch and officers stated:

- there was reason to be confident about investments in corporate bonds as although a number of European banks had been downgraded, many companies had strong balance sheets

  the trigger to reverse the tactical bond allocation has not been reached. The spread is at 141% compared to 1.46% at the March committee meeting. Corporate bond yields have not risen and John Finch confirmed that the 1.20% target to reverse the switch was still justified given market conditions.

- Schroders had a low exposure to European banks within its actively managed global equity portfolio.

A Member suggested that the Fund's investment managers were not doing very well at the moment against their benchmarks. Mr Finch replied that Genesis, an unconstrained manager, was performing very strongly, though there was variation among the others. Members agreed that it was unwise to attach too much importance to performance in a single quarter and that performance over a three year period was more informative. A Member noted that most of the Fund's managers had improved over three years, with the exception of Man. It was noted that a meeting would take place with Man shortly.

A Member asked about the impact of active currency hedging. The Investments Manager replied that the hedging ratio against the Euro had increased which is providing protection against the current weakness in the Euro. Last year the Euro remained strong against expectations and the hedging programme was not profitable.

RESOLVED:

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

2. That continuing concerns about the performance of Man should be notified to the Avon Pension Fund Committee.

9 REVIEW OF REBALANCING POLICY

The Investments Manager introduced this item. She reminded the Panel that at the last meeting of the Avon Pension Fund Committee a Member had been concerned about the suspension of the corporate bonds/equities rebalancing policy, suggesting that it should either be abolished or modified. As a result JLT have proposed a revised policy for rebalancing that is flexible to implement across all market conditions.

Mr Finch introduced the JLT review report, circulated as Appendix 1. He said that the report suggested that wider bandwidths for the switching would result in fewer transactions and hence lower transaction costs in a volatile market. It also suggested that property and the Fund of Hedge Funds might be included in the rebalancing policy Framework.

The Chair said that he wished to understand which officers would be responsible for taking decisions under the policy and how they would arrive at a decision. He asked what would happen if a decision to whether or not to implement the trigger had to be considered when officers were absent on leave. The Head of Business, Finance and Pensions said there would always be cover. Those normally involved in the decision would be the Investments Manager, Assistant Investments Manager, Mr Finch and the Head of Business, Finance and Pensions, or, if he was on holiday, the Strategic Director of Resources. There was a continuous review of market conditions, so that it was unlikely that a possible trigger situation would come entirely out of the blue. The Chair pointed out that one of these key officers could be on holiday for several weeks. The Head of Business, Finance and Pensions replied that if it appeared that a trigger situation could arise during the leave of a key officer, a position would be agreed in advance. The Investments Manager said JLT would always be consulted before a decision was taken. She thought that a pragmatic approach was needed; there had to be a trigger, but one that was too mechanistic could cause problems. The Chair suggested that the recommendations in the report should be amended so that tactical reviews and decisions would be taken by Officers “having consulted the Investment Consultants”. The Head of Business, Finance and Pensions said that it would be absurd to implement any rebalancing policy if there was a complete market collapse. Mr Finch said that the aim was to produce a more flexible policy, but there was no question of removing the Committee’s governance responsibility.

RESOLVED

The Panel recommends that a rebalancing policy is maintained by the Fund, subject to the following amendments:

1. For equities/bonds, introduce a “two-tiered” set of boundaries:

   i) a deviation of between 2% and 5% is subject to a tactical review by the Officers having consulted the Investment Consultants;

ii) a deviation greater than 5% results in an automated rebalancing back to at least +/- 2% weighting as a default. An additional tactical decision is then taken by the Officers supported by the Fund's consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

2. For the less liquid assets, introduce a "soft" bandwidth at which the allocation should be reviewed and discussed by the Investment Panel no less than six-monthly:

   i. Property: +/- 5%;

   ii. Fund of Hedge Funds: + 5%.

10 WORKPLANS

The updated workplans were circulated.

RESOLVED to note the workplans.

The meeting ended at 2.59 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Appendix 2

Current Rebalancing Policy

(1) Rebalancing to only include equities and bonds

(2) Rebalancing will be triggered when

a) The equity/bond ratio deviates from the 75/25 ratio by +/- 2%, and

b) The equity gilt ratio is within the favourable range

(3) Rebalancing within equities will be based on the strategic benchmark and performance (of active managers)

(4) Rebalancing within bonds will take account of any tactical position

(5) The allocation to hedge funds should be reviewed if it reaches 15% of the Fund

(6) The allocation to property will be reviewed annually given the need to invest any income distributed

(7) Net new money should be invested pro rata in line with the strategic policy, taking account of tactical positions, and net new money should be utilised first if a rebalancing is triggered.

(8) To delegate implementation of the rebalancing policy, including investment of new cash, to the officers

Agreed by Avon Pension Fund 26 June 2009

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Review of Rebalancing Policy

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Dan Wooder, MMath
Principal Analyst

John Finch, ASIP FCII
Director

May 2012

Executive Summary

This report has been prepared for the Investment Panel of the Avon Pension Fund (the "Fund") by JLT Investment Consulting ("JLT") and the Investments Officers of the Fund.

Introduction

The Fund's current rebalancing policy has been set with the objective of avoiding significant drift from the central benchmark, the aim being to have a clear policy in place that is pragmatic and efficient.

Review

This review has been conducted in response to concerns that the current policy results in a high frequency of transactions in volatile markets. These transactions can result in large costs for the Fund. The review covers the following issues.

- Whether rebalancing remains appropriate.
- Alternatives to the fact that, under the current policy, the only way to avoid a large number of transactions is to completely suspend the policy.
- In volatile markets, there is an increased chance that a mechanical policy can result in transactions at inopportune times for a particular asset class.
- Fund of hedge funds do not follow the same rebalancing policy as equity and bond assets.
- Property holdings are currently not included in the rebalancing policy.
- Analysis over the previous three years shows that using wider bandwidths would have significantly reduced the number of transactions.

Recommendations

The review recommends that a policy is maintained by the Fund, subject to the following amendments.

- For equities / bonds, introduce a "two-tiered" set of boundaries:
    - A deviation of between 2% and 5% is subject to a tactical review by the Officers.
    - A deviation of greater than 5% results in automated rebalancing back to at least +/- 2% weighting as default. An additional tactical decision is then taken by the Officers on whether this is fully rebalanced back to the central benchmark allocation or otherwise.
- For the less liquid assets, introduce a "soft" bandwidth at which the allocation should be reviewed and discussed by the Investment Panel no less than six-monthly.
    - Property: +/- 5%
    - FoHF: + 5%

Section One - Overview of rebalancing

Section Summary

- The current rebalancing policy operates with respect to the Fund's growth and bond assets only. Rebalancing occurs based on a mechanical process when both the allocation has deviated by a certain amount and the equity/gilt ratio is favourable. The policy can be suspended during times of high market volatility. The policy is operated and implemented by the Officers of the Fund.
- A rebalancing policy is important as it provides a framework for allocating investments and disinvestments; it avoids large deviation from the strategic benchmark; and potentially allocates away from asset classes that have performed relatively well and allocated to those that have performed relatively less well. However, such a policy can lead to excessive rebalancing during volatile markets; it can lead to chasing a falling market and it doesn't take account of tactical views.

Why have a rebalancing policy?

1.1 Rebalancing policies are commonly used by pension schemes for a number of reasons. Notably, by having some form of framework, it allows a pension scheme's assets to be monitored and managed within acceptable bandwidths around a central, strategic position that has been deemed appropriate for the scheme.

1.2 The pros and cons of a rebalancing strategy have been outlined in previous strategy reports and are outlined again for reference.

Advantages	Disadvantages
✓ Sale of assets that have risen in price (or fallen less than others). **Sell high**	× Chasing a falling market (buying assets that have further to fall)
✓ Purchase assets that have fallen in price (or risen less than others). **Buy low**	× Sell out of a rising market (selling assets that have further to rise)
✓ Avoids significant drift of asset allocation	× Ignores economic indicators
✓ Avoids unintended losses due to this drift	× Potentially ignores common sense
✓ Locks in gains (selling prices that have risen in price)	× Trading leads to transaction costs
✓ Clear process for cashflow management (use cashflow to rebalance)	× The time lag between calculating the rebalancing and implementation
✓ Avoids 'emotion' in assessing asset classes (mechanical process to buying and selling)	× The time taken for governance, monitoring and implementation of the strategy
	× Volatile conditions can lead to excessive trading

Current policy: overview

1.3 The Fund's current rebalancing policy has been set with the objective of avoiding significant drift from the central benchmark, the aim being to have a clear policy in place that is pragmatic and efficient.

1.4 The following table outlines the central benchmark allocation for each asset class, as well as how they are categorised for the purposes of monitoring and rebalancing.

Table 1.1

Category	Asset Class	Central strategic allocation (%)	Asset class (rebalancing)	Underlying asset class allocation (%)
Growth	UK equities	18	Equities	30
	Overseas equities	42		70
	Fund of Hedge Funds ("FoHF")	10		
	Property	10		
Bonds	Fixed interest UK Government bonds ("Gilts")	6	Bonds	30
	Index-linked UK Government bonds ("ILGs")	6		30
	UK Corporate bonds	5		25
	Overseas fixed interest bonds	3		15

Current policy: Alternative asset classes (FoHF and property)

1.5 As outlined in the previous table, the focus for the rebalancing is largely centred on the allocation between equity and bond asset classes rather than growth and bond categories. Namely, **the allocations to fund of hedge funds ("FoHF") and property are not considered in assessing whether to rebalance between the equity / bond split**.

1.6 Whilst not part of the rebalancing policy, the allocations are taken into account when determining whether to reduce the allocation to growth assets within the Fund strategy as a result of any improvement in the funding level. Any required reduction in growth assets is to be applied by reducing the allocation to equities within the Fund benchmark.

1.7 The allocation to FoHF is expected to be monitored on a quarterly basis and if the allocation rises to above 15% of the Fund then the Investment Panel consider if, and how much, it is appropriate to disinvest from the asset class.

Current policy: general rebalancing

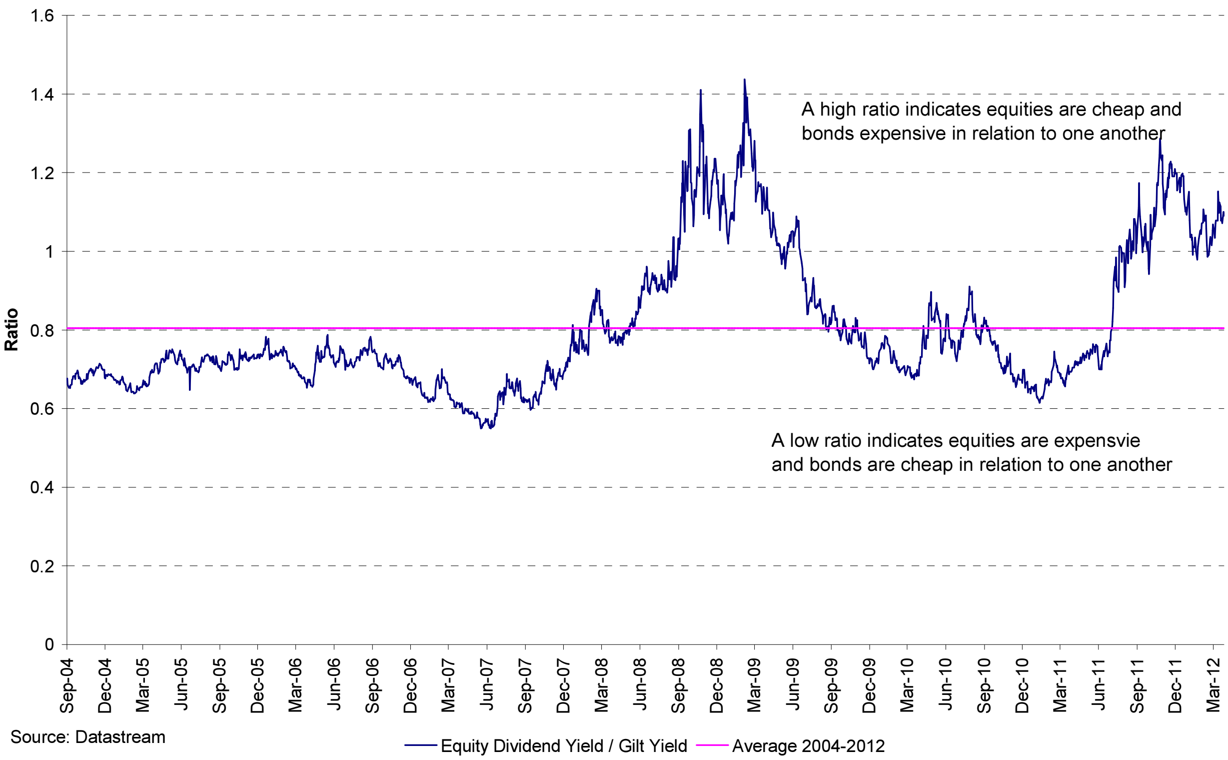
1.8 The asset allocation and subsequent decision as to whether or not to rebalance between equities and bonds is **monitored on a weekly basis by the Officers of the Fund and rebalancing occurs as necessary within quarters.**

1.9 A **deviation of + / - 2% is permitted** after the application of any natural liquidity (i.e. net investments into or disinvestments out of the Fund) between equity and bond assets before rebalancing between the two.

1.10 Furthermore, rebalancing only occurs if the ratio of the equity dividend yield to the bond yield is favourable. That is, if the allocation between bonds and equities implies a switch into bonds, the ratio must be below the long term average for the switch to take place as this implies equities are relatively expensive.

1.11 Similarly, if the allocation implies a switch into equities, the ratio must be above the long term average, as this implies equities are relatively cheap compared to bonds. The following chart demonstrates this.

Chart 1.1



Source: Datastream

1.12 In the event that a rebalancing transaction is required, assets are moved to correct the asset allocation to the central benchmark allocation.

1.13 **Cashflows applied to / from the bond portfolio are used to rebalance the bond portfolio back to its constituent benchmark weights**.

- If, following this rebalancing, the allocation to the different types of bonds falls outside the strategic benchmark ranges as detailed in Table 1.1, then the bond portfolio could potentially be rebalanced back to its benchmark weights by selling the overweight bonds and purchasing the underweight bonds. This could be monitored quarterly but is not expected to occur outside of the normal rebalancing using cashflows and may also incur unnecessary trading costs.

- Any tactical allocation, for example between corporate bonds and gilts, overrides the long term strategic benchmark allocation until such time as it is reversed.

1.14 **Rebalancing within the equity portfolio is done back to the strategic benchmark, taking into account performance of active managers**. If there are concerns with specific managers or if there is a preference to increase the allocations elsewhere, this can be taken into account at the point of rebalancing. In the absence of such views, it is sensible to continue using the passive portfolio for rebalancing as transaction costs are expected to be lower.

1.15 If the 35% limit on life fund investment restricts the amount that can be invested with BGI then the investment should be applied to either the Fund's UK equity or overseas equity managers, depending on which area is most underweight.

Potential issues with the current policy

1.16 The current policy has a number of potential issues that have become apparent given the market experience over recent years.

1.17 One issue is that, with a fully mechanical process, the **frequency of rebalancing** can become high in volatile markets. Trading physical assets (both purchases and sales) incurs trading costs; commission, stamp duty, administration charges etc.

1.18 Furthermore, as the physical settlement of trades is not instantaneous (e.g. equity typically has a 3 day settlement period), there is a risk from potential "out of market" exposure over the settlement period. Some analysis of the rebalancing frequency under the current policy is included in the analysis section of the report (Section Four).

1.19 At present, the only way to avoid frequent trading triggered by market movements is to completely suspend the rebalancing policy (although use of the equity dividend yield / gilt yield ratio also avoids, to some extent, very frequent trading). However, this is not ideal as it leaves the Fund open to significant deviations from the central benchmark allocation over time.

1.20 There are broadly two ways that this can be dealt with.

- The rebalancing bandwidths are widened such that they are not breached as frequently.
- A process could be derived which allows some form of tactical overlay from the Officers of the Fund. This is explored in the following section (Section Two).

1.21 A further potential downside of the current policy is that it **does not include FoHF or property** within the standard rebalancing, instead relying on a periodic review by the Officers. Given the nature of these investments (i.e. long term investment horizon and typically less liquid than the other growth assets used by the Fund), even relatively infrequent transactions could be detrimental or impractical for the Fund.

1.22 The risk with completely omitting this from the process is that the strategic allocations could potentially deviate significantly, either at the total Fund level or within the growth portfolio. The treatment of alternative assets is discussed in more detail later in the report (Section Three).

Section Two - Incorporating tactical views

Section Summary

- Whilst simple to follow and implement, a mechanical rebalancing process may lead to trading at inopportune times for particular asset classes. As such, it may be desirable to incorporate tactical views.
- The recommendation is for a layered rebalancing policy with "soft" rebalancing points at which the Officers reflect their tactical views (having taken advice from the Investment Consultant) in their implementation of any rebalancing, and wider "hard" rebalancing points at which the Officers undertake compulsory rebalancing.
- The Officers should set and implement the tactical views within the agreed framework to overcome the practical difficulties that would otherwise arise such as the Committee's ability to make tactical decisions on rebalancing relatively quickly and also quantifying these views. To assist the Officers with the latter, JLT's and the investment managers' tactical views on various markets could be referenced.

2.1 As outlined in the previous section, the current policy is a mechanical, rules-based process. This has the advantage of being easy to follow but has a number of weaknesses, notably the increased frequency of rebalancing transactions required in more volatile markets.

2.2 In addition to the various transaction costs, there are other disadvantages of mechanical rebalancing triggers.

2.3 The timing of a triggered rebalancing transaction may be inopportune. For example, pricing spreads on corporate bonds are currently fairly wide which may suggest that, given the choice, switching regularly into or out of corporate bonds would not be preferable.

2.4 Another example would relate to the short-term outlook for a particular asset class. Over recent months, the yield on gilts has fallen to historically low levels. If the Officers held the view that these were going to rise imminently (and the value fall), it may not be preferable for an automated rebalancing policy to invest cash flows into gilts.

2.5 Aside from timing, the extent of the rebalancing should also be considered. The current mechanical process is that any rebalancing transactions that take place are conducted so as to rebalance to the central strategic allocation. This is overridden by other tactical decisions, for example the current decision to switch gilts into corporate bonds.

How to incorporate tactical views

2.6 One way to avoid these issues is to allow some flexibility in the process for the Officers (with advice from the Investment Consultant) to input their tactical views as an "overlay" to the mechanical process. This would go some way to avoiding some of the issues outlined above.

2.7 However, in taking tactical positions, we need to ensure that this does not undermine the overall aim of avoiding significant deviations from the strategic benchmark.

2.8 In order to balance this, we propose that a layered structure could be a beneficial approach to take at each point the rebalancing of assets is monitored. An example of how this could be structured is outlined below.

- **< 2% deviation: no action required**
- ("soft" rebalancing point) **2% - 5% deviation: tactical review and decision**
- ("hard" rebalancing point) **> 5% deviation: automated rebalancing back to at least the +/- 2% weighting as default** with additional tactical decision on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

2.9 As well as tackling a number of the issues outlined above, this structure has the advantage of widening the automated trigger points to avoid overtrading but including more frequent monitoring of smaller deviations.

2.10 At the hard rebalancing point of 5%, caution should be applied in taking a default position of just rebalancing to the outer band of +/- 5%. This is because, if only rebalancing to the outer limit, it is quite likely that the position could again deviate more than 5% by the following review point and, therefore, need to be considered again.

2.11 Instead, our suggestion is that when the hard rebalancing point of >5% is hit, the default approach should be to rebalance to the soft rebalancing point of +/-2%.

Practicalities

2.12 There are a number of practical issues to be considered if including a tactical element to the rebalancing process.

2.13 One fundamental issue is that it is relatively **difficult to assess and quantify these tactical views**. There is no particularly quick fix to this issue given its subjective nature but there are a number of things which can be used to help.

2.14 JLT Investment Consulting and JLT's dedicated asset management arm, JLT Investment Management, regularly discuss and outline short term, tactical views on different markets. These discussions are monthly and give a "rating" for the outlook for different equity regions, bond assets etc. An example of this output is included below.

TAG views – April 2012

Asset type	Strongly Negative	Negative Outlook	Neutral	Positive Outlook	Strongly Positive
Equity					
UK			●		
US			●		
Europe (ex UK)		●			
Japan				●	
Asia Pacific (ex Japan)			●		
Emerging			●		
Frontier					●
Bond					
UK Government (long)			●		
UK Corporate (Investment Grade)				●	
Overseas Bonds (Sovereign)		●			
High Yield					●
Emerging Market (US$)				●	
Emerging Market (Local)					●
Index Linked					
Property			●		
Cash		●			

Strongly positive
- **Frontier markets** - there is the likelihood of continuing above average growth in economic activity. Valuations have been knocked by political events during 2011, and now look attractive for more growth oriented clients (but beware liquidity)
- **High yield bonds (largely US)** - with no prospect of interest rates rising significantly, if at all, in the next year and the reduced likelihood of default given the pick up in economic activity, the returns available look worth the extra risk, but be selective on credit quality.
- **Emerging market (local currency) bonds** - despite some interest rate concerns, given the rapid growth being seen in some emerging economies (with associated inflationary concerns) as with high yield bonds, we believe the returns available are worth the additional risk.

Positive outlook
- **Japan** - the rapid recovery in corporate activity and profits from the lows seen after last March's earthquake and tsunami, valuations look cheap relative to the rest of the region. However, recent good performance has meant a reduction to our view.
- **UK corporate bonds (investment grade)** - with the interest rate outlook stable, and inflation likely to fall, the returns available make the sector a preferable alternative to cash.
- **Emerging Market bonds (US$ denominated)** - similar arguments to UK corporate bonds above.

Neutral outlook
- **UK equity** - reduced from a 'Positive Outlook' to neutral. The recent rally has left the market waiting for 'new news' which seems unlikely to materialise in the near-term. Equities currently seem range-bound in the high 5000s – a decline to the lower end of the range would provide another buying point
- **Emerging Market equity** - Reduced from a 'Positive Outlook' to neutral. As in the UK the rapid bounce-back in share prices needs more positive news to continue, which seems unlikely in the short-term given, inter alia, the mixed signals coming out of China.
- **US equity** - valuations do not look expensive but we have reduced to a neutral view until there are clearer indications on the economy. In the short term markets look to be up with events.
- **Property** – there are some concerns in the short-term but too late to sell and yields still attractive relative to cash.

Negative outlook
- **Europe (ex UK) equity** - we are still negative on the outlook for economic activity, and therefore corporate earnings over this timescale.
- **Overseas sovereign bonds** - risks on the downside if their "safe haven" status comes under threat
- **Cash** - no possibility of receiving any type of return, let alone a real return, although perhaps a safe haven.

Other Comments
- **Commodities –** At present, the TAG believes that both Oil and Gold prices will trend higher as 2012 progresses, with possible implications for other assets.

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2.15 This could be shared with the Officers on a monthly basis to assist in forming their own tactical views on what extent of rebalancing should take place.

2.16 Additionally, a key source of information would be the Fund's investment managers who will regularly form short term views on markets as part of their ongoing portfolio management.

2.17 In the new proposed process, the equity dividend / gilt yield ratio should no longer be applied mechanically as its original purpose is being now being addressed by the tactical views. The Officers and Investment Consultant may of course still choose to make reference to the ratio in helping to determine the tactical view.

2.18 The frequency of rebalancing monitoring is a crucial point. At present, the asset allocation is monitored weekly for rebalancing purposes.

2.19 In introducing a tactical overlay to the process, another key consideration is the **timeliness of decisions**. In order for the process to work effectively, the Officers would need to form their views on any required rebalancing transactions soon after the effective rebalancing point. Any significant lag undermines the aims of the policy as it leaves the asset allocation open to drift.

2.20 For information, whilst JLT's tactical views are constructed on a monthly basis, they are not usually published until around mid-month. At present, we have not discussed with the Fund's investment managers what information they could provide and in what format this would be. Whilst these are not a necessity for a tactical overlay process to work, we do believe it would be a useful resource to be factored in to the decision making.

Practicalities

2.21 The right to suspend the policy until the Committee can be consulted should be retained although this is not expected to occur as often given the proposed wider bandwidths.

2.22 However, given the wider ranges, it is important that deviation from the hard rebalancing range does not persist for an extended period of time otherwise the experience of the fund could be significantly different to that of the strategic benchmark.

Section Three - Less liquid assets

Section Summary

- At present, property is not covered by the rebalancing policy and the FoHF has a different policy to the equities and bonds; namely that this is monitored rather than being included in a mechanical process. This is due to the illiquid nature of the assets which means that regular transactions are either difficult, costly or inappropriate.
- To avoid the risk of significant drift to the underlying allocation to growth funds, the recommendation is that the allocations are regularly reviewed by the Officers and rebalancing conducted at their discretion (in consultation with the Investment Consultant and Chair).

3.1 At present, the allocations to property and FoHF are not included in the ongoing rebalancing.

3.2 With highly liquid assets, trading costs are relatively low (with the exception of where stamp duty applies) and the volumes traded mean that any rebalancing can be undertaken:

- quickly;
- cheaply; and,
- in a manner that is unlikely to “move the market”.

3.3 In the case of property and FoHF, this is not typically the case. With both of these assets, redemptions from the funds are slow to realise and pricing spreads can make this costly. In terms of new money, whilst it is relatively simple to allocate to FoHF, the drawdown period for new money to be invested in physical property can be slow.

3.4 The current policy for these asset classes is outlined below.

- **Property**: The nature of the property investment is such that its allocation is not rebalanced. Investment income received from the underlying properties may be allocated elsewhere if appropriate.
- **Fund of Hedge Funds ("FoHF")**: Rebalancing of the FoHF element of the investment strategy is only considered, at a quarter end, if market movements have led to the weighting to be greater than 15% of the total Fund assets (i.e. central benchmark + 5%). The higher deviation from the benchmark (relative to other measures in place) reflects the lower liquidity of the asset class compared with bonds and equities.

3.5 One crucial point to note with the FoHF rebalancing policy is that this is not necessarily mechanical. Instead, rebalancing is only considered when the guideline is breached.

Review of policy for illiquid assets

3.6 If held in isolation, it would not normally be advisable to have a large number of transactions either into or out of either of these asset classes. However, as outlined previously, the potential risk of having no rebalancing policy across a broader investment strategy is allocation drift over the long term. This is also the case if implementing particularly large rebalancing bandwidths.

3.7 In this case, the potential downside of the drift has the specific effect of reducing the liquidity profile of the growth assets relative to what is expected or needed. More generally, this could result in underperformance due to unintended over or underweight allocations to different asset classes.

3.8 Therefore, we believe there is value in maintaining or adopting some form of rebalancing policy for the FoHF and property holdings respectively. That said, recognising the difficulties for frequent transactions on these asset classes, we need to accept that these bandwidths will need to be widened or that monitoring of these elements is less frequent to avoid excessive trading. As such, a policy for rebalancing these assets should be seen as maintaining the strategic allocation over the medium term whilst avoiding frequent small transactions in the short term.

Recommendation for rebalancing policy for illiquid assets

3.9 It appears sensible to adopt a pragmatic approach to the rebalancing of these assets with a discretionary element on timing that can take into account tactical views.

3.10 Our proposal is therefore that triggers for review are set for both property and FoHF investments and that any breaches are brought to the Investment Panel no less than six-monthly.

- **Property: +/- 5%**
- **FoHF: + 5%**

3.11 Consistent with previous advice given, we are not recommending a lower bound to the FoHF investment as we are seeking to take profits from increased investment values, i.e. investment growth. In addition, FoHF are expected to provide regular positive returns, unlike equities where values can be more volatile, as demonstrated by recent markets.

3.12 At present, JLT does not publish short term views on hedge funds. This is primarily because these are very much long-term investments given their absolute return nature which means that regular movements into and out of the asset class are not typically advisable.

3.13 However, the information produced by JLT does cover the other asset classes used by the Fund and, therefore, this can still be a useful input to the Officers' decisions as for every rebalancing disinvestment, there is a counterbalancing investment into another asset class.

3.14 Whether or not JLT's tactical views are incorporated, this highlights an important point in that the relative attractiveness of asset classes should be borne in mind with all tactical decisions taken. For example, if the default approach dictates that the required corrective trade is to sell equities and subsequently buy property but the Officers are bullish on equities, the tactical view may override the automated approach.

Rebalancing of the illiquid asset classes should be separate to the equity / bond rebalancing process

3.15 One of the key aspects of the strategy is the allocation between bond and growth type assets. This allocation is set based on the structure of the Fund's liabilities and is, therefore, fundamental to the investment strategy. That is, should the rebalancing decision be based on the total growth assets actual allocation versus the total growth assets strategic asset allocation?

3.16 Our view is very much that this should not be the case. That is, the decision to rebalance between bonds and equities as discussed in the previous section should be kept separate from the rebalancing process for the illiquid asset classes.

3.17 Whilst a policy to rebalance the overall bonds / growth allocation just using the equity and bond assets would avoid the trading difficulties and costs of property and FoHF, the downside of this is that it leaves the underlying allocations open to substantial drift over time. For example, if the policy dictated that the growth allocation needed to be reduced over a number of consecutive quarters, this would mean disinvesting from equities over and over again. This could substantially increase the weighting to property and FoHF within the growth assets, thus changing the structure of this part of the portfolio.

3.18 In recognition that the greatest downside risk comes when asset values are at their highest (and therefore most overweight relative to the investment strategy), we do believe that it is appropriate to periodically review the allocation to the less liquid asset classes.

Rejecting a mechanical approach

3.19 A mechanical approach similar to the existing policy used for equities and bonds is not appropriate for these asset classes, even if using wider bandwidths.

3.20 Whilst the frequency or rebalancing transactions would be reduced, the risk of dealing at inopportune times in the market is still present.

3.21 Also, depending on the extent of the rebalancing required, it may be inappropriate for the less liquid assets. For example, if the transaction required is to disinvest a small amount from property, the benefit to the Fund may be outweighed (or naturally dissipated) by the length of time required to realise the assets.

Section Four - Analysis

Section Summary

- This section includes a back-test of the proposed rebalancing policy based on market data for the three years to 31 March 2012. The examples generated demonstrate the potential benefits of widening the bandwidth for automated transfers as well as incorporating a tactical overlay. However, it is recognised that it is not possible to perfectly back-test the subjective element of this process.

4.1 In this section we provide analysis to demonstrate how the proposed rebalancing policy would have operated over the past three years, compared to the current policy.

4.2 Given the proposed flexibility and introduction of tactical decisions as an overlay to the mechanical process, the results of this analysis may be different to the action that may have been taken. Namely, it is impossible to definitively say what course of action would have been decided on at each historic point when a tactical decision rebalancing point (or "soft trigger") was breached. These decisions may have affected the subsequent asset allocation and, therefore, the analysis.

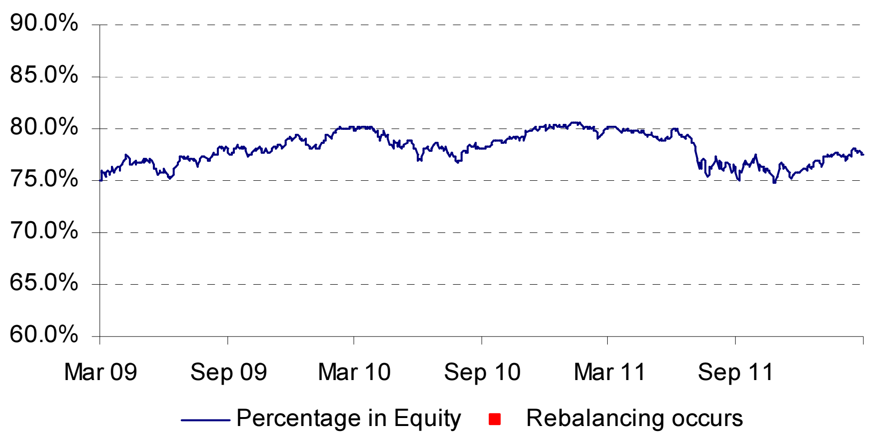
4.3 In back-testing the proposed policy, there are a number of different metrics that can be assessed:

- The number of events at which either the soft or hard trigger was breached.
- The asset allocation / return from the proposed strategy relative to no rebalancing.
- The impact of different ranges on the previous two points.
- The impact of different frequencies of monitoring (quarterly, monthly etc).

No rebalancing

4.4 For comparative purposes, the chart below shows how the allocation to equities would have changed over time had the scheme not had a rebalancing policy in place. [Starting portfolio value is £100]

Chart 4.1 - No rebalancing



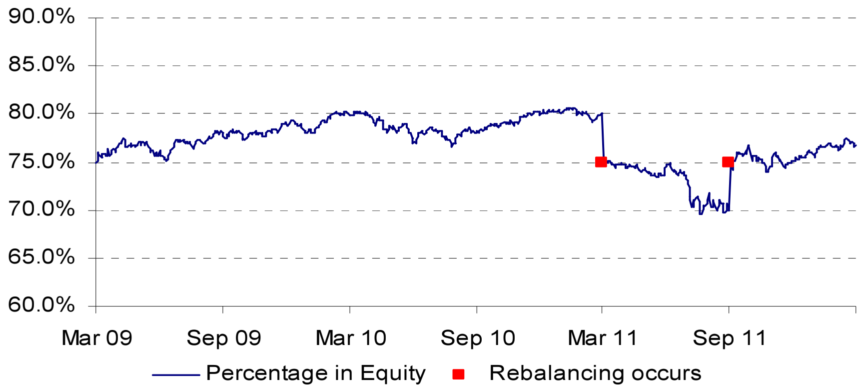
Final portfolio value	£157.37

Mechanical-only transactions: back to central allocation

4.5 The following charts show the change in value of a notional portfolio over the last three years with the starting allocation set as the Fund's central benchmark allocation, excluding the illiquid asset classes. That is (as in chart 4.1 also), the starting portfolio is £75 invested in equities and £25 invested in bonds. The rebalancing policy is centred around the equity / bonds split and ignores FoHF and property allocations. A number of assumptions are made:

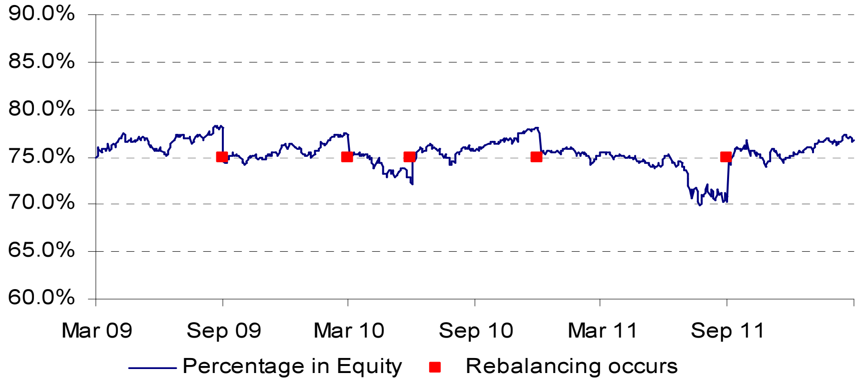
- The frequency of rebalancing is quarterly.
- Transaction costs are included within the rebalancing transactions.
- No discretionary or tactical decisions are allowed for in the analysis at this stage and the portfolio is rebalanced to the central benchmark allocation when triggered.

Chart 4.2 - Hard rebalancing trigger at 5%; rebalanced to central benchmark allocation



# rebalancing transactions	2
Final portfolio value	£159.43

Chart 4.3 - Hard rebalancing trigger at 2%; rebalanced to central benchmark allocation



# rebalancing transactions	5
Final portfolio value	£159.09

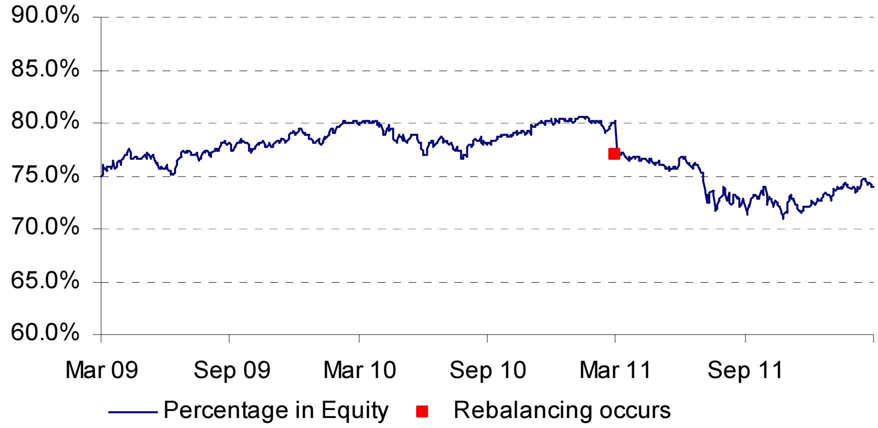
4.6 As expected, the tighter rebalancing trigger of 2% results in more frequent rebalancing transactions. Based on the market experience of the past three years, the resulting portfolio value would have been marginally higher had a 5% trigger point been in place.

4.7 Chart 4.3 gives an indication of the frequency of tactical trigger points that may have been hit. However, is difficult to assess how the tactical views would have been implemented in the short term and it should be noted that this is skewed by the fact that the portfolio is rebalanced at every trigger point.

Mechanical-only transactions: back to soft rebalancing point

4.8 The following chart shows the impact of a mechanical process where the hard rebalancing point is set at +/- 5% but, when triggered, the allocation is only moved back to the +/-2% soft rebalancing trigger point.

Chart 4.4 - Hard rebalancing trigger at 5%; rebalanced to soft rebalancing trigger of 2%



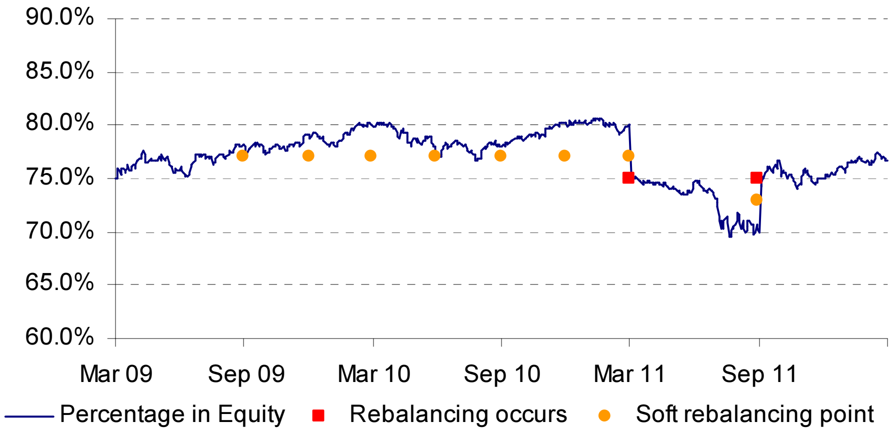
# rebalancing transactions	1
Final portfolio value	£158.27

4.9 In this example, as the allocation to equities is only reduced to the soft rebalancing point of +2% when triggered rather than to the central allocation, there are no further hard rebalancing triggers (i.e. compared to chart 4.2). Whilst very specific to the historic data used, this does demonstrate one of the potential benefits of a layered policy in that it can potentially reduce the number of transactions required to manage the policy. However, it does lead to a lower end portfolio value than if just rebalancing to the central allocation.

Tactical review points

4.10 For comparative purposes, the following chart assumes that automated rebalancing only takes place at +/- 5% and also that the asset allocation is allowed to drift at every tactical review.

Chart 4.5 - Hard rebalancing trigger at 5%; rebalanced to central benchmark allocation



# rebalancing transactions	2
# soft rebalancing points hit	8
Final portfolio value	£159.43

4.11 Comparison of Chart 4.4 and Chart 4.5 demonstrates that a tactical view may or may not be beneficial. For example, rebalancing at March 2011 to the central allocation (as in chart 4.5) was beneficial to the portfolio value relative to rebalancing back to the 2% target (as in chart 4.4). However, the orange points show that not rebalancing when the soft rebalancing point was reached is beneficial (i.e. comparison to chart 4.3).

Illiquid asset classes

4.12 Using the same starting point and market data as above, there were no breaches of either illiquid asset class rebalancing limit at any of the rebalancing points. Moreover, neither of the allocations breached their respective review boundary at any point in the analysis over the past three years.

Allocations 31 March 2009 - 31 March 2012	Permitted Range	Minimum allocation	Maximum allocation
Property	5% - 15%	8.1%	10.0%
Fund of Hedge Funds	0% - 15%	8.5%	10.2%

Summary & key results

4.13 As with any back-testing using historical data, it should be borne in mind that past performance and market movements are not necessarily a guide to the future.

4.14 However, the analysis in this section demonstrates a number of potential benefits, particularly that the proposed +/-5% hard rebalancing bandwidth should reduce the number of automated transactions over time and also that a tactical overlay could potentially be used to benefit the portfolio value. It also provides flexibility to deal with different types of market conditions, which is not shown in only using a 3 year period.

4.15 Some of the key results from the analysis are as follows.

- The final portfolio value with no rebalancing was lower than any of the rebalancing policies above.
- Widening the hard rebalancing point from +/-2% to +/-5% reduced the frequency of automated transactions.
- In the above example (between charts 4.4 to 4.5), rebalancing to the soft rebalancing point rather than to the central allocation detracted from value. This shows the potential for tactical decisions to both add and detract value. Whilst this is a very short period over which to assess strategies, it highlights that it is appropriate that the range over which tactical decisions can be taken is small.
- Assuming a starting allocation of the central benchmark, there were no breaches of the proposed "review" trigger points for the illiquid assets. These allocations stayed relatively close to their benchmark weighting throughout the three year period.

Section Five - Summary of Rebalancing Policy

Equities / Bonds

5.1 For equities / bonds, the proposed structure is a two-tiered rebalancing policy, incorporating tactical views.

- A deviation of between 2% and 5% is subject to a tactical review by the Officers.
- A deviation of greater than 5% results in automated rebalancing back to at least +/- 2% weighting as default. An additional tactical decision is then taken by the Officers on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

5.2 These positions will be reviewed as required based on market events and on at least a quarterly basis.

5.3 After consultation with the Fund's Investment Advisors, Officers will be required to collate tactical views. Depending on availability, information available from the Fund's investment managers and JLT's short-term, tactical views may be taken into consideration to assist with this.

Illiquid assets

5.4 For the less liquid assets, introduce a "soft" bandwidth at which the allocation should be reviewed and discussed by the Investment Panel no less than six-monthly.

- Property: +/- 5%
- FoHF: + 5%

Appendix

A.1 We have used index data rather than actual manager returns, as this report does not look at the case of rebalancing between investment managers of the same brief. We have used the following indices, with the data being provided by Thomson Reuters (total return index simply means that the indices take account of dividends, coupons and other income being reinvested).

- UK Equity – FTSE ALL Share Total Return Index
- Overseas Equity – FSTE AW All World ex UK Total Return Index
- Gilts – FT Actuaries Over 15 Year Gilt Index Total Return Index
- Index Linked Gilts – FT Actuaries Over 5 Year Index Linked Gilts Index Total Return Index
- UK Corporate Bonds – iBoxx Non-Gilts Over 15 Year Index Total Return Index
- Overseas Fixed Interest Bonds – JP Morgan Emerging Market Bond Global Composite Total Return Index
- FoHFs – Credit Suisse / Tremont Hedge Fund – Net Asset Value – Index
- Property – UK Investment Property Databank (Time Weighted) Index

A.2 Further information on these indices is available upon request. However, we consider them to be a fair proxy to typical benchmark returns for these asset classes, albeit with the obvious caveat that actual investment manager performance can significantly differ to the benchmark.

A.3 Within our analysis, we have taken account of the transaction costs of rebalancing. These costs will depend on the market conditions and the investment managers involved. However, we consider the following a reasonable proxy:

- UK Equity – 0.8%
- Overseas Equity – 1.0%
- Gilts – 0.2%
- Index Linked Gilts – 0.2%
- UK Corporate Bonds – 1.0%
- Overseas Fixed Interest Bonds – 1.0%
- FoHFs – 1.0%
- Property – 4.0%

A.4 We have also assumed that the cost of selling each asset class is the same as the cost of purchasing. This is a simplistic assumption though one that will still give results reflective of the actual costs of rebalancing.

JLT Investment Consulting

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

CONTACTS

John Finch
JLT Investment Consulting
Tel: +44 (0) 161 253 1168
Email: John_Finch@jltgroup.com

Jig Sheth
JLT Investment Consulting
Tel: +44 (0) 161 253 1154
Email: Jignesh_Sheth@jltgroup.com

Dan Wooder
JLT Investment Consulting
Tel: +44 (0) 161 253 1190
Email: dan_wooder@jltgroup.com

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Appendix 4

Proposed Rebalancing Policy

(1) For the ratio between and equities / bonds, there is a two-tiered set of boundaries;

  i. A deviation of 2% to 5% is subject to tactical review by Officers, having consulted the Investment Consultant, and

  ii. A deviation of 5% or more results in 'automatic' rebalancing back to at least the 2% threshold. An additional tactical decision is then taken by the Officers supported by the Fund's consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

(2) For hedge funds and property allocations the following will trigger a review by the Investment Panel, no-less than 6 monthly:

  i. Property +/- 5% (i.e. a range of 5% to 15% of Fund assets)

  ii. Fund of Hedge Fund +5% (i.e. a max range of 15% of Fund assets)

(3) Rebalancing within equities and bonds will be based on the strategic benchmark and performance (of active managers) and will take account of any tactical position

(4) Net new money should be invested pro rata in line with the strategic policy, taking account of tactical positions, and net new money should be utilised first if a rebalancing is triggered.

(5) The rebalancing policy will be implemented by Officers, having consulted the Investment Consultant. Any recommendations from the Panel regarding (2) would have to be agreed by the Committee.

(6) Any rebalancing activity will be reported to Committee at the following quarterly meeting.

To be approved by Avon Pension Fund 22 June 2012

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT TO COUNCIL 2012**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council		

1 THE ISSUE

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

1.2 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2012, will be submitted to the Council meeting in September 2012. In addition, the report will also be circulated to all employing bodies within the Fund to inform them in detail of the work undertaken by the Committee.

2 RECOMMENDATION

That the Committee:-

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

3 FINANCIAL IMPLICATIONS

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

4 COMMENT

4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months starting from April 2011 and sets out its agenda over the coming year.

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

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

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

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

Appendix 1

AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2011 - March 2012)

1 BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2009 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of more than 100 employing bodies including the four unitary authorities. The Fund has c. 85,000 members and the value of the Fund as at 31 March 2012 was £2.7 billion.

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

(a) AVON PENSION FUND COMMITTEE TERMS OF REFERENCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (APFC) whose terms of reference, as agreed by the Council in May 2012, are set out below:

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

(b) COMMITTEE MEMBERSHIP

The Committee structure is as follows:

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

Committee meetings and workshops:

- The Committee meets quarterly. Attendance at these meetings was 87.5% for the voting members and 50% for the non-voting members
- Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. These workshops are designed to explore specific policy issues in detail. During the last 12 months, two workshops were arranged to review the Interim Actuarial Valuation and another to review the Fund's policy for Socially Responsible Investing.

(c) INVESTMENT PANEL

The Investment Panel is a formal sub-committee of the APFC, established to consider the management and investment of the Fund's assets and to advise APFC on such matters. The Panel's terms of reference which were agreed by the Council in May 2012 are:

The Panel shall:

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

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

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

As there was a new Panel from June 2011 (due to the elections), the Panel met formally 3 times during the year with attendance at 87.5%. In addition one workshop was held as part of the Panel's programme to review the performance of each of the investment managers over a twelve month period. The rest of these reviews were accommodated within the regular meetings.

Committee members also attended the Fund's Annual Employers' Conference which was held in February 2012. This well attended conference provides an opportunity for employers to meet with the Fund officers and committee members to discuss the overall service provided and explore topical issues that affect the employers.

2 TRAINING

The administering authority recognises the importance of training of Committee members given their fiduciary duties. The Fund provides training to committee members to ensure they possess an appropriate level of knowledge, skill and understanding to discharge these duties.

The Fund's approach to training is based on the Myners principles for best practice in decision making in pension funds which highlights the need for administering authorities to ensure:

- that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor 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.

The Fund has in place a training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds, which identifies six areas of knowledge as follows:

i. Legal and governance context
ii. Pensions Auditing and Accounting Standards
iii. Procurement and Relationship Management
iv. Investment Performance and Risk Management
v. Financial Markets and Product Knowledge
vi. Actuarial Methods, Standards and Practices

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Many of the areas identified by the framework are covered through detailed committee reports and workshops where the topic is explored greater in detail.

In addition, Committee members are encouraged to attend seminars and conferences which broaden their understanding of investments and topics of relevance to the LGPS.

As there were a number of new Committee members appointed after the local elections in May 2011, two Induction Sessions for new members, tailored to Committee's agenda, were delivered by officers. The topics covered included governance, administration strategy, investment strategy, fund solvency and risk management. During the year new committee members also attended the Fundamentals Training Courses offered by the Local Government Pension Committee.

3 REVIEW OF THE YEAR

a) INVESTMENT PERFORMANCE

The Fund generated an investment return of 3.6% during the year which was 1% ahead of the average local authority fund return of 2.6%. Over the last three years the Fund's return was 14.5% p.a. which is in line with the average local authority fund return.

The 2010/11 investment return was driven by the 15.4% increase in the value of the bond portfolio driven by a 'flight to safety' within the bond market as investors sought the relative safety of UK government bonds. Equities in contrast generated a small negative return overall (-0.4%) which detracted from the overall return given that 60% of the Fund's assets are invested in equities compared to just 20% invested in bonds.

b) FUNDING LEVEL

As at 31 March 2012 the Actuary has estimated that the funding level has fallen to 70% from 83% a year earlier. This compares to 82% funding level at the 2010 valuation. This fall in the funding level is due almost exclusively to the increase in liabilities; the investment return is only marginally below expected returns over the period since the last valuation. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. Unfortunately, gilt yields in the UK are currently near historic lows. These low yields are a result of investors seeking relative safety in non-euro denominated bonds, such as UK gilts as the Eurozone sovereign debt crisis has escalated. In addition, the Bank of England's policy to support the economy through its "quantitative easing" programme, in which the Bank purchases gilts from banks, has also kept yields low.

The next triennial valuation is due in March 2013 which will set the employer contribution rates for the following three years (April 2014 to March 2017).

c) POTENTIAL CHANGES TO THE LGPS

In line with other public sector pension funds, negotiations have been ongoing during the year to introduce a new scheme that will be more affordable and sustainable for the long term. The new scheme for the LGPS is expected to be introduced from 2014 and any changes to the benefits structure will be reflected in the 2013 triennial valuation.

d) PENSIONS ADMINISTRATION

(i) Budget

During the Year to 31 March 2012, total costs were £85,000 under the budget of £11.3 million. However, excluding Investment Management, custody fees and governance costs, administration costs were £201,000 under the budget of £2.1million, a saving of 9.6%. Savings were made across all budgets.

Spending on Investment Management and custody fees was £267,000 over budget. This was the result of higher than budgeted fees for the new dynamic currency hedging mandate that commenced during the year. The investment management fees of £8.8 million equate to 0.32% of the Fund's assets.

(ii) CIPFA Benchmarking (Benefits Administration)

The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund "

Overall costs at £17.58pa per member were less than the average of £18.47. Staffing costs were significantly less at £5.28 against £8.74 due to partly to lower payroll costs; this was balanced by accommodation costs which were higher than the average.

Communication costs also contributed at £3.17per member compared to the average of £0.88. Although significantly higher, the Committee is content to be overweight in this area as it strongly believes in the importance of providing members with top quality information and this is done by newsletters to both active and pensioner members, a high quality website which allows member web browser access to their personal pension data and provides simple calculation facilities reducing the number of requests to the Fund's Benefits Staff. Savings were made in the year by some employers sending the active newsletter electronically. This trend is set to continue.

Any significant results are brought to the attention of the Committee.

(iii) New Pensions Administration Strategy

The New Pensions Administration Strategy came into effect in April 2011 following consultation with participating employers in the Fund and approval by the Avon Pensions Fund Committee in December 2010. The purpose of the Strategy is to assist in helping employers and the Fund work more closely together to provide an ever improving level of service to Fund members.

Performance of both parties are now being closely monitored and reported on in Quarterly Performance Reports to larger employers, followed up by review meetings with larger employers. During the year meetings were held with four unitary authorities and problem areas discussed and resolved. The new Strategy has put into place a transparent and robust framework which makes both parties far more accountable and should result in improved performance. Although it is relatively early days relationships with larger employers have been noticeably improved with the closer working together.

Following a study of a training *gap analysis* questionnaire sent to all employers, training sessions for employers' hands-on staff are being arranged for late 2012.

The Strategy is due for review in April 2013.

4 COMMITTEE BUSINESS TO MARCH 2012

a) Investment Strategy

During the year a number of strategic decisions were implemented as follows:

- Hedge Fund portfolios – following a workshop held in March 2011 it was agreed to maintain the strategic allocation to hedge funds but to adjust the allocation between the existing managers. This was implemented in July 2011.
- A manager was appointed to manage a programme to hedge the US dollar, Euro and Yen exposure arising from the Fund's investments in overseas equities. This programme will protect the Fund's value from adverse movements in sterling (when sterling strengthens the Fund needs to be hedged) but allow the Fund to benefit from favourable movements in these exchange rates (when sterling weakens).

In 2011/12 the Committee began a review of the Fund's Responsible Investing Policy in order to ensure the Fund's policy reflected best practice across the whole Fund, subject to the constraints imposed by the current investment structure. The review will be completed in 2012.

b) Funding Strategy and Admitted Bodies

During the year an interim valuation was commissioned to up-date the Committee on the funding position. As at 31 March 2011 the funding level was 83% which was largely unchanged from the 2010 valuation level of 82%. However, turmoil in the Eurozone had led to a significant deterioration in the funding position which had fallen to 70% by 31 March 2012.

Given the tighter funding environment for public sector service providers, the Committee received a report during the year monitoring the financial position of the community admission bodies (CAB) within the Fund. Since 2005 CABs are only allowed to join the Fund if they have a guarantee. For those admitted prior to this date, the Fund seeks to obtain greater security for the liabilities where possible. There are 22 CABs in the Fund and at the 2010 valuation they accounted for 4.1% (£23 million) of the overall deficit.

c) Approval of the 3-year Service Plan and Budget 2012/15

The Service Plan details the new development proposals that are planned to be undertaken during the next three financial years (2012/2015). The new plan is designed to respond to known and anticipated legislative changes and Committee initiatives as well as to take the Pensions Service forward by improving performance and the overall quality of service to members and employers.

Given that the "new Scheme" will be introduced in 2012/13 with an expected implementation date of April 2014, much of the plan's focus is on the roll out of the new scheme, especially the Fund's communications, IT and training strategy. The Fund will need to inform Scheme members of the changes to their benefits and explain to employers the financial implications of any changes and also any changes in data the Fund requires from payroll systems. In addition, the Investment and Finance Team is being strengthened to manage more effectively the increased volume of investment and actuarial work.

The 2012/13 administration budget increased by £70,000 reflecting the need for extra resources to meet the increase in administrative pressures on the Fund. Savings of £66,000 were also identified across the service mainly through identifying better ways of delivering the service through greater use of electronic systems.

d) Treasury Management Policy

The Fund's Treasury Management Policy sets out how the Fund's cash is invested to meet its day –to –day requirements. The cash managed under this policy at any time is c. £25 million, which represents less than 1% of the Fund's value.

The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately to the Council's and the Fund has a bespoke Treasury Management Policy.

Following significant downgrades of credit ratings of the UK banks it became increasingly difficult to invest in line with the policy. In March 2012 the Committee approved a revised policy that provides flexibility to ensure efficient management and investment of the short term cash.

In addition, the Committee were advised that the Fund's cashflow profile is "maturing" more rapidly than previously anticipated (the monthly payment of pension payments is forecast to exceed the monthly receipt of pension contributions). This is due to the number of active members declining due to redundancies and the fact that pensions are indexed to inflation whereas salaries have been frozen.

e) Administration

In accordance with the new Pensions Administration Strategy, the Committee reviewed 2 quarterly Summary Monitoring Reports of the Fund's and employers' performance. The Committee will use its influence where appropriate to assist Officers with poor performing employers. This was not felt necessary for these reports.

f) Workplans

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

5 FUTURE BUSINESS

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

a) Investments

- Complete the review of the Fund's policy towards Socially Responsible Investing
- Strategic Investment Review – review the current invest strategy given funding pressures, maturing cashflow profile, macro-economic environment
- Review Cash Management Policy to meet monthly pension payments

b) 2013 Valuation

- Arrange workshop to assess impact of new scheme changes and investment markets on the 2013 valuation

c) Benefits Administration

- Respond to the consultation exercise on the new LGPS Scheme and monitor the project to implement the new scheme coming in from April 2014 and the campaign to explain the changes and their significance to members and employers to minimise the number of members who might opt out.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.
- Decide in December 2012 whether the Summary Reports of employer and Fund administration performance which are currently taken in Exempt Session should hence be taken in Open Session.
- Approve any changes as a result of the Review of the Pensions Administration Strategy due in April 2013.

d) Auto Enrolment (of all employers eligible staff into an appropriate pension arrangement –a legal requirement form October 2012)

Although not the legal responsibility of the Avon Pension Fund, the Committee is keen to ensure that a workable process is put in place to auto-enrol eligible staff (and re-enrol opt outs at 3-year intervals) of participating employers. Focus groups will be established between the Officers and employers to try to ensure a standard approach is adopted by employers that will minimise the administration work of the Fund. In June 2013 the Fund's actuary is running an information session for all Fund employers. Reports of progress will be given to Committee in the run up to the first employer staging date of March 2013.

Avon Pension Fund

June 2012

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2011 / 2012**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2012**		

1. THE ISSUE

1.1. The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2012 is attached as **Appendix 1.**

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

1.2. The Draft Statement of Accounts for the year to 31 March 2012 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.3. In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2012 must be signed off by the Council's Section 151 Officer by the 30 June and the Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 27 September 2011.

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

2. RECOMMENDATION

That the Committee notes

2.1. **the Draft Statement of Accounts for the year to 31 March 2012 for audit**.

3. FINANCIAL IMPLICATIONS

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

4. COMMENT ON THE DRAFT FINAL ACCOUNTS

4.1. The accounts show an increase in the total net assets of the Fund from just under £2.7bn to just under £2.8bn. This increase was almost entirely due to the rise in market value of investments and to a lesser extent to receipts of investment income and the excess of contributions received over benefits paid.

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

a) Total net assets of the fund are valued at £2,766m made up of investment assets of £2,757m and net debtors and creditors of £9m.

b) The £9m of net debtors at 31 March 2012 is mainly made up of contributions that relate to the year to 31 March 2012 but were not due for payment until April 2012.

c) Following the 2010 valuation Employer's contributions have been split between normal contributions in regard to current service and deficit contributions in regard to past service. 2011/12 is the first year that these have been separated. Taken together the employer's normal and deficit contributions fell by £0.5m compared with the previous year. This reflects the changes made as a result of the 2010 valuation and the savings made in salaries by employers through changes in staff.

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

e) The increase in Investment Income is due to the underlying growth in dividends, a large increase in income generated by Schroder UK Property portfolio and the fact that the Schroder Global Equity portfolio is managed on a segregated basis whereas the assets were previously invested in pooled funds that did not distribute income.

f) The increase in Investment Management expenses reflects the increase in investment management fees due to the rise in asset values, and inclusion of two new mandates, the Global Equity Fund and Currency Hedging.

g) In accordance with International Financial Reporting Standards (International Accounting Standard 26) the draft Statement of Accounts includes a statement prepared by the Fund's actuary disclosing the actuarial present value of promised retirement benefits. The Actuary has used the Corporate Bond based discount rate of 4.9% p.a. (versus 5.5% p.a. at 31 March 2011). This and a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.) have resulted in an increase in the Fund's liabilities for the purposes of IAS26 of about £135 million.

5. RISK MANAGEMENT

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

6. EQUALITIES

6.1. An equalities impact assessment is not necessary.

7. CONSULTATION

7.1. N/a

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1. Are contained in the report.

9. ADVICE SOUGHT

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

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

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APPENDIX 1

PENSION FUND ACCOUNTS 2011/12

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2011 to 31 March 2012.

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

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

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

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

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

	Past Service	Future Service
Rate of Discount	6.85% per annum (pre- retirement) 5.7% per annum (post retirement)	6.75% per annum
Rate of pensionable pay inflation	4.5% per annum	4.5% per annum
Rate of price inflation	3.0% per annum	3.0% per annum

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

1.9 The Actuary has estimated that the funding level as at 31 March 2012 has fallen to 70% from 83% at 31 March 2011. This fall in the funding level is due primarily to the increase in liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. Gilt yields in the UK are currently near historic lows.

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

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2012 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2012.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2012.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

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

Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

2.11 Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

Fund Account

For the Year Ended 31 March 2012

	Notes	2011/12	2010/11
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**137,983**	139,519
Transfers In		**7,066**	9,571
Other Income	5	**341**	273
		145,390	149,363
Benefits Payable	6	**129,155**	121,745
Payments to and on account of Leavers	7	**5,325**	9,094
Administrative Expenses	8	**2,359**	2,379
		136,839	133,218
Net Additions from dealings with members		**8,551**	16,145
Returns on Investments			
Investment Income	10	**27,667**	22,663
Profits and losses on disposal of investments and change in value of investments.	11	**71,241**	177,861
Investment Management Expenses	9	**(9,228)**	(7,194)
Net Returns on Investments		**89,680**	193,330
Net Increase in the net assets available for benefits during the year		**98,231**	209,475
Net Assets of the Fund			
At 1 April		**2,668,063**	2,458,588
At 31 March		**2,766,294**	2,668,063

Net Assets Statement at 31 March 2012

	Note	31 March 2012 £'000	%	31 March 2011 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**104,920**	**3.8**	154,494	5.8
Equities		**390,014**	**14.1**	246,996	9.3
Index Linked securities : Public Sector		**189,659**	**6.9**	157,378	5.9
Pooled investment vehicles :-					
- Property : Unit Trusts		**75,708**	**2.8**	69,935	2.6
: Unitised Insurance Policies		**50,849**	**1.8**	49,875	1.9
: Other Managed Funds		**70,394**	**2.5**	52,242	2.0
Property Pooled Investment Vehicles		**196,951**		172,052	
- Non Property : Unitised Insurance Policies		**791,555**	**28.6**	844,190	31.6
: Other Managed Funds		**1,004,658**	**36.3**	1,028,962	38.6
Non Property Pooled Investment Vehicles		**1,796,213**		1,873,152	
Derivative Contracts: FTSE Futures		**(514)**	**0.0**	542	0.0
Cash deposits		**76,595**	**2.8**	50,515	1.9
Other Investment balances		**6,734**	**0.2**	4,750	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**441**	**0.0**	(59)	0.0
Other Investment balances		**(3,648)**	**(0.1)**	(1,869)	(0.1)
TOTAL INVESTMENT ASSETS	12	**2,757,365**		2,657,951	
Net Current Assets					
Current Assets	14	**10,881**	**0.4**	11,548	0.4
Current Liabilities	14	**(1,952)**	**(0.1)**	(1,436)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**2,766,294**	**100**	2,668,063	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2012.

Notes to the Accounts - Year Ended 31 March 2012

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating admission bodies. A list of employers with contributing scheme members can be found in note 25.

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

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

	31 March 2012	31 March 2011
Employed Members	**33,737**	33,810
Pensioners	**23,631**	22,541
Members entitled to Deferred Benefits	**28,657**	26,868
TOTAL	**86,025**	83,219

3, TAXATION

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

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

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

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2011/12		2010/11
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**52,749**		75,120	
Administering Authority	**7,137**		11,560	
Admission Bodies	**5,252**	**65,138**	7,587	94,267
Employers' deficit Funding				
Scheduled Bodies	**25,368**		-	
Administering Authority	**3,842**		35	
Admission Bodies	**1,463**	**30,673**	1963	1,998
Total Employer's normal & deficit funding		**95,811**		96,265
Employers' contributions- Augmentation				
Scheduled Bodies	**4,941**		4,226	
Administering Authority	**815**		825	
Admission Bodies	**440**	**6,196**	552	5,603
Members' normal contributions				
Scheduled Bodies	**29,112**		29,060	
Administering Authority	**3,795**		4,292	
Admission Bodies	**2,481**	**35,388**	3,568	36,920
Members' contributions towards additional benefits				
Scheduled Bodies	**480**		570	
Administering Authority	**78**		126	
Admission Bodies	**30**	**588**	35	731
Total		**137,983**		139,519

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements. Deficit funding contributions have been paid by some employers in respect of the recovery of their deficit relating to past service.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with

The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5, OTHER INCOME

	2011/12	2010/11
	£'000	£'000
Recoveries for services provided	**330**	262
Cost recoveries	**11**	11
	341	273

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

6, BENEFITS PAYABLE
Analysis of Benefits Payable by Type:-

	2011/12	2010/11
	£'000	£'000
Retirement Pensions	**97,229**	90,317
Commutation of pensions and		
Lump Sum Retirement Benefits	**29,416**	28,734
Lump Sum Death Benefits	**2,510**	2,694
	129,155	121,745

Analysis of Benefits Payable by Employing Body:-

	2011/12	2010/11
	£'000	£'000
Scheduled & Designating Bodies	**108,110**	102,705
Administering Authority	**12,277**	11,412
Admission Bodies	**8,768**	7,628
	129,155	121,745

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2011/12	2010/11
Leavers	**£'000**	£'000
Refunds to members leaving service	**19**	22
Individual Cash Transfer Values to other schemes	**5,306**	9,072
Bulk Cash Transfers	**-**	-
	5,325	9,094

There have been no bulk transfers out during the year.

8, ADMINISTRATION EXPENSES

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

	2011/12 £'000	2010/11 £'000
Administration and processing	**1,612**	1,638
Actuarial fees	**278**	271
Audit fees	**43**	47
Legal and professional fees	**-**	-
Central recharges from Administering Authority	**426**	423
	2,359	2,379

9, INVESTMENT EXPENSES

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

	2011/12 £'000	2010/11 £'000
Portfolio management	**8,830**	6,840
Global custody	**127**	78
Investment advisors	**168**	174
Performance measurement	**35**	32
Investment accounting	**8**	15
Investment Administration	**60**	55
	9,228	7,104

10, INVESTMENT INCOME

	2011/12 £'000	2010/11 £'000
Interest from fixed interest securities	**5,762**	6,350
Dividends from equities	**12,010**	7,051
Income from Index Linked securities	**5,757**	6,187
Income from pooled investment vehicles	**3,751**	2,917
Interest on cash deposits	**370**	146
Other - Stock lending	**17**	12
	27,667	22,663

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may

terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.
The value of the stock on loan as at 31 March 2012 was £16.67 million (31 March 2011 £43.67m), comprising of £6.68m equities and £9.99m sovereign debt. This was secured by collateral worth £17.58 million comprising OECD sovereign and supra national debt and equity index baskets from the FTSE 350 index. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/11 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in IMarket Value £'000	**Value at 31/03/12 £'000**
Fixed Interest Securities	154,494	23,025	(103,921)	31,322	**104,920**
Equities	246,996	415,218	(263,954)	(8,246)	**390,014**
Index linked Securities	157,378	46,148	(41,614)	27,747	**189,659**
Pooled Investments -					
- Property	172,052	40,890	(25,477)	9,486	**196,951**
- Non Property	1,873,152	129,556	(219,883)	13,388	**1,796,213**
Derivatives	483	1,687	(3,009)	766	**(73)**
	2,604,555	656,524	(657,858)	74,463	**2,677,684**
Cash Deposits	50,515	240,786	(213,344)	(1,362)	**76,595**
Net Purchases & Sales		897,310	(871,202)	26,108	
Investment Debtors & Creditors	2,881			205	**3,086**
Total Investment Assets	2,657,951				**2,757,365**
Current Assets	10,112			(1,183)	**8,929**
Less Net Revenue of Fund				(26,990)	
Total Net Assets	2,668,063			**71,241**	**2,766,294**

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

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

Derivatives. The purchases and sales of derivatives are shown at the values of the realised profits and losses of the net derivatives transactions.

Investment Transaction Costs. The following transactions costs are included in the above:

	2011/12				**2010/11**			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	650	31		681	606	1	-	607
Commission	414	446	9	869	159	152	3	314
TOTAL	1,064	477	9	1,550	765	153	3	921

12, INVESTMENT ASSETS

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

		31 March 2012		31 March 2011
UK Equities		**£'000**		£'000
Quoted	**224,418**		209,686	
Pooled Investments	**272,289**		415,651	
FTSE Futures	**(514)**	**496,193**	543	625,880
Overseas Equities				
Quoted	**165,597**		37,310	
Pooled Investments	**963,933**	**1,129,530**	987,796	1,025,106
UK Fixed Interest Gilts				
Quoted	**104,920**		154,494	
Pooled Investments	**27,676**	**132,596**	35,247	189,741
UK Index Linked Gilts				
Quoted	**189,658**	**189,658**	157,378	157,378
Sterling Bonds (excluding Gilts)				
Pooled Investments	**240,771**	**240,771**	138,079	138,079
Non-Sterling Bonds				
Pooled Investments	**77,973**	**77,973**	74,000	74,000
Hedge Funds				
Pooled Investments	**213,571**	**213,571**	222,379	222,379
Property				
Pooled Investments	**196,951**	**196,951**	172,052	172,052
Cash Deposits				
Sterling	**70,728**		49,672	
Foreign Currencies	**5,867**	**76,595**	843	50,515
Investment Debtors/Creditors				
Investment Income	**3,132**		3,264	
Sales of Investments	**3,602**		1,485	
Foreign Exchange Hedge	**441**		(59)	
Purchases of Investments	**(3,648)**	**3,527**	(1,869)	2,821
TOTAL INVESTMENT ASSETS		**2,757,365**		2,657,951

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	1,070	CHF	(1,547)		(2)
Up to one month	GBP	3,884	EUR	(4,660)		(0)
Up to one month	GBP	47,026	USD	(75,100)	16	
Up to one month	GBP	35,527	JPY	(4,418,000)	1,912	
Up to one month	JPY	3,401,000	GBP	(27,666)		(1,789)
Up to one month	USD	48,000	GBP	(30,216)		(170)
One to six months	EUR	206,000	GBP	(180,529)		(8,599)
One to six months	GBP	238,898	EUR	(275,400)	9,035	
One to six months	GBP	125,662	JPY	(15,657,000)	6,326	
One to six months	GBP	438,949	USD	(706,600)		(3,681)
One to six months	JPY	10,407,000	GBP	(85,260)		(5,935)
One to six months	USD	627,696	GBP	(392,696)	435	
Six to twelve months	EUR	119,200	GBP	(100,731)		(994)
Six to twelve months	GBP	164,523	EUR	(196,100)	443	
Six to twelve months	GBP	103,526	JPY	(12,590,000)	7,283	
Six to twelve months	GBP	465,096	USD	(730,000)	7,368	
Six to twelve months	JPY	7,276,000	GBP	(60,374)		(4,775)
Six to twelve months	USD	416,700	GBP	(267,689)		(6,432)
Total					**32,818**	**(32,377)**
					Net forward currency contracts at 31st March 2012	**441**

Open forward currency contracts as 31 March 2011	-	(59)
Net forward currency contracts at 31st March 2011		**(59)**

Exchange Traded Derivatives held at 31 March 2012:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2012	15,869	(514)

Exchange Traded Derivatives held at 31 March 2011:-

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

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

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

Forward "over the counter" foreign exchange contracts are held by one of the investment managers to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

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

	31 March 2012		31 March 2011	
	£'000	**%**	£'000	%
Blackrock	**1,297,622**	**47.1**	1,469,327	55.3
Residual values held by former managers	**1**	**0**	24	0
Record	**11,141**	**0.4**	-	-
Jupiter Asset Management	**115,721**	**4.2**	109,295	4.1
Genesis Investment Management	**140,717**	**5.1**	147,200	5.5
Invesco Perpetual	**173,237**	**6.3**	169,742	6.4
State Street Global Advisors	**86,241**	**3.1**	91,176	3.4
Partners Group	**71,011**	**2.5**	53,129	2.0
Royal London Asset Management	**227,558**	**8.3**	131,992	5.0
TT International	**134,334**	**4.9**	132,073	5.0
Man Investments	**63,099**	**2.3**	100,418	3.8
Gottex Asset Management	**52,820**	**1.9**	53,490	2.0
Stenham Asset Management	**33,272**	**1.2**	11,665	0.4
Signet Capital Management	**64,379**	**2.3**	47,225	1.8
Lyster Watson Management	**799**	**0.0**	10,228	0.4
Schroder Investment Management	**270,996**	**9.8**	120,511	4.5
Bank of New York Mellon	**7,369**	**0.3**	1,882	0.1
Treasury Management	**7,048**	**0.3**	8,574	0.3
TOTAL INVESTMENT ASSETS	**2,757,365**	**100.0**	2,657,951	100.0

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

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

The following investments represent more than 5% of the net assets of the fund.

Investments	Value at 31st March 2012	% of Asset Class	Value at 31st March 2011	% of Asset Class
Aquila Life UK Equity Index Fund (BlackRock)	269,730,449	9.79%	413,357,332	15.55%
BlackRock World Index Fund	229,083,318	8.31%	238,457,411	8.97%
RLPPC UK Corporate Bond Fund (Royal London)	227,557,302	8.26%	131,992,313	4.97%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236,861	6.29%	169,742,352	6.39%
Genesis Emerging Markets Investment Fund	140,717,205	5.11%	147,200,459	5.54%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2012. Debtors and creditors included in the accounts are analysed below:-

		31 March 2012		31 March 2011
CURRENT ASSETS		**£'000**		£'000
Contributions Receivable :-				
- Employers	**7,306**		7,466	
- Members	**2,783**		2,963	
Discretionary Early Retirement Costs	**640**		409	
Other Debtors	**152**	**10,881**	710	11,548
CURRENT LIABILITIES				
Management Fees	**(1,119)**		(728)	
Lump Sum Retirement Benefits	**(720)**		(380)	
Other Creditors	**(113)**	**(1,952)**	(328)	(1,436)
NET CURRENT ASSETS		**8,929**		10,112

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2012		31 March 2011
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**8,424**		9,068	
NHS Bodies	**-**		11	
Other Public Bodies	**1,764**		1,580	
Non Public Sector	**693**	**10,881**	889	11,548
CURRENT LIABILITIES				
Other Public Bodies	**(40)**			
Non Public Sector	**(1,912)**	**(1,952)**	(1,436)	(1,436)
NET CURRENT ASSETS		**8,929**		10,112

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

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2012. (March 2011 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE
On 31st May 2012 the proposals for the new LGPS (for England and Wales) were issued in outline. Formal consultation is scheduled to take place during the Autumn of 2012. If agreed the new scheme will be a Career Average Re-valued Earnings (CARE) scheme using CPI as the revaluation factor and will take effect from 1st April 2014. Details of the future cost management and governance of the proposed scheme are due to be made in the next phase of the LGPS 2014 Project. The cost of the new scheme will be met from employee's and employer's contributions.

17, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26
The following statement is by the Fund's actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31st March 2012	31st March 2011
Rate of return on investments (discount rate)	**4.9% per annum**	5.5% per annum
Rate of pay increases *	**4.0% per annum**	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	**2.5% per annum**	2.9% per annum

* a corresponding allowance to that made in the actuarial valuation has been made for short-term public sector pay restraint.

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £3,536 million and £3,869 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £135 million.

18, TRANSFERS IN
There was one group transfer in to the fund during the year ending 31st March 2012. This was for £1.146m in respect of staff who transferred from the Learning Skills Council to local authorities with effect from 1 April 2010 and who opted to transfer their accrued benefits from the Principal Civil Service Pension Scheme to the LGPS. All other transfers in during the year were in relation to individuals.

19, BENEFITS RECHARGED TO EMPLOYERS

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

	2011/12	2010/11
	£'000	£'000
Benefits Paid and Recharged	6,049	6,025

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2011/12 were £1,156 (2010/11 - £4,128). Additional Voluntary Contributions received from employees and paid to Friends Life during 2011/12 were £452,103 (2010/11 - £516,160).

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

	31 March 2012	31 March 2011
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	678	784
Unit Linked Retirement Benefits	310	443
Building Society Benefits	279	319
	1,267	1,546
Death in Service Benefit	151	199
Friends Life		
With Profits Retirement Benefits	230	173
Unit Linked Retirement Benefits	3,700	2,307
Cash Fund	442	277
	4,372	2,757

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

21, RELATED PARTIES

Committee Member Related:-

In 2011/12 £37,926 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£39,245 in 2010/11)*. Six voting members and two non- voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2011/2012. *(Four voting members and three non voting members in 2010/2011, including three B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £5,265 and £12,655 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2011/12 the Fund paid B&NES Council £253,542 for administrative services (*£246,209 in 2010/11*) and B&NES Council paid the Fund £28,574 for administrative services (*£27,636 in 2010/11*). Various Employers paid the fund a total of £136,921 *(£98,366 in 2010/11)* for pension related services including pension's payroll and compiling data for submission to the actuary.

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

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

22, OUTSTANDING COMMITMENTS

As at the 31 March 2012 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £67,254,389.

23, FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

	31/03/2012	31/03/2011
Financial Assets	**£'000**	£'000
Loans & Receivables	**87,476**	62,063
Financial assets at fair value through profit or loss	**2,684,932**	2,609,364
Total Financial Assets	**2,772,408**	2,671,427
Financial Liabilities		
Payables	**5,600**	3,305
Financial liabilities at fair value through profit or loss	**514**	59
Total Financial Liabilities	**6,114**	3,364
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-		

Income , Expense, gains and Losses

	Loans & Receivables	**Financial assets at fair value through profit or loss**	Loans & Receivables	Financial assets at fair value through profit or loss
	2011/12		2010/11	
	£'000	**£'000**	£'000	£'000
Interest expense	**-**	**.**	-	-
Losses on derecognition	**-**	**19,427**	-	2,321
Reductions in fair value	**-**	**67,447**	-	4,788
Fee expense	**-**	**1,550**	-	921
Total expense in Fund Account	**-**	**88,424**	-	8,030
Interest and dividend income	**370**	**27,297**	146	22,517
Gains on derecognition	**-**	**72,287**	-	31,730
Increases in fair value	**-**	**89,050**	-	148,966
Total income in Fund Account	**370**	**188,634**	146	203,213
Net gain/(loss) for the year	**370**	**100,210**	146	195,183

24, FINANCIAL RISK MANAGEMENT DISCLOSURE

As an investment fund, the Avon Pension Fund's objective is to generate positive investment returns for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets in order to manage market risks (price, interest rate and currency risk), credit risk and liquidity risk to an acceptable level.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's strategies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk represents the risk of loss from fluctuations in equity and commodity prices, interest rates or foreign exchange rates. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, market risk is managed through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

(a) (i) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

(a) (ii) Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31 March 2012, in consultation with the Fund’s advisors. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets which the Fund has determined is reasonably possible for the 2012/13 reporting period. The analysis assumes that all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits valued at 31 March 2012 by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The exposure is based on the "look through" exposure of the pooled funds.

Asset Type	Value (£’000)	% Change	Value on Increase	Value on Decrease
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,599	936,841
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455

	2,679,001		2,980,935	2,377,067

The same analysis for the year ending 31 March 2011 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	641,080	19.9%	768,655	513,505
Overseas Equities	1,025,106	21.3%	1,243,454	806,758
Total Bonds	401,820	9.3%	439,189	364,451
Index Linked Gilts	157,378	11.5%	175,476	139,280
Property	172,052	10.4%	189,945	154,159
Alternatives	222,379	6.8%	237,501	207,257
Total Assets	**2,619,815**		**3,054,220**	**2,185,410**

(a) (iii) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances or interest payable on overdrafts will be affected by fluctuations in interest rates.

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2012 £'000	31 March 2011 £'000
Cash and Cash Equivalents	76,595	50,515
Fixed Interest Assets	640,998	559,197
Total	**717,593**	**609,712**

(a) (iv) Interest Rate Risk - Sensitivity Analysis

The Fund recognised that interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2012 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2012	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	76,595	-	-
Fixed Interest	640,998	(76,407)	76,407
Total	**717,593**	**(76,407)**	**76,407**

A 1% rise in interest rates will reduce the fair value of the relevant net assets and vice versa. Changes in interest rates do not impact the value of cash balances but they will affect the interest income received on those balances.

The same analysis for the year ending 31 March 2011 is shown below:

	Value	Change in net assets	
As at 31 March 2012	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	50,515	-	-
Fixed Interest	559,197	(69,620)	69,620
Total	**609,712**	**(69,620)**	**69,620**

(a) (v) Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investments falls.

The Fund's currency risk is monitored regularly as part of the strategic investment policy. The Fund dynamically hedges its exposure to the US Dollar, Yen and Euro in order to mitigate the impact of movements in these exchange rates. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

Where an investment manager chooses to hedge against foreign currency movements forward foreign exchange contracts are used.

The following tables summarise the Fund's currency exposures within the portfolio. The fair value of each exposure is based on the "look through" exposure of the pooled funds and is based on information provided by the investment managers, except for the global property funds where the share class of the funds held has been used. The funds of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2012 £'000	Asset value as at 31 March 2011 £'000
Overseas Equities	1,095,720	1,025,106
Overseas Fixed Income	77,934	74,000
Overseas Property	70,333	52,106

(a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility broadly consistent with a one -standard deviation movement in the currency. The analysis assumes that all other variables including interest rates have a similar experience to that experienced for the year to 31 March 2012. The analysis as at 31 March 2012 assumes a 50% hedge ratio on the US Dollar, Yen and Euro assets to reflect the dynamic hedging strategy whereas the analysis as at 31 March 2011 is un-hedged.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2012 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,095,720	4.7%	1,147,054	1,044,386
Overseas Fixed Income	77,934	4.7%	81,585	74,283
Overseas Property	70,333	4.7%	73,628	67,038
Total	**1,243,987**	**4.7%**	**1,302,267**	**1,185,707**

Currency Risk by Currency:

Currency	**Value (£,000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Australian Dollar	4,828	10.5%	5,335	4,321
Brazilian Real	5,521	12.8%	6,229	4,812
Canadian Dollar	4,075	9.6%	4,467	3,683
Danish Krone	483	8.3%	523	443
EURO*	85,618	4.2%	89,197	82,039
Hong Kong Dollar	8,846	9.6%	9,695	7,997
Japanese Yen*	34,035	6.6%	36,297	31,773
Singapore Dollar	2,354	7.5%	2,530	2,178
South Korean Won	4,576	10.3%	5,046	4,106
Swedish Krona	327	10.2%	360	294
Swiss Franc	9,124	10.2%	10,059	8,189
US Dollar*	120,620	4.9%	126,503	114,739
Global Basket*	229,083	3.3%	236,582	221,584
Global ex UK Basket*	173,220	3.6%	179,411	167,029
North America Basket*	136,466	4.6%	142,775	130,157
Europe ex UK Basket*	144,759	3.9%	150,420	139,098
Asia Pacific Basket*	92,333	4.4%	96,403	88,263
Asia Pacific ex Japan Basket*	47,043	3.6%	48,733	45,353
Emerging Basket	140,675	7.8%	151,699	129,651
Total	**1,243,987**	**4.7%**	**1,302,267**	**1,185,707**

Notes: (1) currency exposure for segregated assets, overseas property and Overseas bonds is denoted by each currency; currency baskets are used for pooled equity investments.

(2) The * denotes where a 50% hedge ratio has been assumed

The same analysis for the year ending 31 March 2011 is shown below:

Currency Risk by Asset Type:

Asset Type	**Value (£)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,025,106	11.5%	1,142,489	907,723
Overseas Fixed Interest	74,000	11.5%	82,474	65,526
Overseas Property	52,106	11.5%	58,073	46,139
Total	**1,151,212**	**11.5%**	**1,283,036**	**1,019,388**

Currency Risk by Currency:

Currency	**Value (£)**	**% Change**	**Value on Increase**	**Value on Decrease**
Australian Dollar	622	15.4%	718	526
Canadian Dollar	1,532	10.9%	1,700	1,364
Danish Krone	481	13.9%	548	414
EURO	67,351	13.9%	76,690	58,012
Japanese Yen	24,294	19.2%	28,958	19,630
Swedish Krona	377	13.4%	428	326
US Dollar	51,671	12.4%	58,071	45,271
Global Basket	238,457	9.6%	261,453	215,461
Global ex UK Basket	169,742	10.4%	187,390	152,094
North America Basket	135,522	11.9%	151,618	119,426
Europe Basket	6,200	8.8%	6,748	5,652
Europe ex UK Basket	162,468	12.5%	182,829	142,107
Asia Pacific Basket	93,658	13.0%	105,798	81,518
Asia Pacific ex Japan Basket	49,548	10.7%	54,825	44,271
Emerging Basket	149,289	10.7%	165,262	133,316
Total	**1,151,212**	**11.5%**	**1,283,036**	**1,019,388**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The market values of investments will reflect an assessment of credit in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.7% over a twenty year period (Source: Moody's 1920-2010). This means that in a portfolio of a hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund and managers invest surplus cash held with the custodian in diversified money market funds.

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2012 was £14.4m. This was held with the following institutions:

	Rating	**Balances at 31 March 2012 £'000**	**Balances at 31 March 2011 £'000**
Custodian's Liquidity Fund			
Bank of New York Mellon	AAA	7,357	1,879
Bank Call Accounts			
Barclays Platinum Account	A	3,000	1,000
Bank of Scotland Corporate Deposit Account	A	3,000	500
Clydesdale Business Account	BBB+	-	3,000
NatWest Special Interest Bearing Account	A	1,020	4,040
Bank Current Accounts			
NatWest	A	14	22

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

The fair market value of the financial assets represents the Fund's exposure to credit risk in relation to those assets and is set out below. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	31 March 2012 £'000	31 March 2011 £'000
Equities	1,626,235	1,650,443
Fixed Interest – Quoted	104,920	154,494
Fixed Interest – Pooled	346,420	247,326
Index Linked - Quoted	189,659	157,378
Fund of Hedge Funds	213,571	222,379
Property	196,951	172,052
Cash assets	76,595	50,515
Derivatives FTSE Futures	(514)	543
Forward Foreign Exchange hedge	441	(59)
Investment Debtors/Creditors	3,087	2880
	2,757,365	2,657,951

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2012 is set out below.

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Unrated £'000
UK Gilts	132,596	-	-	-		
UK Index Linked	189,658	-	-	-		
Overseas Government Bonds	43,439	26,877	7,657	-		
Corporate Bonds	33,668	21,941	79,263	72,607	6,440	26,852
	399,362	48,818	86,920	72,607	6,440	26,852
% of Fixed Interest Portfolios	62%	8%	14%	11%	1%	4%

The same analysis for the year ending 31 March 2011 is shown below:

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Unrated £'000
UK Gilts	189,741	-	-	-		
UK Index Linked	157,378	-	-	-		
Overseas Government Bonds	40,034	33,966	-	-		
Corporate Bonds	15,957	13,511	49,556	36,724	5,436	16,895
	403,110	47,477	49,556	36,724	5,436	16,895
% of Fixed Interest Portfolios	72%	8%	9%	7%	1%	3%

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment and cash management strategies ensure that the pension fund has adequate cash to meet its working requirements. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2012 the value of the illiquid assets was £410m, which represented 14.9% of the total Fund assets (31 March 2011: £394m which represented 14.8% of the total Fund assets).

(d) Fair Value Hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

• Level 1 - easy to price securities; there is a liquid market for these securities.

• Level 2 - moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.

• Level 3 - difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classified as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include active listed equities, exchange traded derivatives, quoted government securities and unit trusts.

Therefore in the analysis below, Level 1 includes quoted equities and government securities but excludes pooled funds that invest in these securities.

Level 2 - Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the valuation is not based on marketable data.

Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs. In addition, the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2012.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	389,501			389,501
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Investment Debtors /Creditors	3,527			3,527
	764,201	1,582,642	410,796	2,757,365

The fair value hierarchy as at 31 March 2011 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	247,539			247,539
Bonds - Quoted	311,872			311,872
Pooled Investment Vehicles		1,650,773		1,650,773
Fund of Hedge Funds			222,379	222,379
Property			172,052	172,052
Cash	50,515			50,515
Investment Debtors /Creditors	2,821			2,821
	612,747	1,650,773	394,431	2,657,951

25, EMPLOYING BODIES

As at 31 March 2012 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire Brigade	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	
Education Establishments	
Academy of Trinity C of E	Henleaze Junior School Academy
Backwell School	Illminster Avenue E – Act Academy
Bath Spa University College	Kings Oak Academy
Beechen Cliff School Academy	Merchant's Academy
Bradley Stoke Community School	Midsomer Norton School Partnership
Bristol Cathedral Choir Academy	Norton Radstock College
Bristol Free School	Oasis Academy Brightstowe
Broadoak Mathematic & Computing College	Oasis Academy John Williams
Cabot Learning Federation	Oldfield School Academy Trust
Churchill Academy & Sixth Form	Priory Community School Academy
City Academy Bristol	South Gloucestershire & Stroud College
City of Bath College	St Bede's School Academy
City of Bristol College	St. Brendan's 6th Form College
Clevedon School Academy	University of Bath
Colston Girl's School Academy	University of the West of England
Cotham School Academy	Waycroft School Academy
EACT (St Ursula's Academy)	Wellsway School Academy
Elmlea Junior School	Westbury-on-Trym C of E Academy
Gordano School Academy	West Town Lane Primary School
Fosseway Special School	Weston College
Hans Price Academy	Winterbourne International Academy
Hayesfield Girl's School Academy	Writhlington School Academy
	Yate International Academy
Designating Bodies	
Almondsbury Parish Council	Midsomer Norton Town Council
Backwell Parish Council	Nailsea Town Council
Bath Tourism Plus	Oldland Parish Council

Bradley Stoke Town Council	Patchway Town Council
Charter Trustees of the City of Bath	Paulton Parish Council
Clevedon Town Council	Peasedown St John Parish Council
Congresbury Parish Council	Portishead & North Weston Town Council
Destination Bristol	Radstock Town Council
Dodington Parish Council	Saltford Parish Council
Downend & Bromley Heath Parish Council	Stoke Gifford Parish Council
Easton in Gordano Parish Council	Thornbury Town Council
Filton Town Council	Westerleigh Parish Council
Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Long Ashton Parish Council	Yatton Parish Council
Mangotsfield Parish Council	Yate Town Council
Admitted Bodies	
Active Community Engagement Ltd	Merlin Housing Society Ltd
Agilisys	Merlin Housing Society (SG)
Agincare Ltd. *	Mouchel *
Alliance Homes	Mouchel Business Services *
Aquaterra Leisure	Mouchel Business Srvices Ltd (Nailsea IT)*
Aramark Ltd *	Northgate Colston Girls School IT
Ashley House Hostel	Off The Record Bath & Nrth East Somerset
BAM Construct UK Ltd (Henbury School) *	Prospect Services Ltd *
Bath &NE Somerset Racial Equality Council	Quadron Services*
Bespoke Cleaning Services Ltd *	RM Data Solutions
Bristol Music Trust	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	Sirona Care & Health CIC
Centre For Deaf People	SITA Holdings UK Ltd. *
Churchill Contract Services	Skanska (Cabot Learning Federation)*
Churchill Team Clean	Skanska Rashleigh Westerfoil *
Circadian Trust	SLM Community Leisure *
Clifton Suspension Bridge Trust	SLM Fitness and Health *
Eden Food Services *	Sodexo Ltd
English Landscapes*	Somer Community Housing Trust
Genuine Dining Ltd	Somer Housing Group Ltd.
Holburne Museum of Art	Southern Brooks Community partnership
ISS Mediclean (Bristol)*	South West Academies
ISS Mediclean Cabot Learning Federation*	Southwest Grid for Learning Trust
Keir Facilities Services	The Brandon Trust *
Learning Partnership West Ltd	Tone Leisure Trust *
Liberata UK Limited	West of England Sports Trust
	Vision North Somerset

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2012**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 31 Mar 2012**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Exempt Appendix 3 - Summaries of Investment Panel meetings with Investment Managers Appendix 4 – Euro Exposure Analysis		

1 THE ISSUE

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

1.2 This report contains performance statistics for periods ending 31 March 2012.

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

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

Section 5. Investment Strategy

Section 6. Funding Level Update

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

That the Committee:

2.1 Notes the information as set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013. Section 6 of this report discusses the trends in the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 10 to 16), the investment managers (pages 17 to 36) and a commentary on investment markets (pages 5 to 7).

A – Fund Performance

4.2 The Fund's assets increased by £134m (+5.1%) in the quarter, giving a value for the investment Fund of £2,757m at 31 March 2012. 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 Mar 2012

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	5.1%		
Avon Pension Fund (excl. currency hedging)	4.8%	3.6%	14.5%
Strategic benchmark *(Fund relative to benchmark)*	5.0% *(-0.2%)*	2.8% ***(+0.8%)***	14.2% *(+0.3%)*
Customised benchmark *(Fund relative to benchmark)*	4.7% *(+0.1%)*	4.2% ***(-0.6%)***	14.8% *(-0.3%)*
Local Authority Average Fund *(Fund relative to benchmark)*	5.6% *(-0.6%)*	2.6% ***(+1.0%)***	14.5% *(=)*

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, supported by smaller returns from hedge funds and property. Fixed income assets had negative returns in the quarter except for UK corporate bonds.

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 over the early period of the 12 months (versus the benchmark) which performed strongly over this period, and also as a result of the emerging markets and property managers outperforming their benchmarks. In addition the hedge fund managers outperformed the hedge fund index used in the strategic benchmark. Over the quarter the Fund underperformed marginally due to being overweight index linked gilts which performed negatively, and because the Fund had a small cash holding. This is despite benefitting from being underweight gilts and from the outperformance by the UK equity managers.

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 Schroder Equity, more than offsetting outperformance by Jupiter, Genesis and Invesco over the year. 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**: This quarter sterling strengthened against the euro, US dollar and yen, resulting in the returns from equity assets denominated in these currencies reducing in sterling terms. On the c£690m assets in the programme, underlying currency return had an impact of -3.17% over the quarter, with the hedging programme offsetting this by 0.83% by generating a value of c£5.5m (this is the realised value of matured contracts and the unrealised market value of outstanding contracts). Therefore the currency return on the £690m assets after hedging was -2.35%. In terms of the Fund's total return, the hedging programme contributed 0.3% to the Fund's total return in the quarter.

4.9 Monthly movements in the value of the currency programme have been volatile in April and May. Sterling has stayed strong versus the euro; however, it has weakened against the dollar. As expected, the hedge ratio on dollar assets has fallen, but because of the sterling weakening versus the dollar, we expect negative returns from the hedging activity during this period (to date) which will be offset by the benefit from an increase in the sterling value of the underlying dollar equity assets. The full performance data at the Fund level is only calculated on a quarterly basis.

4.10 Since the end of the quarter, global equity markets have been less positive with the FTSE All Share down 7.4% (to 28th May). In contrast, the total return for the Over 15-year Gilt index was c. +4.4% during the same period.

B – Investment Manager Performance

4.11 A detailed report on the performance of each investment manager has been produced by JLT – see pages 17 to 36 of Appendix 2. Their report does not identify any new performance issues with the managers.

4.12 After reviewing the performance of TT, the Panel had been reassured to some degree and recommended Officers continue to closely monitor TT's performance and report back to the Panel any issues resulting in significant underperformance.

4.13 As part of the 'Meet the Managers' programme, the Panel met with 2 of the Fund's Fund of Hedge Fund managers on 19 April 2012 and with Jupiter on 17

May 2012. The summary of the Panel's conclusions can be found in exempt appendix 3 of this report. The Panel noted their continuing concerns about the performance of Man.

5 INVESTMENT STRATEGY

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

5.2 During the quarter the tactical allocation within the bond portfolio has remained in place. Officers continue to 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.

5.3 The analysis of the Fund's exposure to the Euro and to European financial institutions presented at the December 2011 Committee meeting has been updated and can be found at Appendix 4. This summarises the direct exposure the Fund has to the Euro currency and European banks and insurance companies (including those not in the Euro). However, this does not include the indirect exposure of the Fund to other companies and financial institutions that have exposure to the Euro currency or European financial institutions.

6 FUNDING LEVEL UPDATE

6.1 As at 31 March 2012 the Actuary has estimated that the funding level has improved over the quarter from 66% to 70%; 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 £290m (11%) to £2.75bn, and liabilities increased by £937m (31%) to £3.95bn. As a result the deficit has increased from £552m to £1,190m. Over the last quarter the deficit has narrowed very slightly as gilt yields have risen slightly more than implied inflation, hence the real interest rate is less negative than it was at 31 December 2011.

6.3 The reduction in the gilt yield from 4.5% at the 2010 valuation to 3.4% at end of March 2012 is the reason why liabilities and the deficit have increased so significantly. Furthermore, implied inflation has remained high given the current low gilt yields. The threat of more "quantitative easing", given the weak economic recovery, should keep nominal gilts yields at depressed levels for the immediate future, although inflation is expected to fall from current levels which should improve the funding position. ***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	31 Dec 2011	31 March 2012
UK Gilt yield (nominal)	4.50%	3.00%	3.40%
Real yield	0.70%	-0.20%	-0.10%
Market Implied RPI p.a.	3.80%	3.20%	3.50%
Inflation adjustment p.a.	0.80%	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.40%	2.70%

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 23 May 2012 the Equity:Bond allocation was estimated at 71.6:28.4. Given the current market volatility and uncertainty over developments in the Eurozone, officers have temporarily suspended the rebalancing policy. A review of the current rebalancing policy is the subject of another agenda item.

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 revised Treasury Management Policy which was approved on 16 March 2012.

7.5 The Fund continues to deposit cash on call with Barclays, NatWest and Bank of Scotland. In line with the Treasury Management Policy NatWest and Bank of Scotland continue to be used although they are currently on a negative rating watch that could result in them falling below the required counterparty credit rating. Two triple A rated money market funds are now available to the Fund and will be used to deposit cash on call should these downgrades occur. The Fund also has access to the Government's DMO (Debt Management Office) if required, however the interest paid may not cover the transfer and administration costs incurred.

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted: 238
Resolutions voted: 2746
Votes For: 2678
Votes Against: 66
Abstained: 33
Withheld vote: 5

8.2 In 2011 the Fund appointed Manifest to monitor its voting activity. Manifest's annual report on voting activity for 2011 is the subject of another agenda item.

8.3 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:

8.3.1 LAPFF Voting Alerts: LAPFF has issued 9 voting alerts this quarter, the most high profile being the recommendation to vote against the Barclays remuneration report. All 3 of the Fund's managers who held Barclays stock were part of the 31% of shareholders who voted against or withheld their vote on the remuneration report.

8.3.2 **LAPFF Engagement activity:** LAPFF reported on engagement meetings with National Express (labour issues), Meggitt (board succession), Heineken (remuneration and reporting) and Gazprom (reporting) among others. LAPFFs quarterly summary of their engagement activity can be found at http://www.lapfforum.org/engagement-reports

8.3.3 **LAPFF Consultation Response**: LAPFF has submitted a consultation response to the EU regarding gender diversity on corporate boards, advocating a 'comply or explain' approach to increasing the number of women on corporate boards.

9 RISK MANAGEMENT

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

10 EQUALITIES

10.1 This report is primarily for information only.

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (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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AVON PENSION FUND VALUATION – 31 MARCH 2012

	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	Includes Currency Hedging		
EQUITIES														
UK	269.7	15.9	133.0	107.6		13.9							540.1	19.6%
North America	136.5	9.3				62.1							207.9	7.5%
Europe	115.5	5.0				19.2		29.1					168.8	6.1%
Japan	35.6					8.5		28.0					72.1	2.6%
Pacific Rim	47.0					15.6		29.1					91.7	3.3%
Emerging Markets					140.6	18.2							158.8	5.7%
Global ex-UK							173.2						173.2	6.3%
Global inc-UK	229.1											10.7	239.8	8.8%
Total Overseas	***563.7***	***14.3***			***140.6***	***123.6***	***173.2***	***86.2***					***1112.3***	**40.3%**
Total Equities	**833.4**	**30.2**	**133.0**	**107.6**	**140.6**	**137.5**	**173.2**	**86.2**					**1652.4**	**59.9%**
BONDS														
Index Linked Gilts	190.8												190.8	6.9%
Conventional Gilts	105.9	27.7											133.6	4.9%
Sterling Corporate	13.2								227.6				240.8	8.7%
Overseas Bonds	78.0												78.0	2.8%
Total Bonds	**387.9**	**27.7**							**227.6**				**643.2**	**23.3%**
Hedge Funds										213.6			213.6	7.8%
Property											197.0		197.0	7.1%
Cash	3.4	15.5	1.3	8.0		4.3					2.5	16.1	51.1	1.9%
TOTAL	**1224.7**	**73.4**	**134.3**	**115.6**	**140.6**	**141.8**	**173.2**	**86.2**	**227.6**	**213.6**	**199.5**	**26.8**	**2757.3**	**100.0%**

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

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Review for period to 31 March 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Bekki Jones, BSc (Hons), IMC
Principal Analyst

Jig Sheth, BSc, IMC
Consultant

May 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 value of the Fund's assets increased in value by £134m during the first quarter of 2012 to £2,757m. The total Fund, (including the impact of currency hedging), broadly performed in line with the Fund's customised benchmark over the quarter, producing a positive absolute return of 5.1%.
- Manager performance is discussed below.

Strategy

- Equity markets posted strong positive returns and had a positive impact on the Fund's total return. The Fund's UK corporate bond portfolio also had had a positive impact on returns, but to a lesser extent than equities.
- The allocations to Fund of hedge funds and property contributed positively to the absolute total Fund return, albeit to a lesser extent than equities.

Managers

- The strongest outperformance over the quarter came from Jupiter, outperforming its benchmark by 2.8%. TT International, the other UK equity manager, also outperformed its benchmark, by 1.0%.
- The Schroder global equity mandate marginally outperformed its benchmark but all other overseas equity managers underperformed their respective benchmarks, albeit marginally.
- The Schroder property portfolio marginally underperformed its benchmark over the quarter whilst Partners also underperformed, by 0.5%.
- Three of the four fund of hedge fund managers outperformed their benchmarks over the quarter. Man was the only hedge fund manager to underperform its benchmark. Whilst Man has the highest outperformance target, it also produced the lowest absolute return of the fund of hedge fund managers over the quarter.
- Royal London outperformed its corporate bond benchmark (3.1% vs 2.7%).

Key points for consideration

- Man is making changes both to the number of underlying managers that it holds, as well as how it invests with those managers. Whilst the changes themselves should be seen as positive, it remains to be seen whether Man have the ability to successfully implement them, particularly given a poor period of performance. Closer monitoring is continuing by the Panel and Officers.
- The Fund has taken a tactical position to increase its holdings with RLAM corporate bonds in favour of investments in government bonds. Monitoring of this switch is continuing to ensure that a switch back into government bonds takes place in the future at an opportune time.
- Therefore the performance of RLAM, and corporate bonds vs gilts in general, should be monitored closely.

Section Two – Market Background

- The table below summarises the various market returns to 31 March 2012, which relates 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	6.1	1.4
Overseas Equities	9.4	-0.3
USA	9.7	8.8
Europe	10.0	-11.8
Japan	7.9	0.9
Asia Pacific (ex Japan)	9.6	-6.3
Emerging Markets	10.6	-8.6
Property	0.9	6.6
Hedge Funds	4.2	-0.3
Commodities	3.0	-5.9
High Yield	4.5	5.5
Cash	0.1	0.6

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-4.4	22.6
Index-Linked Gilts (>5 yrs)	-2.0	21.1
Corporate Bonds (>15 yrs AA)	-0.4	13.7
Non-Gilts (>15 yrs)	0.5	12.3

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	3.6
Price Inflation - CPI	0.4	3.5
Earnings Inflation	0.8	2.0

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.8	-0.3
Against Euro	0.2	6.2
Against Yen	10.0	-1.0
Yields as at 31 March 2012	**% p.a.**	
UK Equities	3.5	
UK Gilts (>15 yrs)	3.3	
Real Yield (>5 yrs ILG)	-0.1	
Corporate Bonds (>15 yrs AA)	4.6	
Non-Gilts (>15 yrs)	4.9	

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.3	-1.0
Index-Linked Gilts (>5 yrs)	0.1	-0.7
Corporate Bonds (>15 yrs AA)	-0.1	-0.9
Non-Gilts (>15 yrs)	0.1	-0.6

Economic statistics

	Quarter to 31 March 2012			Year to 31 March 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.3%	0.7%	0.5%	0.0%	1.6%	2.1%
Unemployment rate	8.3%	10.3%	8.2%	8.3%	10.3%	8.2%
Previous	*8.4%*	*10.1%*	*8.5%*	*7.7%*	*9.4%*	*8.9%*
Inflation change[2]	0.4%	1.0%	1.6%	3.5%	2.7%	2.7%
Manufacturing Purchasing Managers' Index	51.9	47.7	53.4	51.9	47.7	53.4
Previous	*49.6*	*46.9*	*53.1*	*56.7*	*50.4[4]*	*59.4*
Quantitative Easing / LTRO [3]	£325bn	€1,018bn	$2,654bn	£325bn	€1,018bn	$2,654bn
Previous	*£275bn*	*€489bn*	*$2,654bn*	*£200bn*	*€0bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 March 2012 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) CPI inflation measure; (3) Refers to amounts announced and therefore ignores changes due to debt maturing. LTRO refers to the European Central Bank's Long Term Refinancing Operation. (4) As at June 2011.

Statistical highlights

- Twelve month CPI inflation has fallen to 3.5% in March, down from its recent peak of 5.2% in September 2011. The Bank of England ("BOE") stated that whilst the recent fall in CPI inflation had been as expected, the extent of any further decline is less certain. The Monetary Policy Committee ("MPC") maintained interest rates at 0.5%.
- Early indicators of consumer spending at the beginning of the year were mixed. Retail sales rose by 0.9% in January and by 1.3% over the last quarter. Other indicators were less positive, as consumer confidence had remained weak. The latest CBI Distributive Trades Survey reported that retail sales volumes were broadly flat in the year to February, although this represented a significant improvement on January.
- The Office for National Statistics ("ONS") reported another rise in unemployment although at it's slowest pace for a year. It reached 2.67 million during the three months to January 2012, taking the unemployment rate up to 8.4%. This figure compares favourably with the Eurozone area where the unemployment rate was 10.8% as at February 2012.
- The European Central Bank ("ECB") benchmark interest rate remained unchanged at 1%. The US Federal Reserve made the unprecedented move of announcing that it expected to keep interest rates below 1% until at least 2014. In Asia, the Bank of Japan continues its policy of quantitative easing and the People's Bank of China has begun to cautiously loosen monetary policy by reducing bank reserve ratio requirements.

- The first round of the European Central Bank long-term refinancing operation (LTRO) in December 2011, totalled €489 billion. A second round in February 2012, totalled €529.5 billion. By providing liquidity to the banking system, and accepting collateral in the form of government bonds, the operation is expected to provide time for banks to repair their finances.
- The FTSE All Share Index produced a return over the quarter of 6.1%. European equities produced returns of 10.0%, despite the ongoing concerns regarding sovereign debt in the Eurozone. Emerging Markets were the strongest performers, producing returns of 10.6%. The US, Asia Pacific and Japan equity market all produced positive absolute returns over the quarter.
- UK long dated gilts produced negative returns over the quarter. Despite the slight increase in yields, many still believe that gilt yields are at an unsustainable low level and that further increases are likely over time.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 March 2012, 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 March 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	540,100	19.6	18.0
Overseas Equities	1,112,300	40.3	42.0
Bonds	643,200	23.3	20.0
Fund of Hedge Funds	213,600	7.8	10.0
Cash (including currency instruments)	51,100	1.9	-
Property	197,000	7.1	10.0
TOTAL FUND VALUE	**2,757,300**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £134m over the first quarter of 2012 to £2,757m, resulting from positive absolute investment performance.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - During the quarter there was a disinvestment from the BlackRock Passive Multi-Asset fund which was transferred to Record Currency Management. These funds will be equitized (invested in UK FTSE futures) to efficiently manage the cashflows arising from the currency hedging programme. The futures were due to be purchased on 2 April 2012.
  - There was some further funding of property investment with Partners over the quarter, with monies coming from the BlackRock (property) portfolio.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 December 2011 Value £'000	31 December 2011 Proportion of Total %	Net new money £'000	31 March 2012 Value £'000	31 March 2012 Proportion of Total %
Jupiter	UK Equities	106,118	4.0	-	115,581	4.2
TT International	UK Equities	125,396	4.8	-	134,334	4.9
Invesco	Global ex-UK Equities	159,421	6.1	-	173,237	6.3
Schroder	Global Equities	129,764	4.9	-	141,812	5.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	79,401	3.0	-	86,241	3.1
Genesis	Emerging Market Equities	127,334	4.9	-	140,617	5.1
MAN	Fund of Hedge Funds	62,441	2.4	-	63,099	2.3
Signet	Fund of Hedge Funds	63,048	2.4	-	64,379	2.3
Stenham	Fund of Hedge Funds	32,717	1.2	-	33,272	1.2
Gottex	Fund of Hedge Funds	51,399	2.0	-	52,820	1.9
BlackRock	Passive Multi-asset	1,185,907	45.1	-11,931	1,224,804	44.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	75,350	2.9	-2,650	73,308	2.7
RLAM	Bonds	220,765	8.4	-	227,557	8.3
Schroder	UK Property	128,107	4.9	-	129,011	4.7
Partners	Property	67,180	2.6	2,650	70,394	2.6
Record Currency Mgmt		-6,383	-0.2	1,233	339	0.0
Record Currency Mgmt 2	Overseas Equities	0	0.0	10,698	10,698	0.4
Internal Cash	Cash	14,891	0.6	-	15,833	0.6
Rounding		0	0.0	-	1	0.0
TOTAL		**2,622,856**	**100.0**	**0**	**2,757,337**	**100.0**

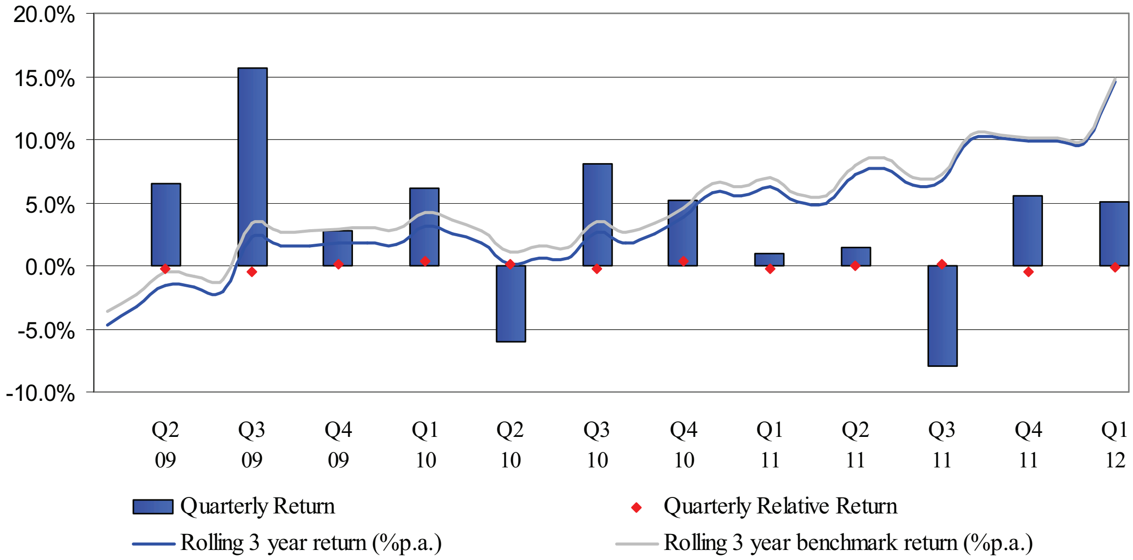
Source: Avon Pension Fund, Data provided by WM Performance Services.

Section Four – Performance Summary

Total Fund performance

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

Total Fund absolute and relative performance



Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 5.1%, performing in line with the customised benchmark (this analysis includes the impact of currency hedging). Excluding the impact of currency hedging, the Fund marginally outperformed the customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a return of 3.6%, underperforming the customised benchmark by 0.6% (this analysis excludes the impact of currency hedging).
- There is a considerable improvement in the rolling 3 year returns for the total Fund, primarily due to positive absolute returns generated in Q1 2012, along with the exclusion of Q1 2009 from the 3 year calculations in which the total Fund had returned -7.3%. The rolling 3 year return of the total Fund now stands at 14.5% p.a. which is slightly behind the benchmark return of 14.8% p.a..

Strategy performance

- The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 31 March 2012.

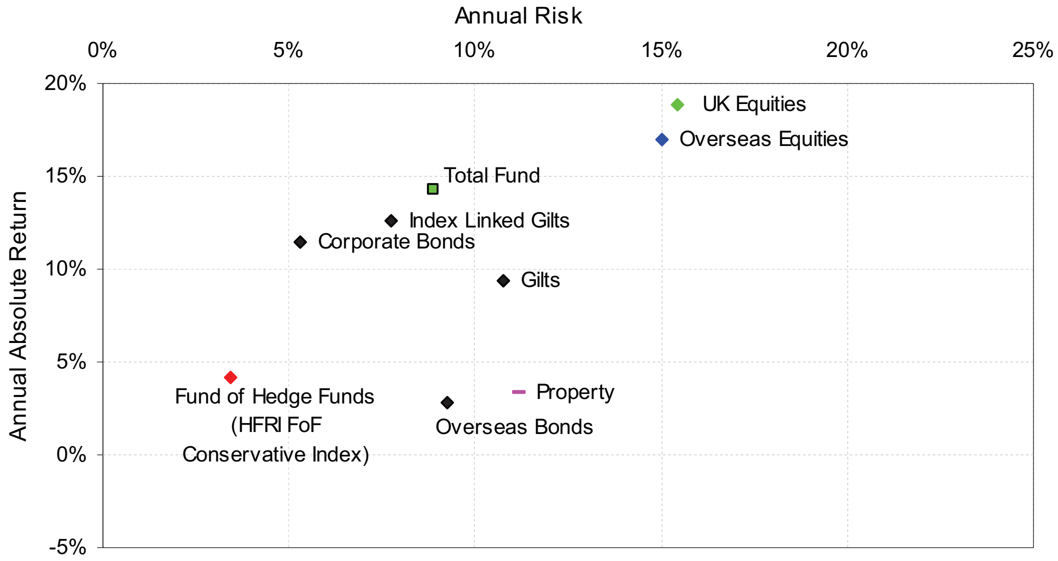
Asset Class	Weight in Strategic Benchmark	Q1 2012 (index returns)	1 year (index returns)
UK Equities	18%	6.1%	1.4%
Overseas Equities	42%	9.4%	-0.3%
Index Linked Gilts	6%	-1.5%	18.1%
Fixed Coupon Gilts	6%	-1.7%	14.5%
UK Corporate Bonds*	5%	4.0%	8.0%
Overseas Fixed Interest	3%	-3.7%	5.4%
Fund of Hedge Funds	10%	4.2%	-0.3%
Property	10%	0.9%	6.6%
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.

- **Market impact:** despite the ongoing concerns regarding sovereign debt in the Eurozone, markets produced positive returns as there continued to be positive signs of improvement in the US economic recovery and supportive policies by the US Central Bank. Emerging markets were the strongest performers.
- UK and overseas equity markets produced returns of 6.1% and 9.4% respectively.
- Sterling strengthened against the US Dollar Euro and the Yen over the quarter, meaning a lower return on the US Dollar Euro and Yen denominated overseas equities in sterling terms. All the major equity markets produced positive returns for the quarter in local currency and Sterling terms.
- Spreads on corporate bonds narrowed as gilt yields rose and corporate bond yields fell, resulting in negative absolute returns on gilts and a positive return for corporate bonds.
- The allocations to fund of hedge funds and property posted low absolute returns relative to equities.

- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately 1.1% and 3.9% respectively to the strategic benchmark return.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both contributed -0.1%.
- 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 March 2012 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 16.

3 Year Risk v 3 Year Return to 31 March 2012



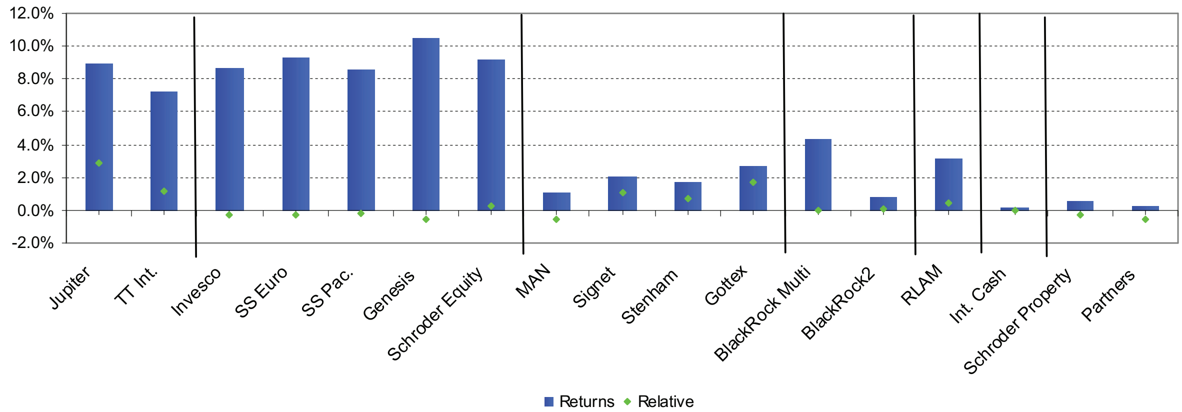
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period.
- Compared to the three year period reported the previous quarter, both UK and overseas equities have higher return and lower risk. The risk and return from gilts and index-linked gilts remains about the same whereas the return from corporate bonds has increased.
- Fund of Hedge Funds continue to be the least volatile asset class but have enjoyed superior performance compared to overseas bonds and property, the latter of which has fallen in return since the previous quarter's analysis.

Aggregate manager performance

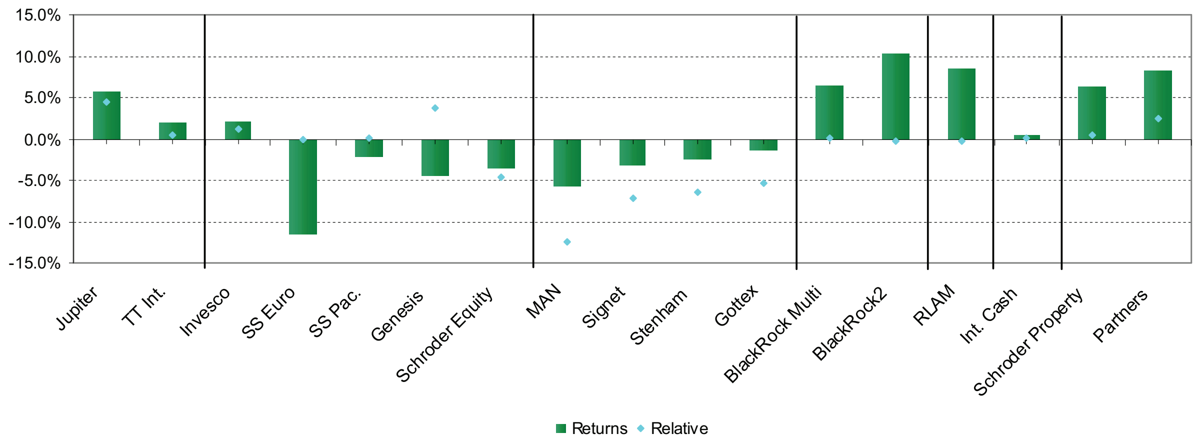
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of March 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 March 2012

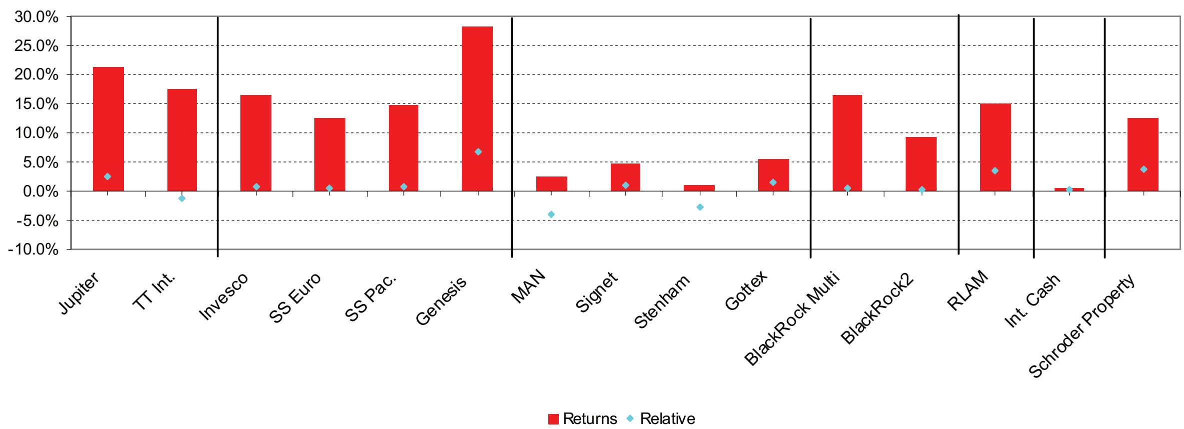


Performance numbers for Record were unavailable at the time of writing this report.

Absolute and relative performance - year to 31 March 2012



Absolute and relative performance - 3 years to 31 March 2012



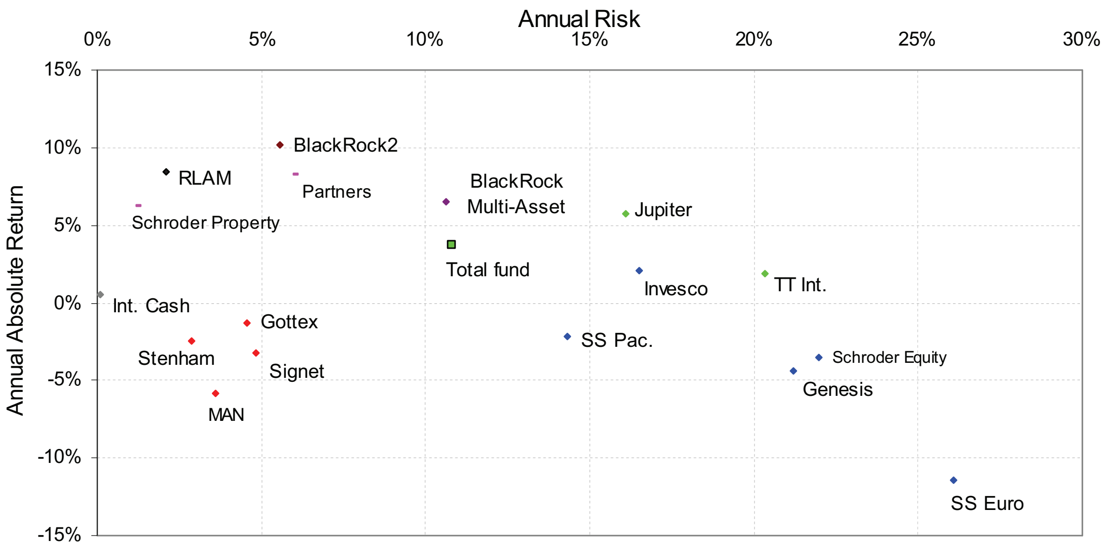
Source: Data provided by WM Performance Services

- Jupiter and TT both produced positive absolute and relative returns over the quarter and the year. Over the three year period, both managers produced strong absolute returns. On a relative basis over the 3 year period, however, Jupiter outperformed its benchmark by 2.4% p.a. while TT underperformed by 1.2% p.a..
- Within overseas equities, all managers produced positive absolute performance over the quarter. Except for Schroder Equity, all the funds underperformed their respective benchmarks albeit marginally. The worst underperformance came from Genesis over the quarter of -0.60%. Performance over the 1 year period was mixed for the overseas equity managers. Invesco continued to be the only overseas equity fund to produce a positive absolute return whereas the remaining managers posted negative absolute returns. Invesco and Genesis continued to outperform their respective benchmarks over the 1 year period, whereas Schroders equity underperformed its benchmark. SSgA Europe and SSgA Pacific marginally underperformed and outperformed respectively by 0.1% over the 1 year period. The absolute performance over the 3 year period was strong across all overseas equity managers. Most notable, however, on an absolute as well as relative basis was the performance posted by Genesis who posted an outperformance of 6.8% p.a. over the 3 year period.
- Over the quarter, all of the Fund's fund of hedge fund managers produced positive absolute returns. Man underperformed their benchmark whereas the other fund of hedge fund managers outperformed their benchmarks. Performance was disappointing over the 1 year period, as all managers produced negative absolute returns and underperformed their respective benchmarks. Over the 3 year period, all fund of hedge fund managers produced positive absolute returns, but only Gottex and Signet managed to outperform their benchmarks by 1.6% and 1.0% respectively. Man and Stenham underperformed their benchmark's by 4.0% p.a. and 2.8% p.a. respectively.
- RLAM produced a positive return over the quarter, and marginally outperformed its benchmark. Over the 1 year period, performance was positive in absolute terms but slightly behind the benchmark. Over the 3 year period, RLAM produced strong positive absolute and relative returns.
- Schroder property produced a positive absolute return over the quarter but underperformed the benchmark. Over the 1 and 3 year periods it produced a positive absolute and relative return. The performance over the quarter from Partners was positive in absolute terms, but behind the benchmark. Over the 1 year period, performance was positive and ahead of the benchmark.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2012 of each of the funds.

1 Year Risk v 1 Year Return to 31 March 2012



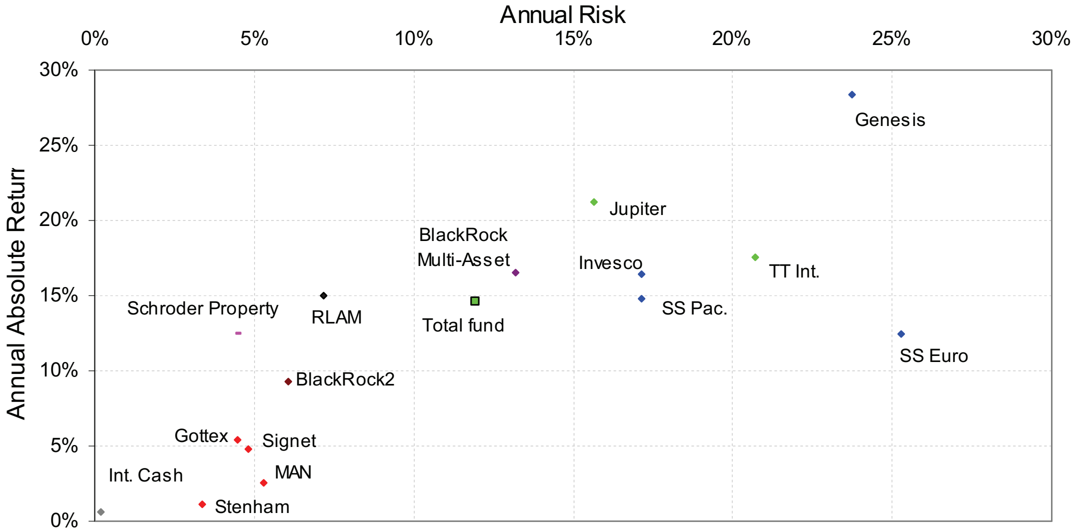
Source: Data provided by WM Performance Services

- 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 majority of the equity funds have all seen an increase in risk combined with an increased return compared with the annual figure last quarter.
- There were minimal changes to the risk / return profile of the fund of hedge funds, RLAM and the BlackRock portfolios.

- 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 March 2012 of each of the funds.

3 Year Risk v 3 Year Return to 31 March 2012



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 an increase in the risk. This is also applicable to the returns from the other equity managers.
- There has been little change to the BlackRock 2 portfolio. The BlackRock multi asset portfolio has seen an increase in the annual return.
- RLAM has also seen an increase in the both the risk and the return.
- Fund of hedge funds have also seen some change, with a general trend towards increased risk and higher returns, albeit only slightly.
- Compared to the one year chart, all of the returns are 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 majority of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, the performance of Man within the Fund's fund of hedge fund portfolio should be kept under close scrutiny given disappointing performance and a number of changes to the investment style. 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 outperformed its benchmark over the quarter by 2.8%.
  - TT International outperformed its benchmark over the quarter by 1.0%. Performance was also ahead of benchmark over the one year to 31 March 2012.
  - The unconstrained global equity manager, Schroder, produced a positive absolute return over the quarter, and marginally outperformed the benchmark.
- Enhanced Indexation Funds:

  The SSgA Europe ex UK Fund marginally outperformed its benchmark whilst the SSgA Pacific incl. Japan equity fund marginally underperformed its benchmark. Performance over the one year was broadly in line with the respective benchmarks.

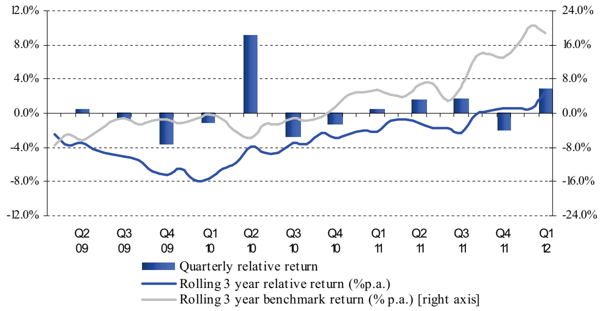
  Invesco underperformed its benchmark over the quarter by 0.3%, performance was positive in absolute terms. Over the one year performance was ahead of the benchmark by 1.2%. Performance over the 3 years was positive in absolute and relative terms. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis underperformed its benchmark over the quarter but posted a positive absolute return. Performance over the longer 1 and 3 years also remains positive in relative terms.
- Fund of Hedge Funds:
  - Man produced a negative relative return of -0.6%, however produced a positive absolute return of 1.1%.
  - Signet produced a positive relative return over the quarter, outperforming the benchmark by 1.1%. In absolute terms, Signet produced a return of 2.1%.
  - Stenham Asset Management produced a positive relative return for the quarter, 0.7% ahead of their benchmark, with an absolute return of 1.7%.

- Gottex outperformed its benchmark over the quarter by 1.7%, producing an absolute return of 2.8%. The absolute return was the highest absolute return of all the fund of hedge fund managers.
- Hedge funds, whilst producing positive returns, underperformed equities over the first quarter of 2012.

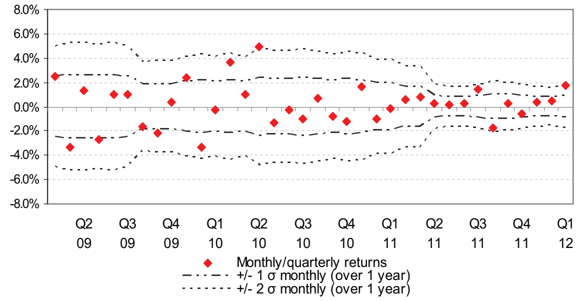
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios. Both passive funds produced positive absolute returns over the quarter and performed broadly in line with their respective benchmarks.
- UK Corporate Bonds: RLAM outperformed the benchmark in the last quarter by 0.4%. In absolute terms, RLAM produced a return of 3.1%. 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 6.2% which was ahead of the benchmark by 0.5%. Over the quarter, Partners produced a positive absolute return over the quarter, albeit behind the benchmark.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

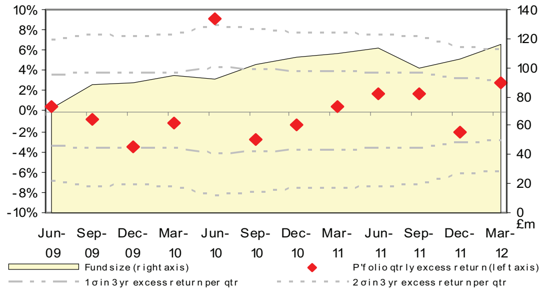
Relative returns [#1]



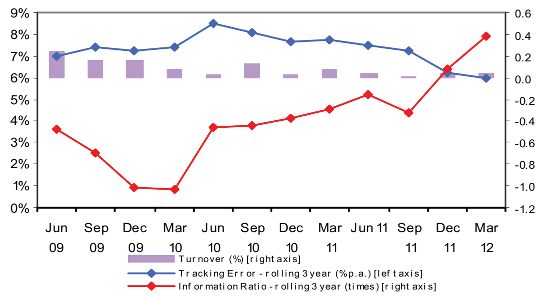
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



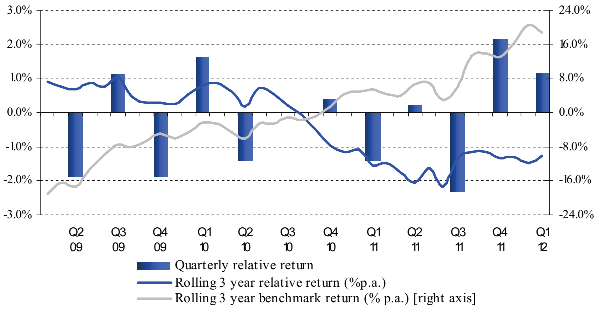
Source: Data provided by WM Performance Services, and Jupiter

Comments:

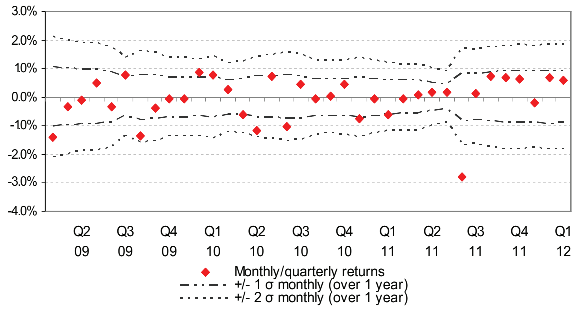
- Over the last quarter, the Fund outperformed the benchmark by 2.8%, producing an absolute return of 8.9%.
- Over the last year, the Fund outperformed the benchmark by 4.4%, producing an absolute return of 5.8%. Over the last 3 years, the Fund outperformed the benchmark by 2.4% p.a., producing an absolute return of 21.2% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarters primarily because of the weak performance from Q1 2009 (-10.8%) falling out of the 3 year calculations.
- The Fund's allocation to Cash (6.9%) increased compared to the preceding quarter (6.3%) but is still below the 7% limit.
- The industry allocation has remained considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q1 2012, Jupiter was significantly underweight Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services and Utilities. This relative allocation has been consistent with what was seen in Q4 2011.

TT International – UK Equities (Unconstrained)

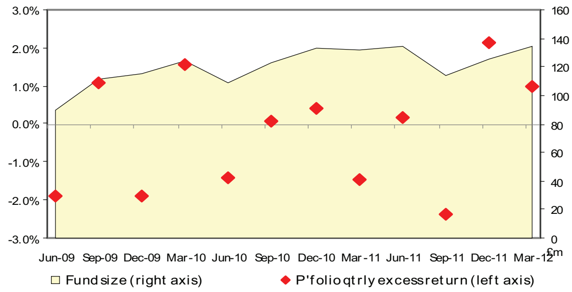
Relative returns #1



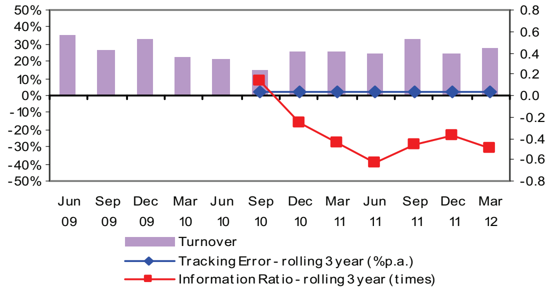
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



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

Comments:

- Over the last quarter the Fund outperformed the benchmark by 1.0%, producing an absolute return of 7.1%.
- Over the last year, the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.9%. Over the last three years, the Fund underperformed the benchmark by 1.3% p.a., producing an absolute return of 17.5% p.a.
- The Fund continued to hold an overweight position in Consumer Services by 4.3% and is significantly underweight to Financials by 4.2%.
- Turnover, over the first quarter, rose to 27.6% compared to the last quarter's number of 24.7%.
- 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), fell for the first time in four quarters from -0.38 in Q4 2011 to -0.50 in Q1 2012.
- TT continue to manage the beta of the portfolio (its tendency to move with the market) close to 1.
- Over the quarter TT's active allocation between sectors was detrimental to performance (-0.6%) but this was more than offset by positive security selection (+1.6%).
- The majority of the portfolio's risk continues to be taken in active stock selection, with active sector selection being the second largest area of risk at about one-third the size.
- The weight between these risks continues to be appropriate.

Schroder – Global Equity Portfolio (Unconstrained)

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

Portfolio update and performance over Q1 2012

The fund outperformed its benchmark by 0.2%, producing an absolute return of 9.2% over the quarter. The portfolio rose in value over the quarter by £12.0m.

The first quarter of 2012 saw risk assets, such as equities, producing strong returns. The Eurozone experienced some calm over the quarter; Greece secured a second bailout, which prevented a default. The market did however turn its attention to Spain, as the ECB continued its efforts to create stronger firewalls to protect both Spain and Italy from contagion.

Over the quarter, the Fund outperformed its benchmark. The outperformance of the Fund was driven by the relative returns from telecoms and financial stocks. Within financials Schroder's exposure to US banks, JPMorgan Chase and Goldman Sachs, was boosted by positive macro economic data emerging from the US and more optimism about the global economy. The Information Technology sector was the largest detractor with names such as Google and Hewlett- Packard not performing as strongly as expected.

On a regional basis, North America and Continental Europe were the key sources of adding value. Within Continental Europe, the portfolio's underweight position to telecoms added value, along with an overweight exposure to the region's consumer discretionary sector helping relative performance. Michelin and Safran were the strongest contributors within the region.

Emerging Markets detracted the most on a regional basis. Industrials (Beijing enterprises) and consumer staples (Brasil Foods) underperforming. Beijing enterprises suffered amidst concerns regarding Chinese growth and reported disappointing results. However, Schroder remains committed to the holding and believes that growth should accelerate throughout 2012 based on rising gas consumption in Beijing and good cost control.

The most underweight country weightings in the portfolio are North America (-6.7%), Continental Europe (-1.9%) and Japan (-1.9%). The portfolio is overweight to Pacific ex Japan (+2.5%), Emerging Markets (+2.0%), United Kingdom (+1.5%) and Africa and the Middle East (+1.5%).

In terms of sector weightings, the most underweight positions are to Telecoms (-2.5%), Utilities (-2.0%) and Healthcare (-1.3%). Overweight positions are in Consumer Discretionary (+3.0),Consumer Staples (+1.6%) and Cash (+3.0%).

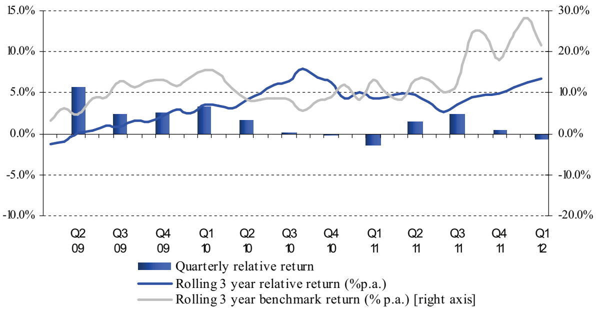
Conclusion

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

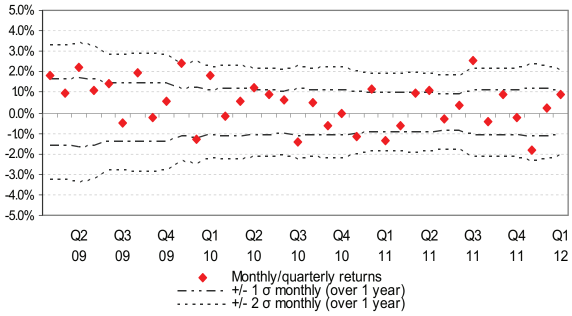
We have no concerns with Schroder.

Genesis Asset Managers – Emerging Market Equities

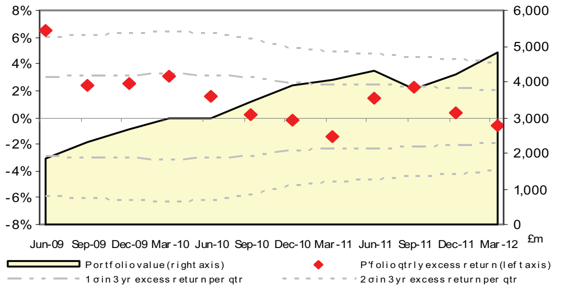
Relative returns [#1]



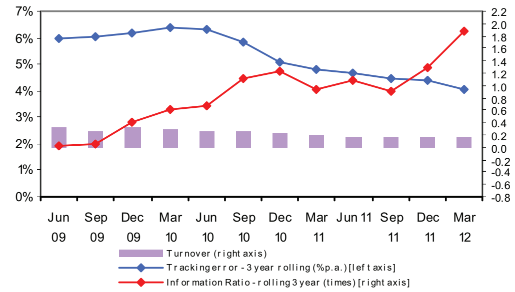
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



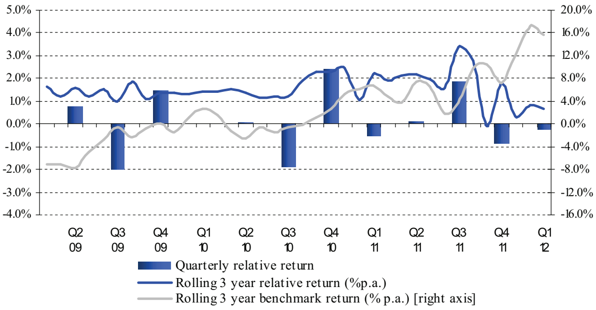
Source: Data provided by WM Performance Services, and Genesis

Comments:

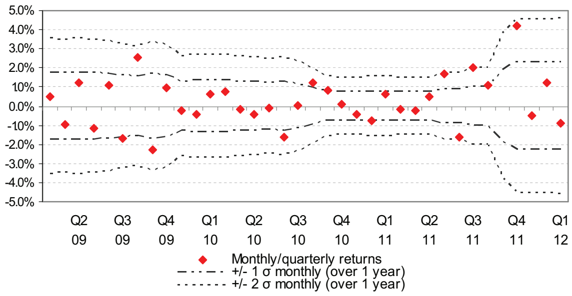
- Over the last quarter, the Fund underperformed the benchmark by 0.6%, producing an absolute return of 10.4%.
- Over the last year, the Fund outperformed its benchmark by 3.8%, producing an absolute return of -4.4%. Over the last 3 years, the Fund outperformed the benchmark by 7.3% p.a., producing an absolute return of 28.3% p.a.
- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) fell slightly from 4.4% in Q4 2011 to 4.1% in Q1 2012. The 3 year information ratio (risk adjusted return), increased from 1.3 to 1.9.
- The allocation to Cash (1.0%) decreased marginally compared to the previous quarter (1.1%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Financials (+3.8%) and Healthcare (2.7%). The Fund is underweight to Consumer Discretionary (-5.1%), Energy (-4.9%) and Telecom Services (-2.1%).
- It is particularly pleasing that Genesis has added value relative to the index during both positive periods for the benchmark and, as most recently, negative periods.

Invesco – Global ex-UK Equities (Enhanced Indexation)

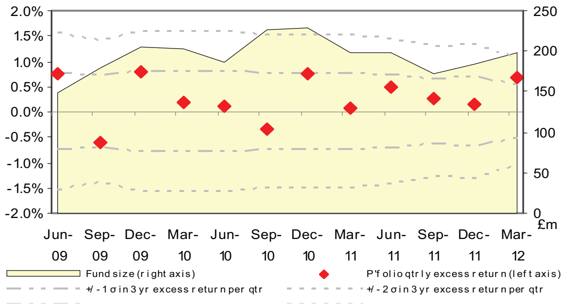
Relative returns #1



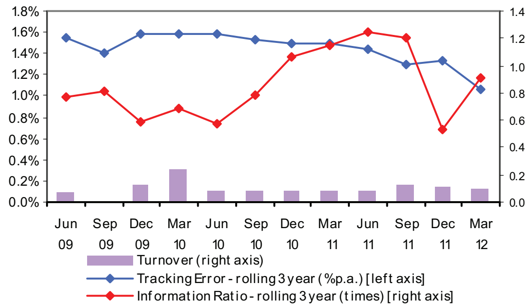
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



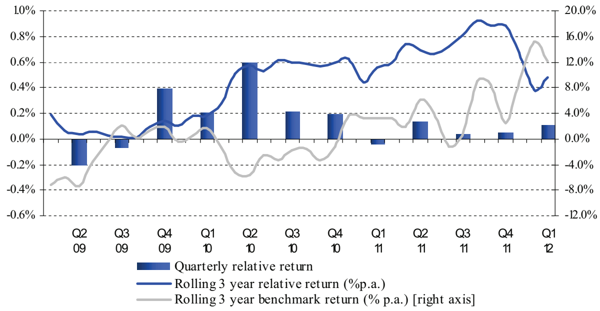
Source: Data provided by WM Performance Services, and Invesco

Comments:

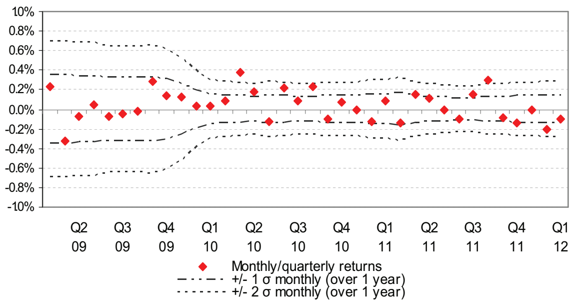
- Over the last quarter, the Fund underperformed its benchmark by 0.2%, producing an absolute return of 8.7%.
- Over the last year, the Fund outperformed its benchmark by 1.2%, producing an absolute return of 2.1%. Over three years, the Fund outperformed, by 0.7% p.a., producing an absolute return of 16.4% p.a.
- Over the last quarter, all strategies continued to be positive contributors except for Style. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The absolute volatility has increased to 12.1% at the end of the first quarter compared to 11.0% at the end of the fourth quarter.
- The turnover for this quarter of 10.0% decreased from 11.2% in the previous quarter. The number of stocks, also, fell from 401 to 373 over the quarter.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.2% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio is significantly more than is typical for an actively managed global equity portfolio but remains appropriate for the enhanced indexation approach.
- Invesco's performance continues to meet objective with a tracking error that is as expected for this type of portfolio.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

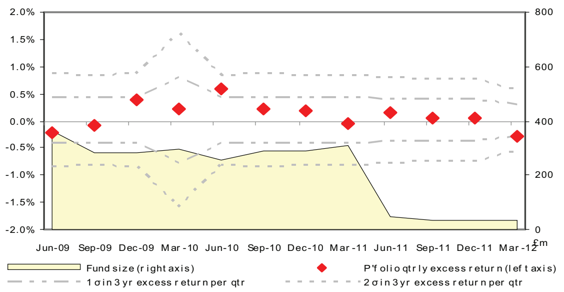
Relative returns #1



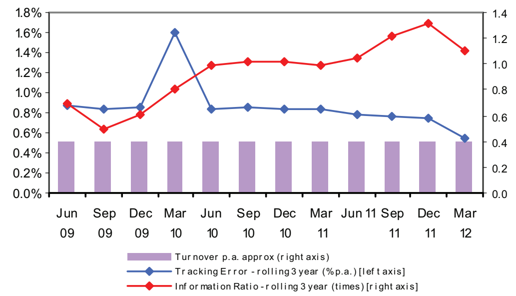
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



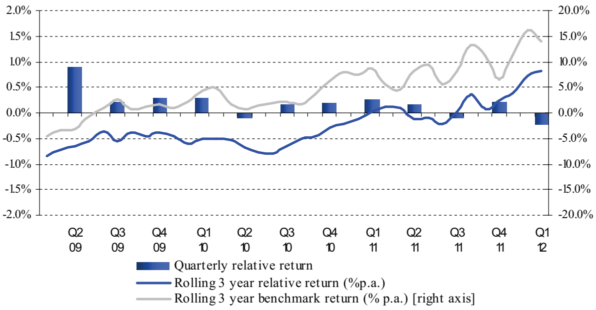
Source: Data provided by WM Performance Services, and SSgA

Comments:

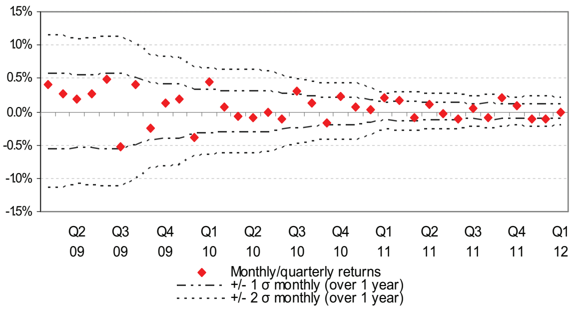
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 9.5%.
- Over the last year, the Fund underperformed the benchmark by 0.1%, producing an absolute return of -11.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.7% p.a., producing an absolute return of 12.6% p.a. 3 year returns increased significantly primarily due to the exclusion of a weak Q1 2009 (-15.1%) from calculations and also from strong returns generated in this quarter.
- 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. However, there has been a marginal increase in the last two quarters of £1.1million and £3.0million in Q4 2011 and Q1 2012 respectively, albeit as a result of market movements.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years. The tracking error has continued to decline over the last two quarters.
- The information ratio has fallen following an upwards trend, but still remains at a good level in terms of assessing relative performance.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

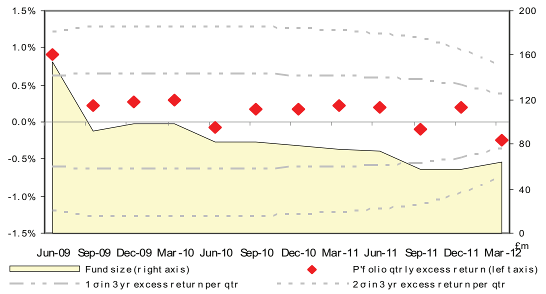
Relative returns [#1]



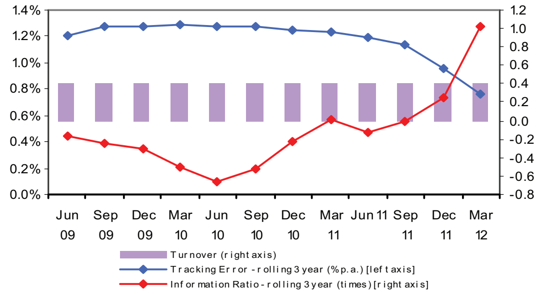
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



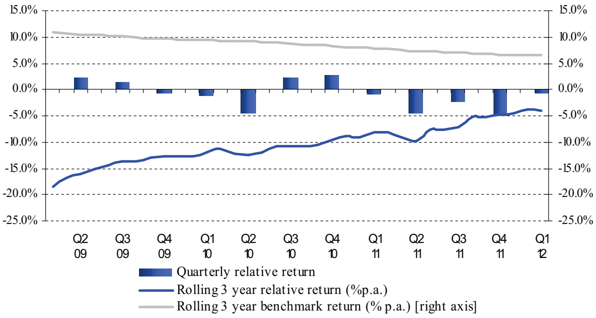
Source: Data provided by WM Performance Services, and SSgA

Comments:

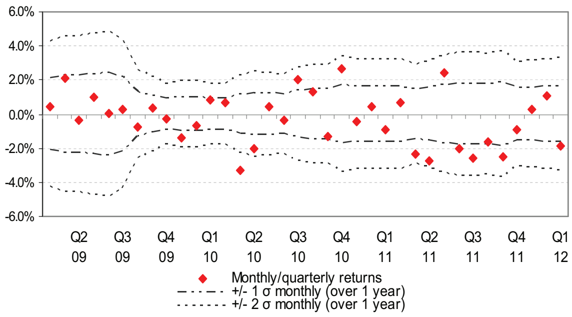
- Over the last quarter, the Fund underperformed the benchmark by 0.1%, producing an absolute return of 8.6%.
- Over the last year, the Fund outperformed the benchmark by 0.1%, producing an absolute return of -2.2%. Over the last 3 years, the Fund outperformed the benchmark by 0.9% p.a., producing an absolute return of 14.9% p.a. 3 year returns increased significantly primarily due to the exclusion of a weak Q1 2009 (-13.0%) from calculations and also from strong returns generated in this quarter.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- The information ratio has increased sharply given the relative difference between Q1 2009, which has fallen out of the analysis, and Q1 2012.
- At the same time, the tracking error of the fund has decreased. This is not necessarily inappropriate given the volatility in markets, as the manager may be cautious of volatile performance relative to the benchmark. However, it is important that this does not fall to such a level that the fund's outperformance target cannot be met.

MAN – Fund of Hedge Funds

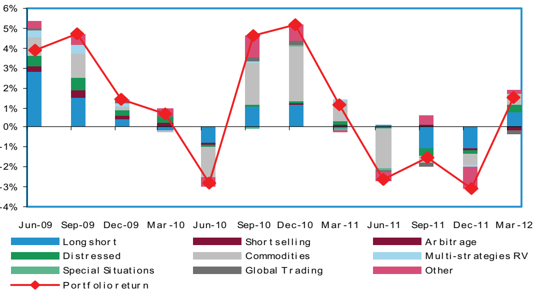
Relative returns #1



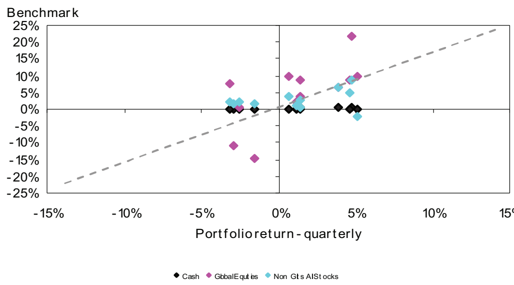
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



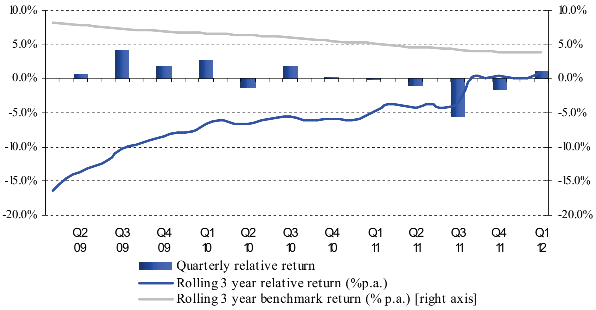
Source: Data provided by WM Performance Services, and MAN

Comments:

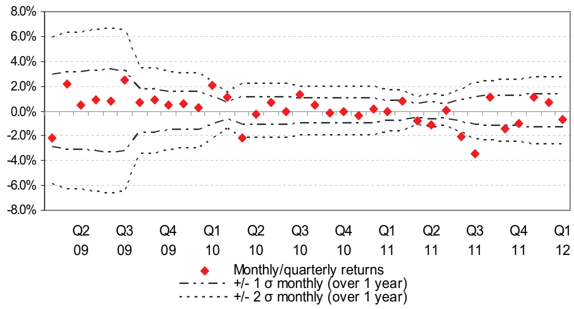
- Over the last quarter, the Fund underperformed the benchmark by 0.6%, producing an absolute return of 1.1%.
- Over the last year, the Fund underperformed the benchmark by 12.5%, producing an absolute return of -5.8%. Over the last 3 years, the Fund underperformed the benchmark by 4.1% p.a., producing an absolute return of 2.5% p.a.
- Man has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker relative performance, although Man has also been the worst performing fund of hedge fund manager in absolute terms over the last year.
- The fund is dramatically reducing the number of managers that it holds and increasing the use of managed accounts. These changes should be viewed as positive in theory but Man must show that the capability of managing assets in this manner exists.
- Whilst not generally used for rebalancing anyway, any allocation to the fund of hedge fund portfolio should be allocated to the other managers whilst Man transitions the portfolio.

Signet – Fund of Hedge Funds

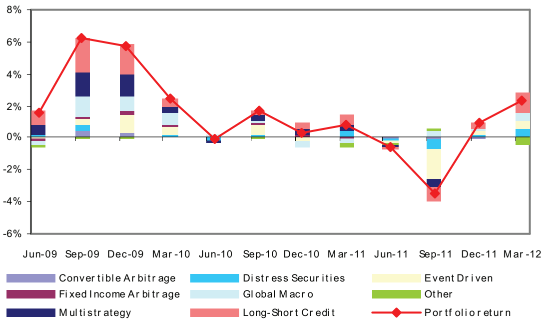
Relative returns [#1]



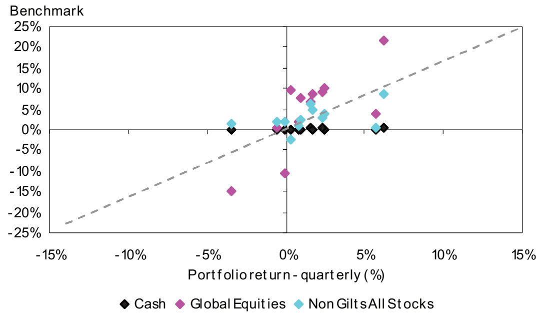
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



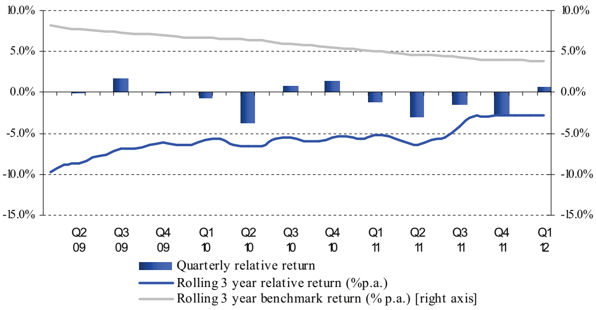
Source: Data provided by WM Performance Services, and Signet

Comments:

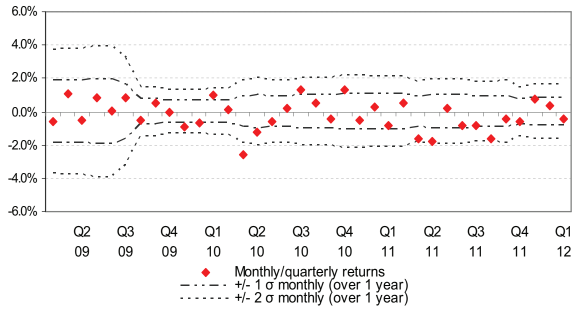
- Over the last quarter, the Fund outperformed the benchmark by 1.1%, producing an absolute return of 2.1%.
- Over the last year, the Fund underperformed the benchmark by 7.1%, producing an absolute return of -3.2%. Over the 3 year period, the Fund outperformed the benchmark by 1.0% p.a., producing an absolute return of 4.8% p.a.
- All strategies contributed to the positive absolute returns except for the Multi-strategy and Portfolio Protection strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

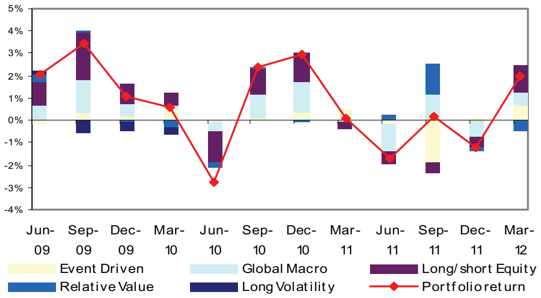
Relative returns [#1]



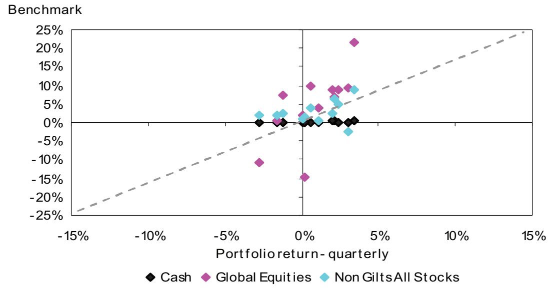
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



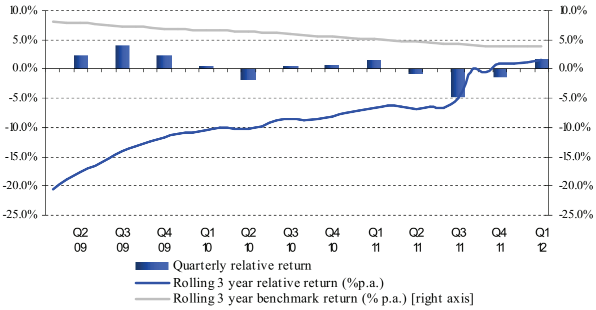
Source: Data provided by WM Performance Services, and Stenham

Comments:

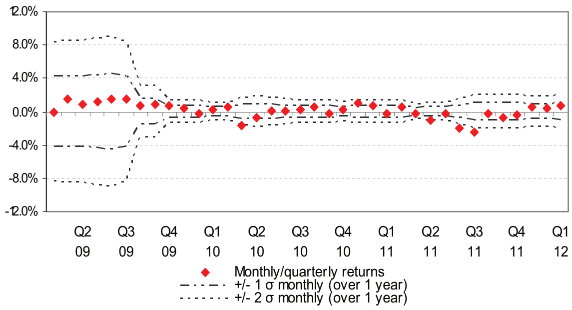
- Over the last quarter, the Fund outperformed the benchmark by 0.7%, producing an absolute return of 1.7%.
- Over the last year, the Fund underperformed the benchmark by 6.4%, producing an absolute return of -2.5%. Over the last 3 years, the Fund underperformed the benchmark by 2.7% p.a., producing an absolute return of 1.1% p.a.
- Relative value strategies were the largest detractors over the quarter. Positive contributors to performance came from Event Driven (7.3%), Long/Short Equity (4.8%) and Global Macro (1.8%) strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 70.0% of the total Fund allocation. The allocation to Cash continued to decrease from 6.0% to 2.0% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

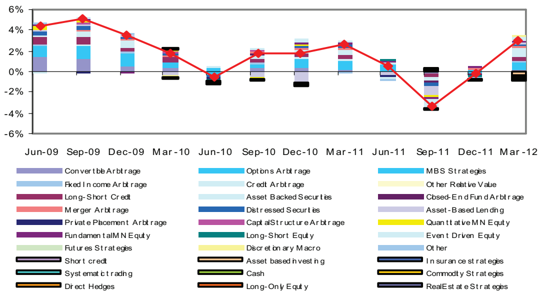
Relative returns [#1]



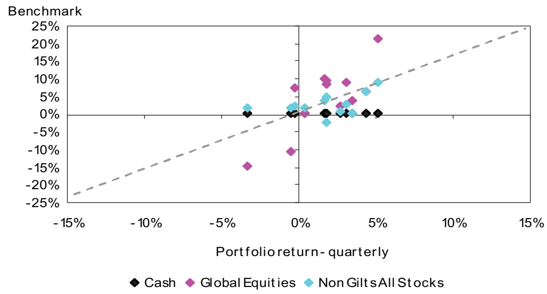
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



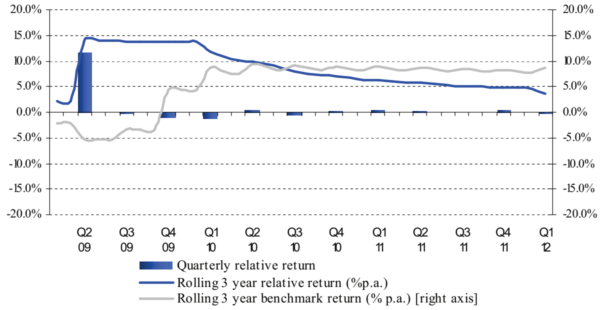
Source: Data provided by WM Performance Services, and Gottex

Comments:

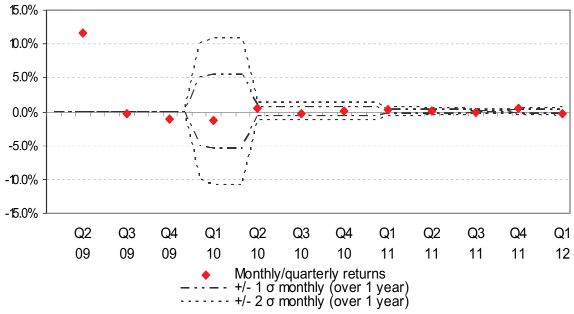
- Over the last quarter, the Fund outperformed the benchmark by 1.7%, producing an absolute return of 2.7%.
- Over the last year, the Fund underperformed the benchmark by 5.2%, producing an absolute return of -1.3%. Over the last 3 years, the Fund outperformed the benchmark by 1.8% p.a., producing an absolute return of 5.6% p.a.
- The Fund generated a positive return during the quarter. This was primarily led by Options Arbitrage strategies, Asset-Backed Securities and Distressed securities strategies. Positive performance was marginally offset by negative contributions from Asset Based Investing and Tail Risk funds.
- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Fundamental Market Neutral Equity Strategy and Mortgage Backed Securities. Allocations to Options Arbitrage strategies decreased from 7.0% to 4.6% over the quarter while allocations to Fundamental MN Equity and Asset based investing strategies increased by 1.3% and 1.9% 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.

Schroder – UK Property

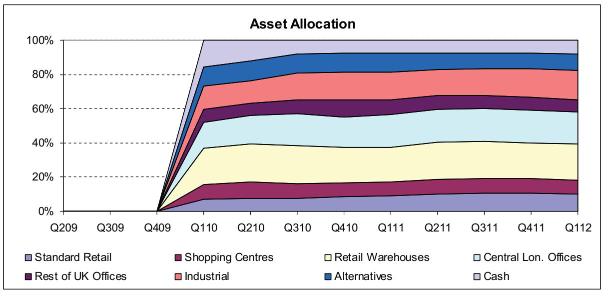
Relative returns [#1]



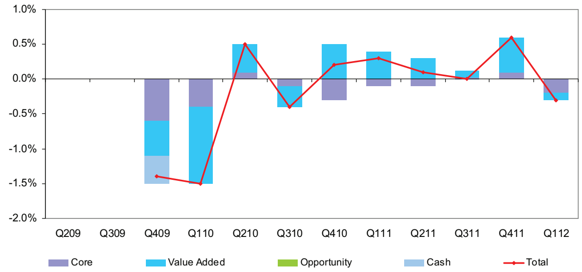
Quarterly relative returns [#2]



Asset Allocation [#5]



Contribution to relative return [#6]



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund underperformed the benchmark by 0.3%, producing an absolute return of 0.5%.
- Over the last year, the Fund produced a return of 6.2%, outperforming the benchmark by 0.5%. Over the 3 year period, the Fund has produced a return of 12.6 % p.a., which is ahead of the benchmark by 3.7% p.a.
- Both the core and the value funds detracted from performance over the quarter, as did the cash holding. Positive contributions came from central London office exposure and properties generating a high income yield.
- The largest underweight position is to Standard Retail (-7.2%). The largest overweight position is to Central London Offices (+6.1%) but this is more than offset by the underweight position to Rest of UK Offices (-6.3%). The portfolio is therefore overweight to most other sectors in the +2-3% range.
- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.

Partners – Overseas Property

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

Portfolio update

To date, Partners have drawn down approximately £68 million, or approximately 52% of the Fund's intended commitment of approximately £132 million. A total of £2.69 million was drawn down over the quarter. The draw downs commenced in September 2009.

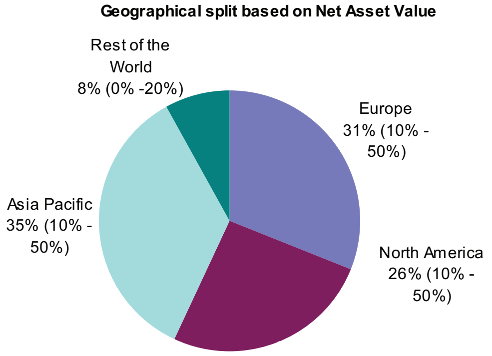
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

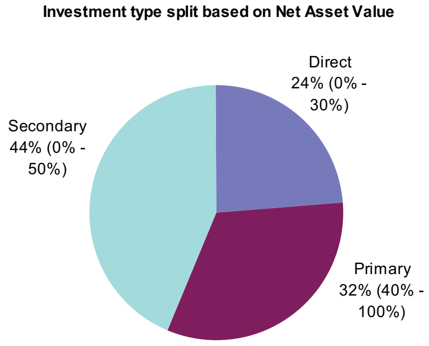
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2012 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	15.25	17.02
Direct Real Estate 2011	4.23	4.01
Distressed US Real Estate 2009	18.57	18.15
Global Real Estate 2008	30.90	33.28
Global Real Estate 2011	8.87	9.32
Real Estate Secondary 2009	10.53	12.43
Total (£)	**67.67**	**70.33**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 31 March 2012.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 March 2012, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

Changes to the geographical allocation to the portfolio over the quarter include an increase to North America from 25% to 26%, a corresponding decrease to Asia Pacific from 36% to 35% while Europe and the rest of the world allocation remained at 31% and 8% respectively.

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 continues to be 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.

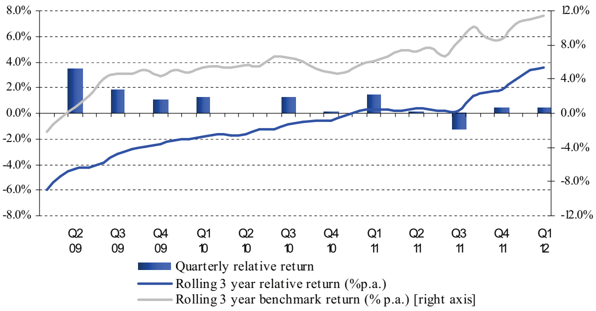
Performance over Q1 2012

Quarterly performance was 0.3% which was 0.5% below benchmark, however over the last 12 months the portfolio has returned 8.2%, which is a 1.8% outperformance of the benchmark.

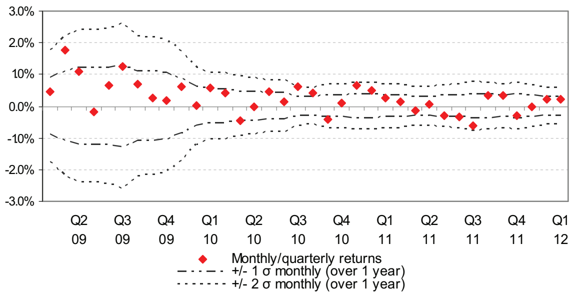
Distributions since inception total £7.25m, with £0.46m distributions over the most recent quarter.

Royal London Asset Management – Fixed Interest

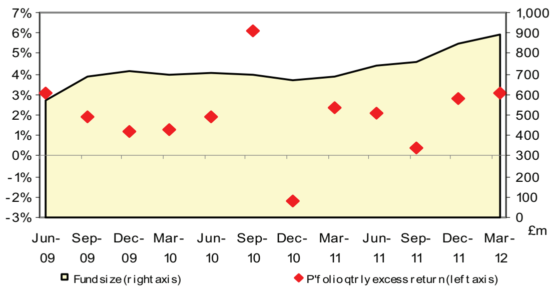
Relative returns #1



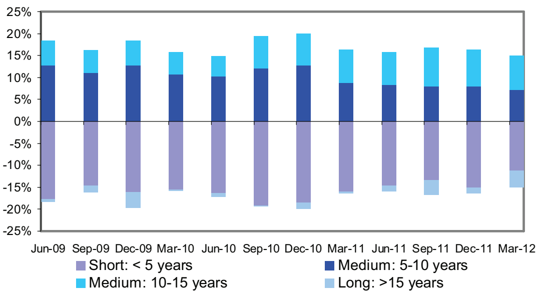
Monthly relative returns #2



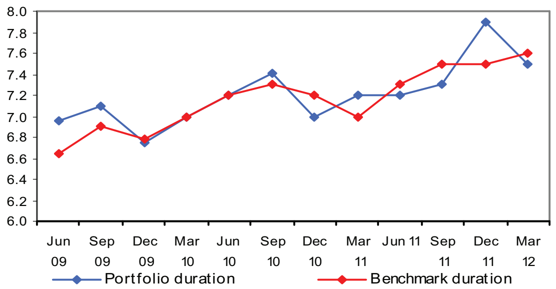
Performance v fund size #3



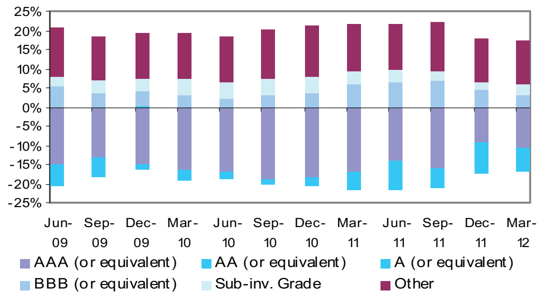
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



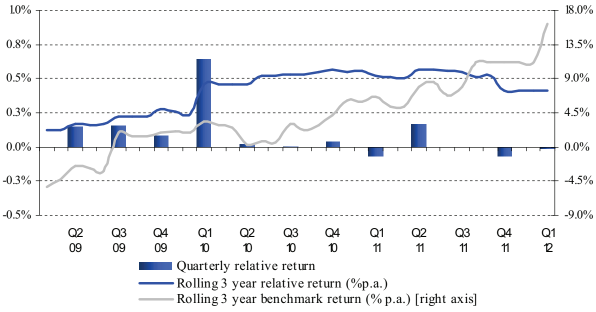
Source: Data provided by WM Performance Services, and RLAM

Comments:

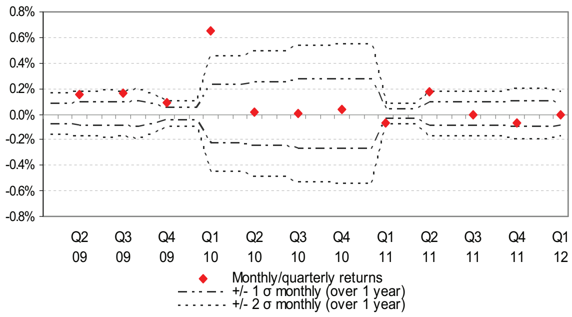
- Over the last quarter, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 3.1%.
- Over the last year, the Fund underperformed the benchmark by 0.4%, producing an absolute return of 8.5%. Over a rolling 3 year period, the Fund outperformed the benchmark by 3.6% p.a., producing an absolute return of 15.0% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset

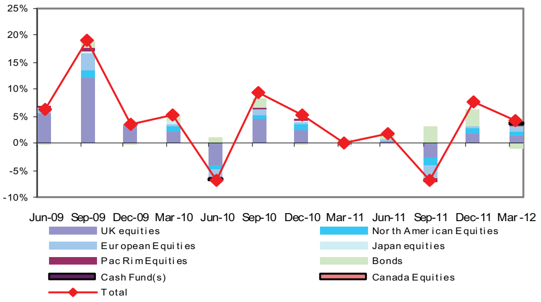
Relative returns #1



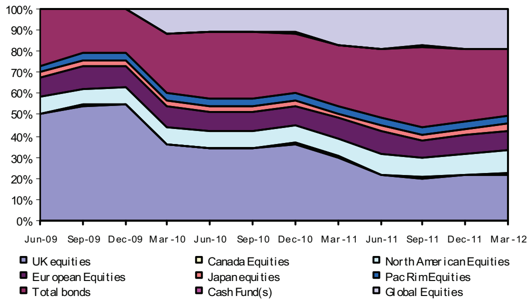
Monthly/Quarterly relative returns #2



Contribution to absolute return #6



Asset Allocation #5

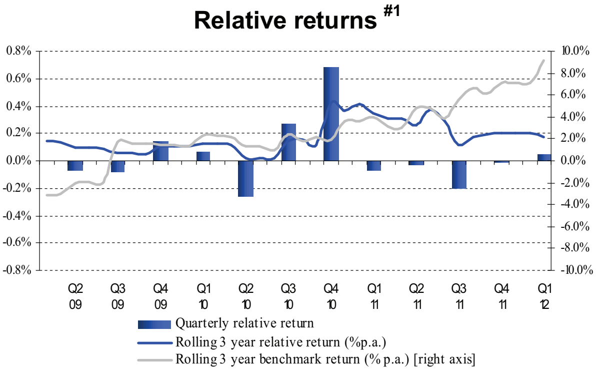


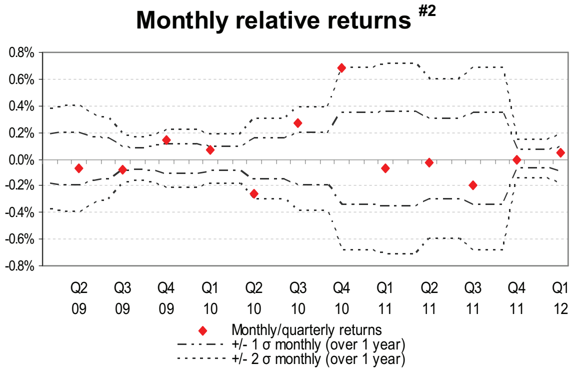
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 4.3%.
- Over the last year, the Fund performed slightly ahead of its benchmark by 0.1%, producing an absolute return of 6.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 16.5% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- The asset allocation changes continued the trend from the last quarter by increasing the weighting to equities and reducing the weighting to fixed interest. The main changes were an increase in UK 0.6%, US 0.6% and European equities 0.5%, with a decrease in index linked gilts by 0.9% and UK gilts by 1.1%. The cash allocation reduced to 0.3%. These changes are primarily a result of market movements.

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 0.8%.
- Over the last year, the Fund produced a return of 10.2%, underperforming the benchmark by 0.2%. Over a rolling 3 year period, the Fund produced an absolute return of 9.3% p.a., outperforming the benchmark return by 0.2%.
- Over the quarter the Fund's holdings in UK equities futures, US and European equities increased, and the holdings in UK gilts and cash decreased, again as a result of market movements.
- Over the quarter, the positive absolute return contribution to the total portfolio returns from equities was partially offset by the negative absolute return contribution from UK Gilts.

Appendix A – Market Events

UK market events – Q1 2012

- **Quantitative Easing:** The Bank of England extended its quantitative easing program by £50 billion in early February to stand at £325 billion at the end of the quarter.
- **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 edged down from a 12-year high of 8.4% to 8.3% in February. The Office for National Statistics also said there were 2.65 million people out of work in the three months from December to February.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey increased to a seasonally adjusted figure of 51.9 in March, up from a revised reading of 51.5 in February. The PMI has signalled expansion for four consecutive months, with its average reading in Q1 2012 of 51.8 being the highest since the second quarter of last year.
- **Inflation:** CPI annual inflation rose from 3.4% in February 2012 to 3.5% in March 2012. RPI annual inflation fell slightly from 3.7% in February 2012 to 3.6% in March 2012. The Office for National Statistics said lower gas and electricity bills and a slower rise in petrol prices than last year failed to offset higher price tags for clothing and food to push up the CPI from 3.4% in February.
- **Gross Domestic Product ("GDP"):** In the first quarter of 2012 GDP declined by 0.2%. Output of the production industries decreased by 1.3% in Q1 2012 within which manufacturing fell by 0.7%. The Construction sector also saw an output decrease of 0.2% in Q1 2012, compared with a decrease of 0.5% in the previous quarter.
- **Interest Rate:** The Bank's Monetary Policy Committee, in its latest monthly meeting in April concluded to maintain the interest rates at a record low of 0.5%, which has been at this level since March 2009.

Europe market events – Q1 2012

- **European sovereign debt crisis:** Government hopes of an export-led recovery were dented in April as the weakest trade figures for almost six months coincided with a warning from the World Trade Organisation (WTO) that the turmoil in the Eurozone would act as a major drag on international commerce during 2012. Official data showed the sovereign debt crisis in the weaker countries of the monetary union already having an impact on UK firms, with exports to Italy, Spain, Portugal and Greece all showing steep falls over the past year. Labour seized on the figures from the Office for National Statistics showing that Britain's trade gap widened from £2.5bn in January to £3.4bn in February, with officials citing lower exports of cars, capital goods and food, drink and tobacco as the main reason for the deterioration.
- **Spain:** Spain's economic situation worsened after the ratings agency Standard & Poor's downgraded the country's debt and warned that its recession was likely to deepen by the end of the year. S&P cut the rating on Spain's debt mountain by two notches, from A to BBB+. The downgrade is expected to push up the cost of borrowing immediately, as investors become increasingly worried over Madrid's inability to cut spending without sending its beleaguered economy into a deeper recession.

- The Eurozone entered crisis mode again in April as financial markets placed Spain firmly in their sights and investors began a concerted sell-off of Spanish debt amid growing scepticism over the country's ability to escape a bailout. Spanish bond yields soared to a four-month high, stocks fell to a three-year low, and the central bank governor, Miguel Ángel Fernández Ordóñez, warned that banks would need more capital if the recession-hit economy were to get worse.
- **Portugal:** Portugal revealed that its domestic banks were tapping the central bank for record amounts of funding. The Bank of Portugal said the use by domestic banks for the various facilities available from the ECB rose to €56.3 billion in March – up from €47.5 billion in February and greater than the previous record level of €49.1 billion in August 2010. Bailed out by the EU and International Monetary Fund in April 2011 for €78 billion, Portugal has €12 billion earmarked for bolstering its banks' capital positions if necessary in the months ahead.
- **Greece:** Fitch cut Greece's long-term ratings in March 2012 to its lowest rating above a default, becoming the first ratings agency to make the widely expected downgrade after the country announced a bond exchange plan to ease its massive debt burden. It said Greece would be designated as having technically defaulted after the bond exchange is formalized, but the new bonds would be given a new rating. All three big ratings agencies -- Fitch, Moody's and Standard & Poor's -- downgraded Greece in July when an initial debt swap plan was unveiled and have warned that losses for private creditors would trigger a temporary default.
- **Unemployment:** The EU27 unemployment rate was at 10.2% in February 2012, 0.1% higher compared with January 2012. Among the Member States, the lowest unemployment rates were recorded in Austria (4.2%), the Netherlands (4.9%) and Luxembourg (5.2%), and the highest in Spain (23.6%), Greece (21.0% as at December 2011) and Portugal (15.0%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI fell to 49.1 in March 2012 from 49.3 in February 2012, the lowest in 3 months. Manufacturing PMI declined to a 3 month low to 47.7 in March 2012 from 49.0 in February 2012. Services PMI rose to 49.2 from 48.8 in February 2012.
- **Inflation:** The annual inflation rate in the Euroarea remained unchanged from February 2012 at 2.7%. Monthly inflation in March 2012 was 1.3%.
- **GDP:** GDP growth for the first quarter was not available at the time of writing, although for the fourth quarter of 2011, this was 0.7%.
- **Interest Rate:** The European Central Bank kept interest rates unchanged at 1.0%.

US market events – Q1 2012

- **Unemployment:** The rate of unemployment in the US decreased from 8.6% in December 2011 to 8.2% in March 2012. Nonfarm payroll edged up by 120,000 in March 2012.
- **Manufacturing and Industrial Production:** Industrial production continued to expand for the 11th consecutive quarterly gain. For the quarter ended March 2012, industrial production increased 3.8%.
- **Inflation:** The US CPI rate decreased from 3.0% in December 2011 to 2.7% in March 2012.
- **GDP:** US real GDP increased at an annualised rate of 2.2% over the first quarter of 2012, against a 2.8% increase in the fourth quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q1 2012

- After robust inflows in the first quarter of 2012, foreign institutional investors have pulled money out of India in April, to the tune of $105.4 million. By comparison, January, February and March saw inflows of $2.04 billion, $5.13 billion and $1.68 billion, respectively. That combined $8.54 billion helped save the fiscal year ending in March from being a total wash-out, bringing FII inflows up to $9 billion after a disastrous 2011 for the Indian economy. Analysts said the outflow so far in April was temporary as investors adjusted their positions in light of two tax-related provisions in the finance bill which went into effect at the beginning of the month.
- China plans to lower tariffs on some products to encourage imports as the nation seeks to alleviate pressures on domestic resources and reduce trade conflicts, the State Council said in a statement in late April. China's cabinet called on local governments and departments to stabilise and promote commodities imports, widen the buying of advanced technology equipment and energy products, and "appropriately enlarge" the import of consumer goods. The world's second-largest economy reported an unexpected trade surplus in March as import growth trailed forecasts. Gross domestic product in the first quarter expanded 8.1% from a year earlier, the least in almost three years.
- Policy makers in Brazil are on a crusade to get the country's sky-high interest rates down to an all-time low. At 9.0% a year, the Selic overnight rate is within 25 basis points of hitting that target. With the minutes of its 166th monetary policy committee meeting – when it reduced the Selic by 75bp – the Copom has given itself ample room to keep on cutting. Inflation, the minutes said, is falling towards the target of 4.5% a year – it was 5.2% in March, down from 6.5% in December.
- Russia's securitisation market is back from the dead after several banks announced deals in April 2012 – the first since the international debt crisis struck in 2008. Sergei Monin, chief executive of the Russian subsidiary of Austria's Raiffeisen International Bank, said that the bank plans in May to securitise $200 million worth of diversified payment rights (DPRs) – payments due from companies and individual customers for banking services in Russia.

Global summary

Economy

- In the UK, twelve month CPI inflation has fallen to 3.5% in March, down from its recent peak of 5.2% in September 2011. The Bank of England ("BOE") stated that while the recent fall in CPI inflation had been as expected, the extent of any further decline is less certain. The Monetary Policy Committee ("MPC") has maintained interest rates at 0.5%. The UK economy officially entered recession with the economy contracting by 0.2% in the first quarter of 2012, albeit a provisional figure, having contracted by 0.1% in Q4 2011
- The UK trade deficit widened in February as exports of goods to non-EU countries dropped. The deficit on the trade in goods and services increased to £3.4bn from a revised £2.5bn in January. The decrease in exports was driven by lower sales of cars (down £400m) to countries outside the EU, including the US, Russia and China
- The official figures from the Office for National Statistics ("ONS") showed a rise in the rate of CPI inflation from 3.4% in February to 3.5% in March. Inflation may stay above 3% during the rest of this year, according to Paul Tucker, a deputy governor of the BOE. Separately, the Bank had warned of the possibility the economy may fall into recession again this year.

- Early indicators of consumer spending at the beginning of the year were mixed. Retail sales have risen by 0.9% in January and 1.3% in the last three months. Other indicators had been less positive, as consumer confidence had remained weak. The latest CBI Distributive Trades Survey had reported that retail sales volumes were broadly flat in the year to February, although this represented a sharper improvement on January than retailers had anticipated.
- The ONS confirmed unemployment rose again, but at its slowest pace for a year. It reached 2.67 million during the three months to January 2012, taking the unemployment rate to 8.4%. This figure compares favourably with the Euro zone area which currently stands at 10.8% and 10.2% across the 27 EU Countries.
- Ratings agency Standard and Poor's ("S&P") has reaffirmed it AAA rating for the UK saying it believes the economy is "wealthy, open and diversified". S&P also confirmed a stable outlook, as it expects the Government to implement the bulk of its austerity measures. The other two ratings agencies, Fitch and Moody's, have placed the UK's top rating on 'Negative Outlook', warning that it could be downgraded within 12 - 18 months.
- The Southern European countries of Italy, Spain, Portugal and Greece are undergoing severe austerity programmes, which is having a knock-on impact on the prospects for growth, with the Southern European countries in recession. More importantly, the appointment of caretaker governments in Greece and Italy has boosted confidence that structural reforms will be taken seriously.
- The significant improvement in market sentiment since the ECB's first Long Term Refinancing Operation ("LTRO") in December had been maintained and further supported by the second round of LTRO on 29th February. The net increase in market liquidity generated by the LTROs has continued to support short-term bank funding markets in the Euro area.
- The European Central Bank ("ECB") benchmark interest rate remained unchanged at 1%. The US Federal Reserve made an unprecedented move by announcing that it expected to keep interest rates below 1 per cent until at least 2014. In Asia, the Bank of Japan continues to print money and the People's Bank of China has begun to cautiously loosen policy, reducing bank's reserve ratio requirements.
- Since hitting a low in October 2011, The Global Purchasing Managers Index (PMI) has risen for the fourth straight month reaching a 12 month high in February. The PMI for China has defied widespread expectations of a steepening downturn, hitting a four month high in February.

Equities

- The FTSE All Share produced a return over the quarter of 6.1%. European equities produced returns of 10.0%, despite the ongoing concerns regarding sovereign debt in the Euro zone. Emerging Markets were the strongest performers, producing returns of 10.6%. US, Asia Pacific and Japan equities all produced positive absolute returns over the quarter.

Fixed Interest

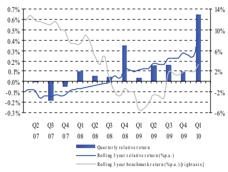
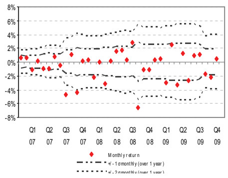
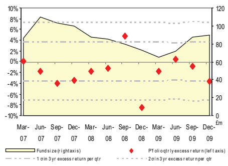
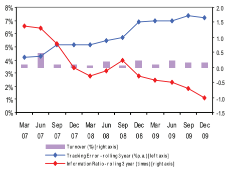
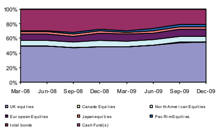
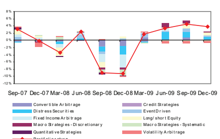
- UK long dated gilts produced negative returns over the quarter as the yield increased, ending the quarter at 3.3%. However, many believe that the yields remain low and that further rises may be possible, especially given the high level of government debt.
- Whilst long dated, AA rated corporate bonds returned -0.4% over the quarter, most corporate bond and non - gilt indices achieved a small positive return and yield spreads over gilts generally narrowed.

Alternative Asset Classes

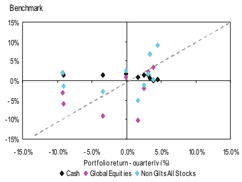
- Hedge funds continued to underperform equity markets achieving an overall return of 4.2% during the quarter. High yield and commodities achieved strong positive returns and property continued to produce a positive return, albeit driven by yield rather than capital appreciation.

Appendix B – Glossary of Charts

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

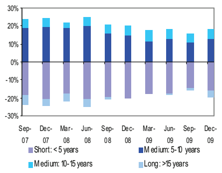
	Reference	Description
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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



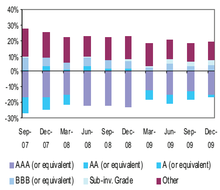
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



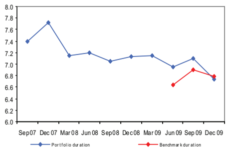
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	

JLT Investment Consulting

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

CONTACTS

John Finch
JLT Investment Consulting
Tel: +44 (0) 0161 253 1168
Email: john_finch@jltgroup.com

Jignesh Sheth
JLT Investment Consulting
Tel: +44 (0) 0161 253 1154
Email: jignesh_sheth@jltgroup.com

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-12-008

Meeting / Decision: Avon Pension Fund Committee
Date: 22 June 2012

Author: Liz Feinstein
Report Title: Review Of Investment Performance For Periods Ending 31 March 2012 Exempt Appendix Title: Appendix 3 - Summaries of Investment Panel Meetings with Investment Managers

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

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

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

PUBLIC INTEREST TEST

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

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

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

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

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

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

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

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Euro and European Financials exposure

Estimated exposure to Euro Denominated assets at 31 March 2012

	As at 31 March 2012	
	£m	% of Fund assets
Overseas Bond portfolios	21.2	0.8%
Equity portfolios	155.6	5.6%
Global Property Funds (units priced in Euro)	45.7	1.7%
Total Euro denominated exposure	222.5	8.1%

The Overseas Bond Portfolio has no exposure to Sovereign bonds issued by Greece, Ireland and Portugal. It has an estimated £2.1m invested in Spanish Government Bonds and £4.9m in Italian Government Bonds.

Some of the Global Property Fund units are priced in Euros. However the underlying assets are not necessarily in the Euro area. At 31 March 2012, on a look through basis, 31% of the global property portfolio investments were in Europe.

Estimated exposure to European Banks and Insurance Companies at 31 March 2012

	As at 31 March 2012	
	£m	% of Fund assets
Equities		
UK Banks	45	
European Banks	20.3	
UK Insurers	20.5	
European Insurers	15.1	
Total	**100.9**	**3.7%**
Corporate Bonds		
UK Financial companies	65.1	
Total	**65.1**	**2.4%**

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

Stock Price performance since 31 Dec 2011 (Sterling returns)

	Approx % of index at 31/3/12	Price change 31/12/11 to 28/05/12
HSBC	5.6%	4.0%
Barclays	1.3%	2.8%
Lloyds	0.6%	0.5%
Royal Bank Scotland	0.2%	3.9%
Banking Sector	10.3%	1.5%
Life Insurance Sector	3.1%	0.3%
FTSE All Share		-2.7%
European Bank Sector	9.5%	
European Insurance Sector	5.5%	
FTSE Dev Europe		-1.4%

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**22 JUNE 2012**		
TITLE:	**PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR 12 MONTHS AND (2) PERFORMANCE INDICATORS FOR 2 MONTHS AND (3) STEWARDSHIP REPORT FOR THE 4 QUARTERS, ALL TO 31 MARCH 2012**		
WARD	**' ALL'**		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 Summary Financial Account: 12 months to 31st March 2012
Appendix 2 Summary Budget Variances: financial year to 31st March 2012
Appendix 3A Balanced Scorecard : 2 months to 31 March 2012 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 2 months to 31 March 2012 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 2 months to 31 March 2012 *(Retirements from DEFERRED status)*
Appendix 5 Active membership statistics over 24 months to 31 March 2012 (See Appendix 3B Graph 8)
Appendix 6 Joiners & Leavers (See Appendix 3B Graph 9)
Exempt Appendix 7 Summary Performance Report on Scheme Employers performance for the 4th quarter and 4 quarters to 31 March 2012 (including late payers) – Annex 1 Retirements & Annex 2 Deferreds

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 2 months to 31 March 2012 and Stewardship Reports on Employer and APF performance in the first 4 Quarters to 31 March 2012. The Performance Indicators and Customer Satisfaction feedback report is for 2 months rather than the usual 3 months to align the end date with other reports at the year end.

2. RECOMMENDATION

That the Committee:

2.1 Approves the addition to the list of Fund Discretions in respect of "*Payments for persons incapable of managing their affairs*"

2.2 Notes the expenditure for administration the Stewardship Report on performance and management expenses incurred for the 12 months and Performance Indicators and Customer Satisfaction Feedback for the 2 months to 31 March 2012.

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 for year to 31st March 2012 are contained in **Appendix 1.**

4.2 The total variance for the year to 31 March 2012 is £85,000 under budget. Within the directly controlled Administration budget the variance is £200,000 under budget. Savings were achieved in all areas except Information Systems where increased expenditure was more than offset by related savings in Communications. The largest savings were made against staff turnover, increased income and reduced centrally allocated charges that resulted from savings made in the Council's central services.

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

5. BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 2 MONTHS TO 31 MARCH 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 2 month period was 2,608 tasks created and 2,536 cleared (97.2%), leaving an outstanding workload from the period of 72 tasks or 2.7% well within the target of 10%. 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:

- Increasing use of the Avon Pension Website at over 6,000 hits in each month continues as pensions remain high profile in the media *(Chart 2)*
- A continuing low level in short-term sickness (1.47%) and no long-term sickness; the use of temporary staff is within target *(Chart 3)*
- The number of new cases created in the period rose to 1322 however the number of cases completed exceeded this by 85 at 1407 reducing work I progress. (*Charts 6 & 7)*

5.2.3 **STAFF**: The Committee were asked to note in the last report in March 2012 that 5 new benefits staff were appointed in late January 2012 to replace 4 experienced staff whose services had been lost and that performance might temporarily dip whilst these staff were trained. These staff are settling in well and having completed their initial process training have started to significantly contribute to the output of the Section although this is not reflected in the performance against for this 2 month period ending 31 March in which performance on deaths, refunds and transfers were as predicted behind target. Improved performance figures are expected to be reported in the next Committee report.

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

5.4 **2011/12 Year-End information/ Members 2012 Annual Benefit Statements ("ABSs").** Annual Benefit Statements for active members are prepared and sent once the year-end information sent by employers has been received and reconciled. Draft Regulations indicated that the time allowance for sending out ABSs would be reduced and they would need to be sent out by 1ST October each year.

In view of this, Employers were asked to submit the 2011/12 year-end information slightly earlier than previously - by 30th April. A report on the timeliness of employers' submissions is included in the Stewardship Report (*Item 9 below*).

6. CUSTOMER SATISFACTION FEEDBACK IN 2 MONTHS TO 31 MARCH 2012

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on 53 questionnaires returned from ***active*** members retiring. On average 59% received their lump sum and 75% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on a small sample of 24 questionnaires returned from *former* active members retiring from ***deferred*** status. 79% received their lump sum and 75% their first pension payments within "10 day" target *(See chart).*

Service rating as either good or excellent from actives and deferreds on the service they received from Avon Pension Fund staff handling their retirement averaged out at 92% (See chart item 5 on both graphs).

6.2 **C*linics:* None arranged for 2012*:*** As it expected that the Fund will be holding a significant number of sessions with members to explain what the 2014 changes to benefits will men for them no clinics have been arranged for the current calendar year so there is nothing to report. (This item will be removed from the report for the time-being and brought back in when clinics are recommenced).

Despite this, representatives of the Fund will, if requested by an employer, arrange member advisory sessions to meet with their staff either individually or in groups if there is a particular event such as bulk redundancy or pay reduction exercises.

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 2011 to identify opt outs in a reportable field. Reports run indicate that only **73** members with more than 3 months service opted out over the 12 month period to the end of March 2012. When expressed as percentage of the **total** membership of 34,501 this is only **0.2%**

(approximately 1 in 500) and is a very encouraging sign that significant numbers of members are <u>not</u> leaving the Scheme in advance of knowing what the increase to pension contributions and changes to benefits in 2014 will be.

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***

Figures of the current active membership for a cumulative 35 months period from 1 May 2009 to 31 March 2012 are shown for information in a graph format in **Appendix 5.** The overall membership has remained fairly constant over the last few years between 33,000 and 34,000. The membership at 31st March 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. Stewardship Reports for the remainder of the 140 plus employers will be sent only once a year due to the lower level of activity.

9.2 A Summary report to the Committee is now a requirement of the Strategy. The Report for the 12 months to 31 March 2012 is included as **Exempt 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 made 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 4th Quarter 2011 and cumulative 4 quarters to 31 March 2012. A *Trend* Graph for these 4 quarters is also included.
- Report on *late* pension **contributions** by employers to the Fund due for the 3 months through to 31 March 2012.
- Year End status report listing employers who have still not sent their full year end information

9.4. ACTIVE MEMBERSHIP STATISTICS (to assist monitoring of Opt Out trends)

9.4.1 Figures of the current active membership for a cumulative 23 months period from 1 May 2009 to 31 March 2012 are shown for information in a graph format in **Appendix 5**

9.4. 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. **Electronic Access:** There was continuing interest in electronic access available to members and employers with the numbers registered rising from 2,356 to 2,561(8.7% increase in 3 months) for **Member Self Service. On Employer Self Service)** employer staff registered rose to 72 staff (previously 45) and 49 Scheme employers (previously 27).

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.

10.2 ADDITION TO LIST OF DISCRETIONS: *Payments for persons incapable of managing their affairs*

In 2010 Regulation 52A of the LGPS was inserted to allow the administering authority, at its discretion," *to pay a member's benefits (or any part of them other than children's pension) to a person having the care of the person entitled, or such other person as the authority may determine, to be applied for the benefit of the person".*

The list of Discretionary Decisions has therefore been updated to include this. Exercise of this option is by Officers.

This new facility is helpful as it can be effected without the need for the signature of the member who may well be too incapacitated to give this. It is not expected that this provision will be used very often but when it is used it will be signed off at by two of the agreed panel of three Senior Officers.

The Committee is asked approve this change to the Fund's Discretions.

10.3 APF NOMINATION FOR AWARD FOR "BEST PENSIONS ADMINISTRATION"

APF was included in a shortlist of four in April 2012 for a National Award for ***Best Pensions Administration. The Award*** covering both public and private sector pension funds was run by ***Financial News*** (part of the Dow Jones Group). APF were second runner up beating the only other LGPS fund in the shortlist.

This has resulted in good publicity for the Fund and is a welcome public endorsement of the high quality of APF's current administration. The Fund's new Administration Strategy and its move to straight through processing by encouraging electronic data submission were cited as reasons for selection.

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

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2012

	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	101,026	75,431	(25,595)
Administration Costs	78,319	65,673	(12,645)
Communication Costs	168,117	124,544	(43,573)
Information Systems	166,956	180,598	13,642
Salaries	1,303,440	1,232,033	(71,407)
Central Allocated Costs	394,420	370,062	(24,358)
Miscellaneous Recoveries/Income	(139,200)	(176,018)	(36,818)
Total Administration	**2,073,078**	**1,872,323**	**(200,755)**
Governance & Compliance			
Investment Governance & Member Training	291,170	195,739	(95,431)
Members' Allowances	40,443	37,926	(2,517)
Independent Members' Costs	18,760	17,920	(840)
Compliance Costs	269,575	330,074	60,499
Compliance Costs recharged	(52,000)	(165,050)	(113,050)
Total Governance & Compliance	**567,948**	**416,608**	**(151,340)**
Investment Fees			
Global Custodian Fees	143,000	126,809	(16,191)
Investment Manager Fees	8,546,950	8,829,964	283,014
Total Investment Fees	**8,689,950**	**8,956,773**	**266,823**
NET TOTAL COSTS	**11,330,976**	**11,245,704**	**(85,272)**

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Summary of major budget variances: Year ending 31st March 2012

APPENDIX 2

Variances Analysis of the full year expenditure or income against budget.

Expenditure Heading	Variance *	Most Significant Reasons for Variance
Investment Expenses	(26,000)	Fewer issues incurring legal fees have been referred than was provided for in the original budget.
General Communication Costs	(44,000)	Savings have been achieved by combining the mailing of Annual Benefits Statements with newsletters. There has also been greater use of freely available software allowing savings to be made on the cost of website development. Budget provision for communicating details of the new scheme was not required, but will be needed in 2012/13.
Salaries	(71,000)	Savings have been made against staff turnover. This has not currently affected the level of service provided.
Central Allocated Costs	(24,000)	Savings made by the Council in Central costs were reflected in a reduction in recharges.
Miscellaneous income	(37,000)	Opportunities were found for the recovery of costs over and above those assumed in the preparation of the budget.
Investment Governance & Member Training	(95,000)	The Fund has commissioned less investment advice than was anticipated at the start of the year.
Compliance Costs	60,000	The increase in expenditure against budget was due to a £98,000 increase in Actuarial charges (driven by the increase in new bodies and the interim valuation as well as resolving specific funding issues). This was 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 was a change in policy. Increased expenditure on actuarial fees was offset by increased recharging of fees to employing bodies (see below).
Compliance Costs Recharged	(113,000)	Increased recharges of actuarial fees as per above.
Investment Manager Fees	283,000	The budget was prepared prior to the appointment of the dynamic currency hedging manager.

***() 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 March 2012

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2010/11 Actual	Target for 2011/12	Actual - 2 months to 31/03/2012	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	N/A	No clinics were held in the period and none are expected in 2012	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	92.00%	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 due in 2011 deferred?	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	A	Admin	76%	90%	60.00%	3 of 5 Tasks were completed within target	
	Retirements [15 days]	G	Admin	82%	90%	87.04%	262 of 301 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	A	Admin	62%	75%	57.63%	321 of 557 Tasks were completed within target	
	Refunds [5 days]	G	Admin	85%	75%	80.00%	12 of 15 Tasks were completed within target	
	Transfer Ins [20 days]	A	Admin	64%	75%	42.47%	31 of 73 tasks were completed within target	
	Transfer Outs [15 days]	A	Admin	74%	75%	67.03%	61 of 91 Tasks were completed within target	
	Estimates [10 days]	G	Admin	94%	90%	87.60%	551 of 629 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	36,000 p/a 3,000 p/q	12,330	6165 per calendar month for reporting period (double expected for year)	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%	N/A	due next quarter	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	N/A	due by 1st October 2012	

B People Perspective

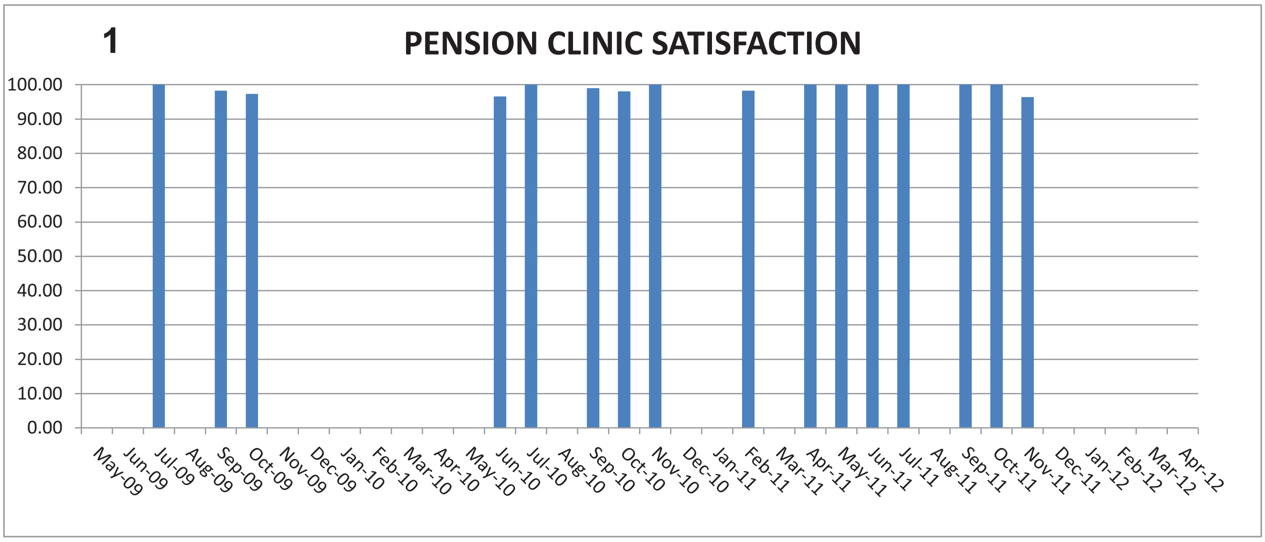
1	Health & Safety Compliance	**G**	All	100%	100%	100%		
2	% of staff with Investor in People Award (IIP)	**G**	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
3	% of new staff leaving within 3 months of joining	**G**	All	0%	4%	0%		
4	% of staff with up to date Performance Reviews	**G**	All	97%	100%	all	All staff have had PDRs for 2011/12 identifying training requirements	
5	% Sickness Absence a) Short Term b) Long Term	**G**	All	2.50%	a) 3% b) 3%	a) 1.47% 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%	Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

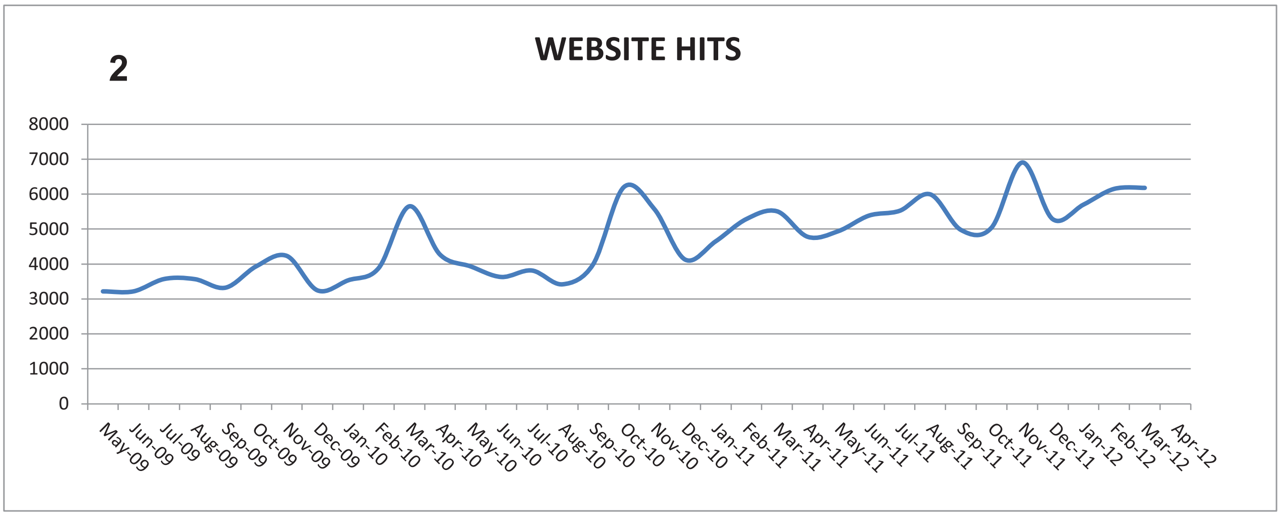
C Process Perspective

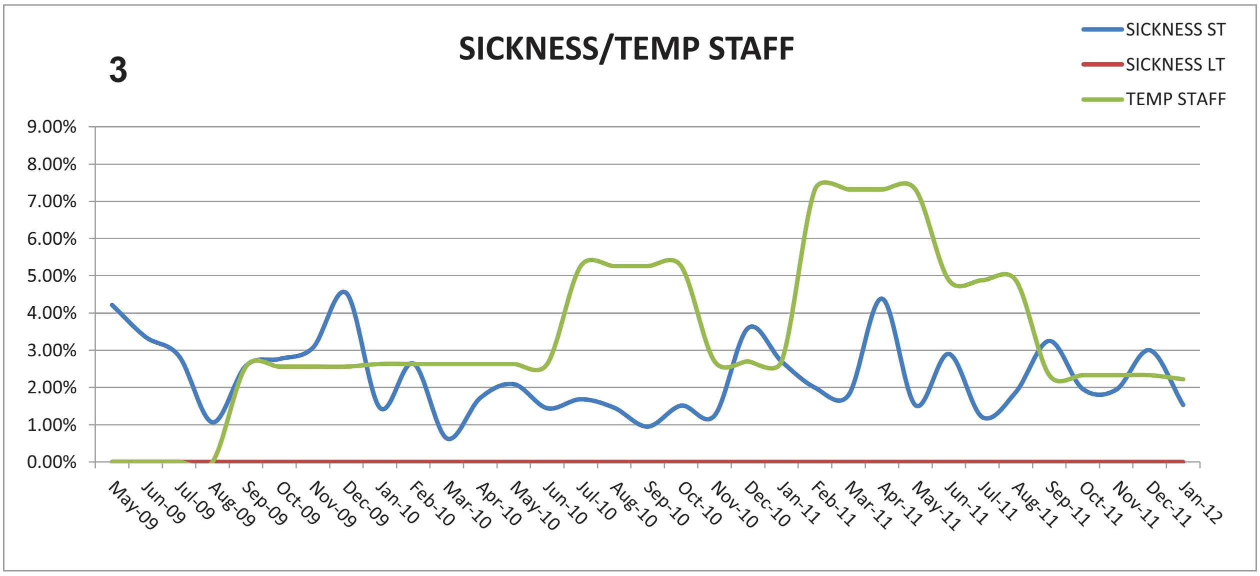
1	a) Services actually delivered electronically b) Services *capable* of delivery to members	**A**	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a) 0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 2000 members are happy to receive info electronically b) Section able to deliver all targeted services electronically (See Admin Report)	
2	% Telephone answered within 20 seconds	**G**	Admin	99%	98%	98.0%	5038 calls, 4938 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%	2.77%	2,608 Created, 2,536 cleared (97.23.% leaving 2.77% of workload outstanding) Well ahead of target	**Graphs 5 6 & 7)**
	Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions	**G**	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 2.5% b) 0.03%	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 were returned as 1500 post numbers missing.	
8	No. of errors (due to incomplete member data from employers)	**G**	Admin	2%	3%	2%	Acceptable error level	

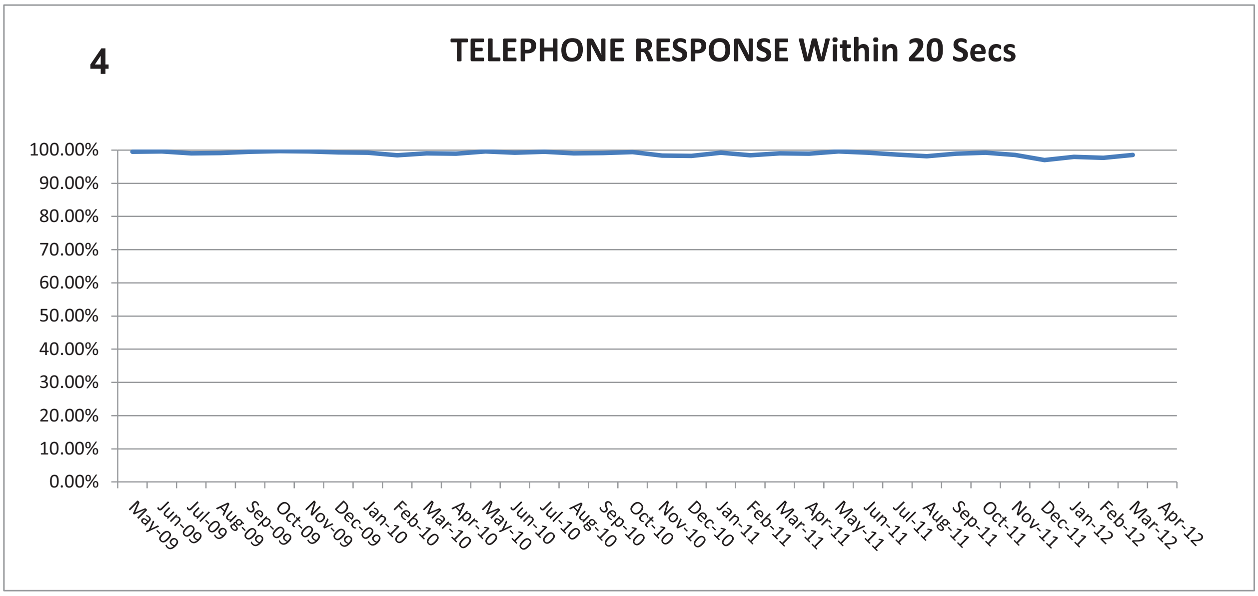
D Resource Perspective

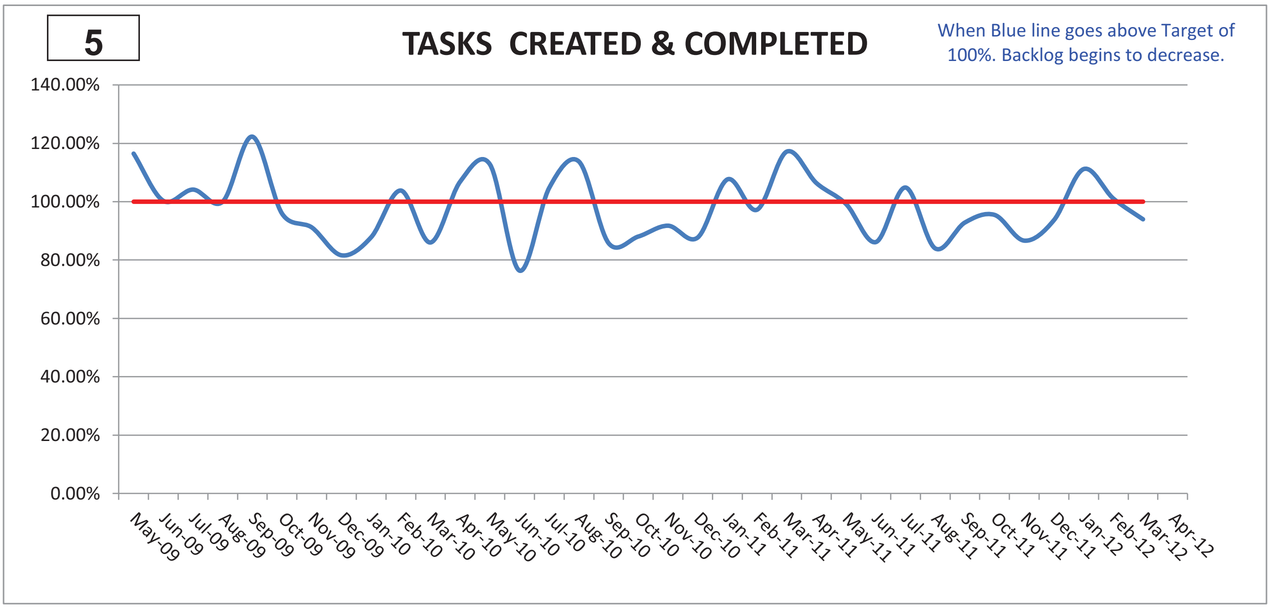
1	% Supplier Invoices paid within 30 day or mutually agreed terms	**G**	Admin	91%	94%	89.00%	Business Financial Services (inc Pensions) Theaverage for the 2 months is worse than target due to a poor month in March of only 82.14%
2	Temp Staff levels (% of workforce)	**G**	All	0.40%	3%	1.61%	Below target
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. Deadline extended to October 2012 for larger employers
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.

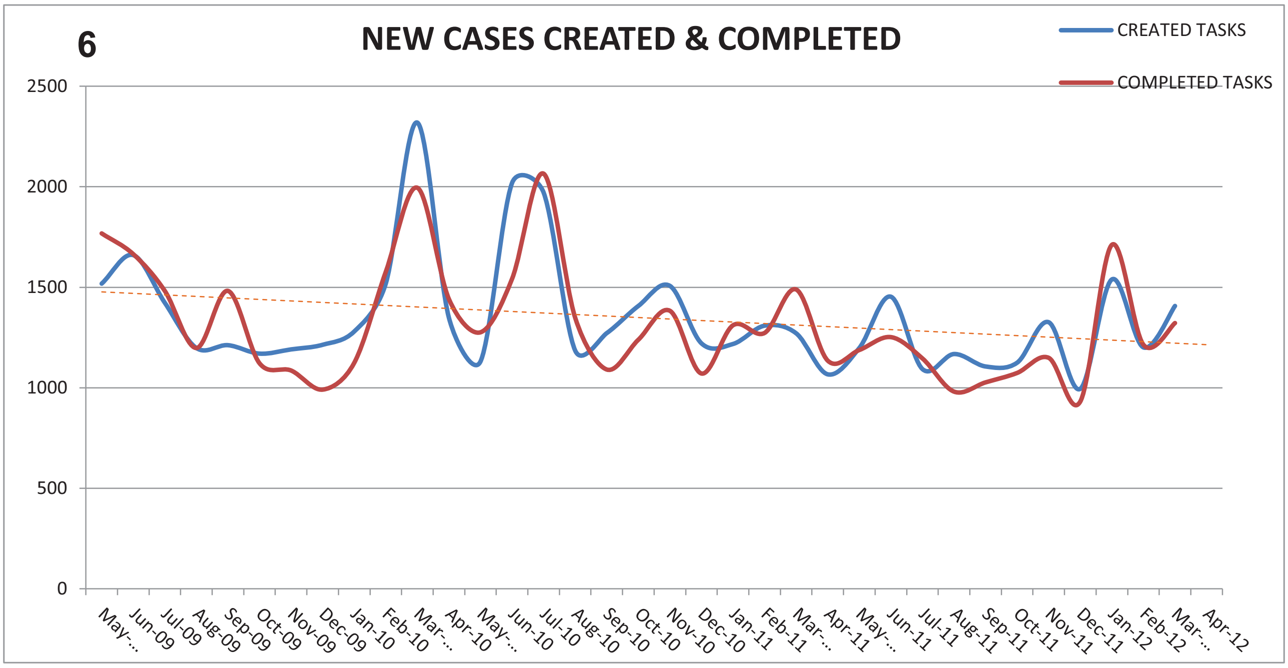

1
PENSION CLINIC SATISFACTION
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11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

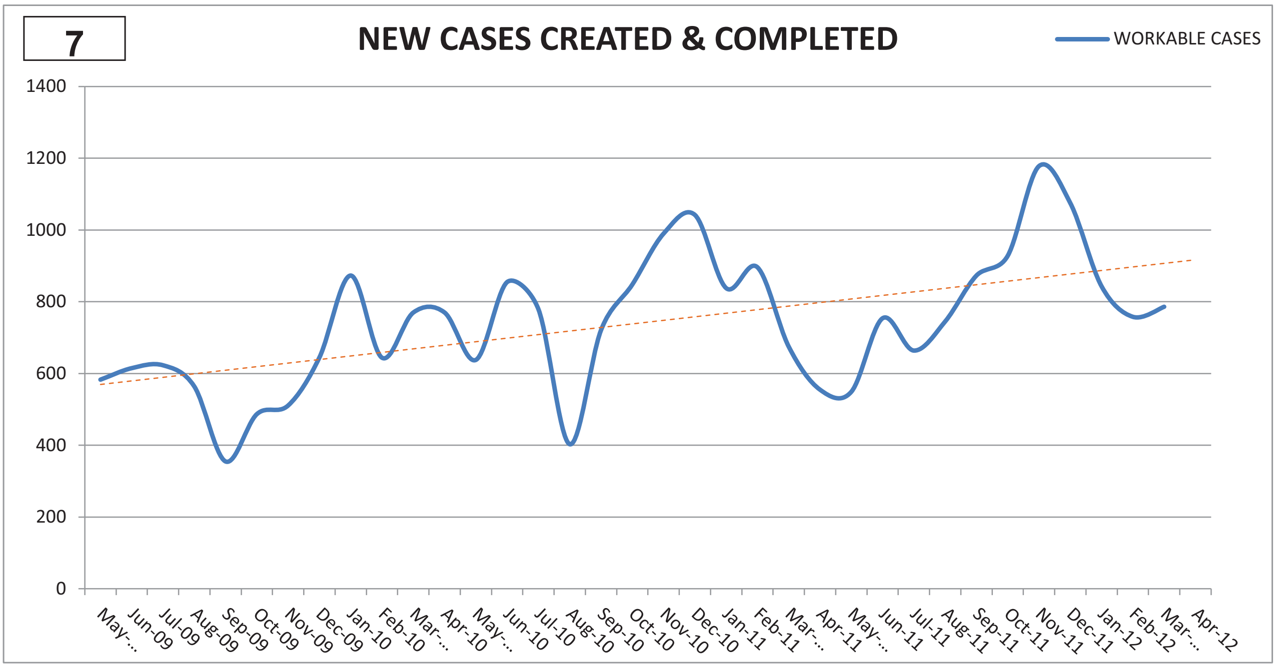

2
WEBSITE HITS
8000
7000
6000
5000
4000
3000
2000
1000
0
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12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


3
SICKNESS/TEMP STAFF
SICKNESS ST
SICKNESS LT
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


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 Feb-12 Mar-12 Apr-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 Feb-12 Mar-12 Apr-12


6
NEW CASES CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
2500
2000
1500
1000
500
0
May-... Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-... Apr-10 May-... Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-... Apr-11 May-... Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-... Apr-12


7
NEW CASES CREATED & COMPLETED
WORKABLE CASES
1400
1200
1000
800
600
400
200
0
May-...
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-...
Apr-10
May-...
Jun-10
Jul-10
Aug-10
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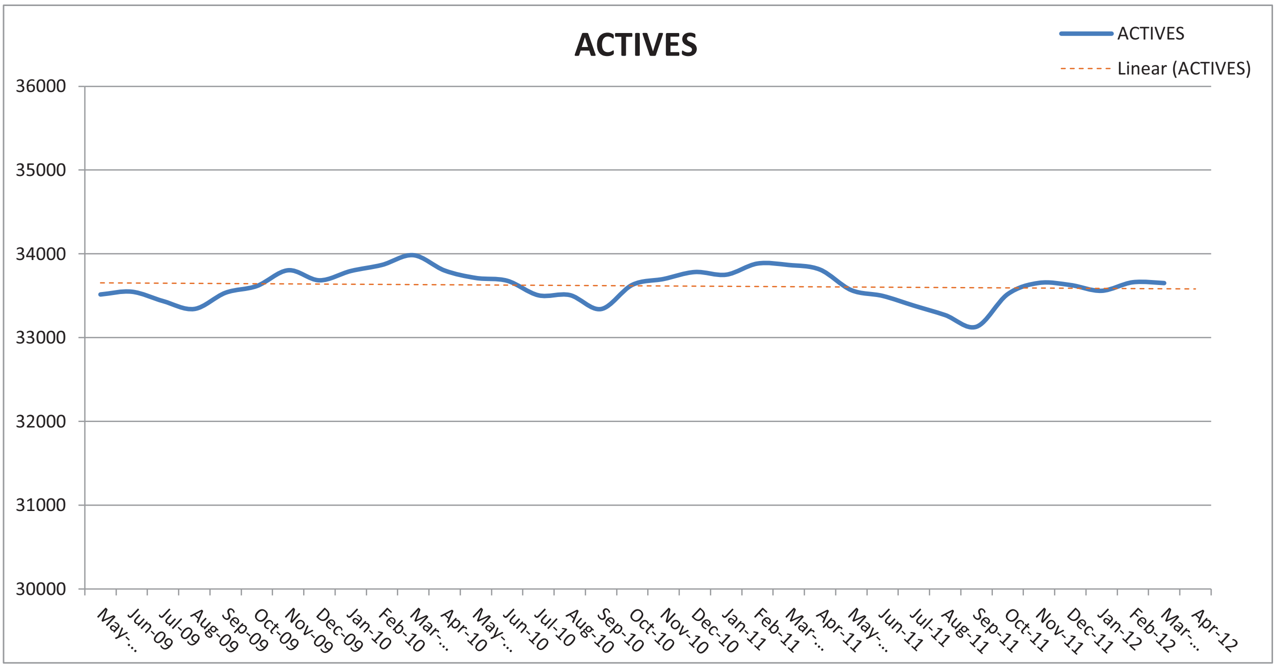
Feb-12
Mar-...
Apr-12


ACTIVES
ACTIVES
Linear (ACTIVES)
36000
35000
34000
33000
32000
31000
30000
May-...
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-...
Apr-10
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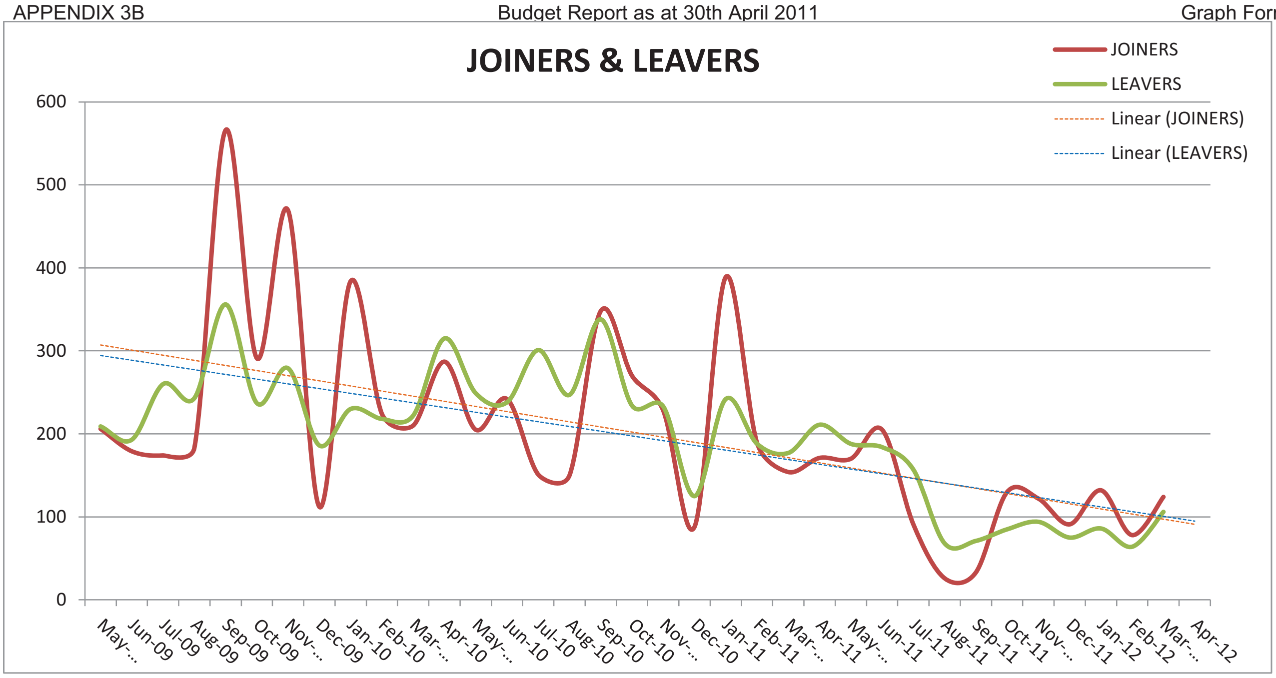
Apr-12


JOINERS & LEAVERS
JOINERS
LEAVERS
Linear (JOINERS)
Linear (LEAVERS)
600
500
400
300
200
100
0
May-...
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-...
Dec-09
Jan-10
Feb-10
Mar-...
Apr-10
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Mar-...
Apr-11
May-...
Jun-11
Jul-11
Aug-11
Sep-11
Oct-11
Nov-...
Dec-11
Jan-12
Feb-12
Mar-...
Apr-12

Active Retirements 1 February to 31 March 2012

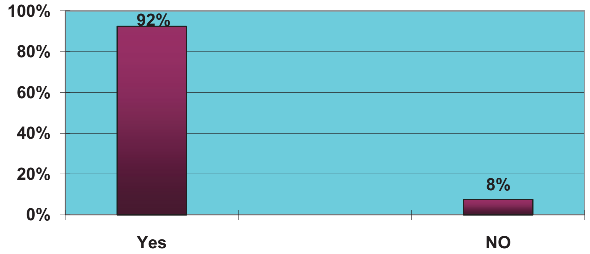
Responses to Retirement Questionnaire

Number of Questionnaires in this period	53

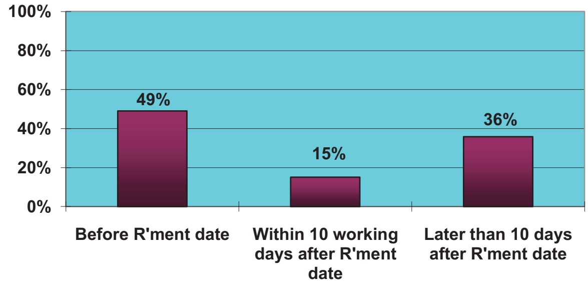
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	49	92%
			NO	4	8%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	26	49%
		B	Within 10 working days after R'ment date	8	15%
		C	Later than 10 days after R'ment date	19	36%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	15	58%
			Later than 10 days after R'ment date	11	42%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	5	63%
			Later than 10 days after returning Opt Form	3	37%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	11	58%
			Later than 10 days after returning Opt Form	8	42%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	40	75%
			Later than 1 month after R'ment date	13	25%

5	Overall, how would you rate the service you received from Avon Pension Fund?	Excellent	29	55%
		Good	18	34%
		Average	5	9%
		Poor	1	2%
6	Is there anything we could have done to improve the service we provided?	Yes	7	13%
		No	46	87%
	Were you treated with sensitivity & fairness?	Yes	53	100%
		No	0	0%

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

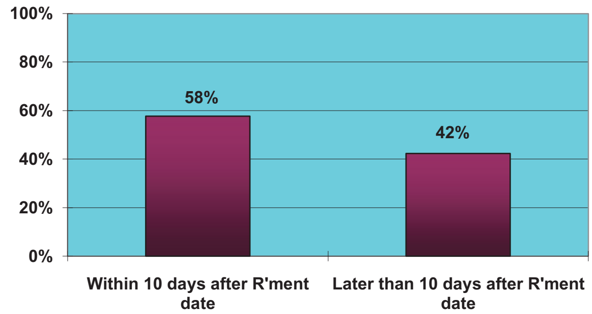


2. Did you receive your LGPS Retirement Benefits Option Form......?

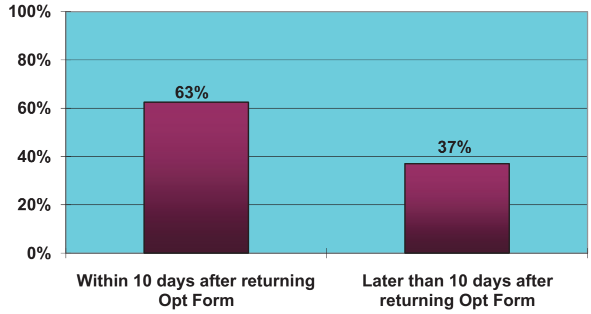


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

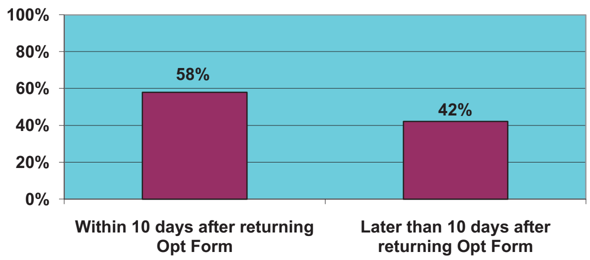
3A. Did you receive your Lump Sum Payment.....?



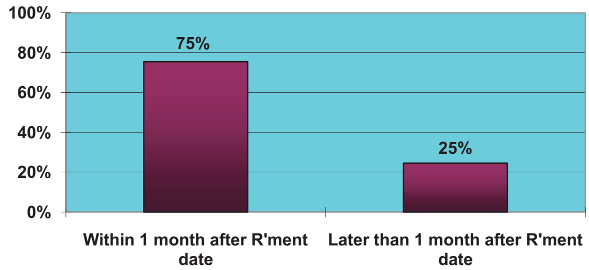
3B. Did you receive your Lump Sum Payment...?



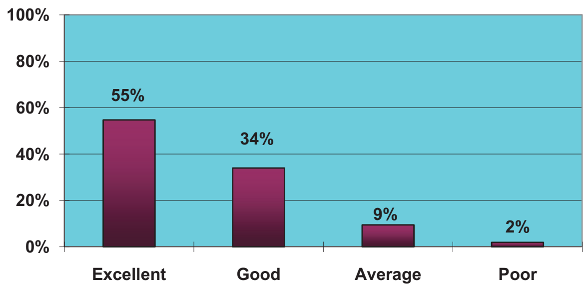
3C. Did you receive your Lump Sum Payment....?



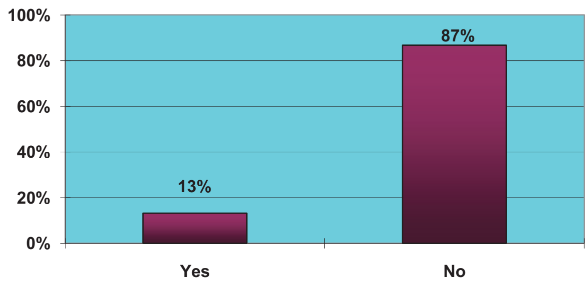
4. Did you receive your first Pension Payment...?



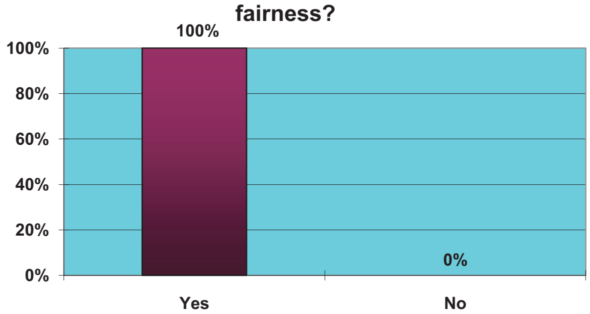
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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Deferred Retirements 1 February to 31 March 2012

Responses to Retirement Questionnaire

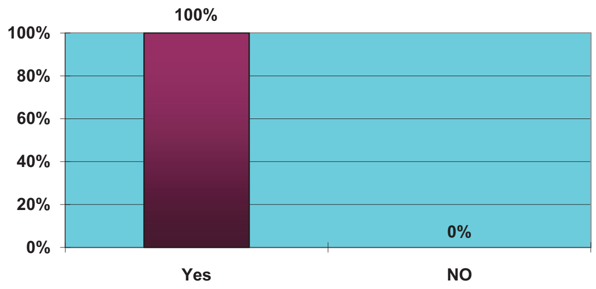
Number of Questionnaires in this period	24

1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	24	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	16	67%
		B	Within 10 working days after R'ment date	4	17%
		C	Later than 10 days after R'ment date	4	16%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	14	88%
			Later than 10 days after R'ment date	2	12%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	4	100%
			Later than 10 days after returning Opt Form	0	0%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	1	25%
			Later than 10 days after returning Opt Form	3	75%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	18	75%
			Later than 1 month after R'ment date	6	25%

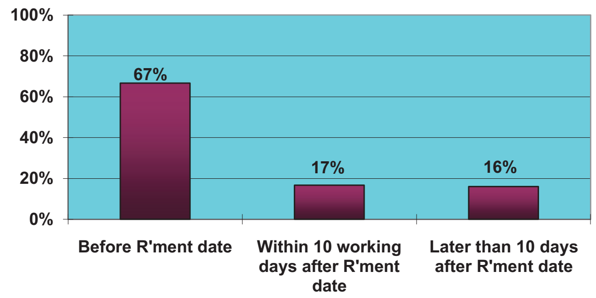
5	Overall, how would you rate the service you received from Avon Pension Fund?	Excellent	16	67%
		Good	8	33%
		Average	0	0%
		Poor	0	0%
6	Is there anything we could have done to improve the service we provided?	Yes	5	21%
		No	19	79%
	Were you treated with sensitivity & fairness?	Yes	24	100%
		No	0	0%

Deferred 1 February - 31 March 2012

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

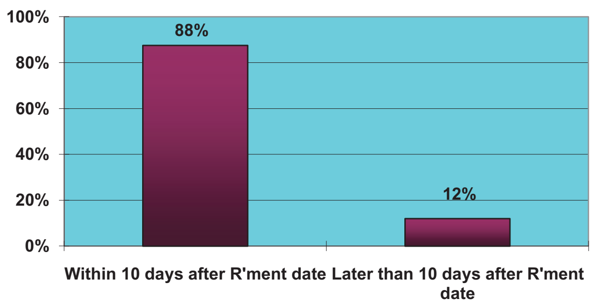


2. Did you receive your LGPS Retirement Benefits Option Form...?



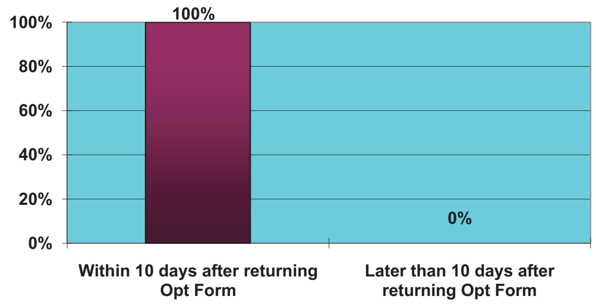
From Question 2 above (column 1)

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

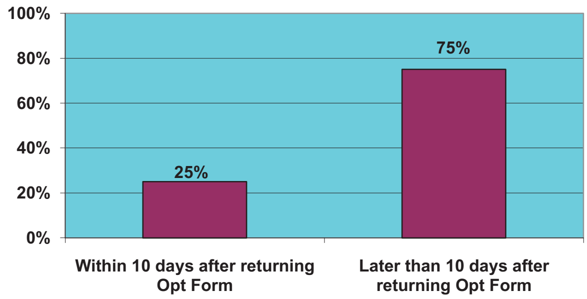


From Question 2 above (column 2 & 3)

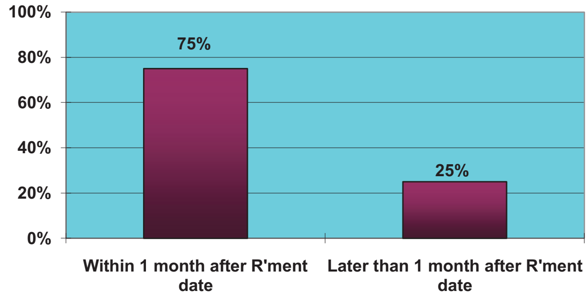
3B. Did you receive your Lump Sum Payment...?



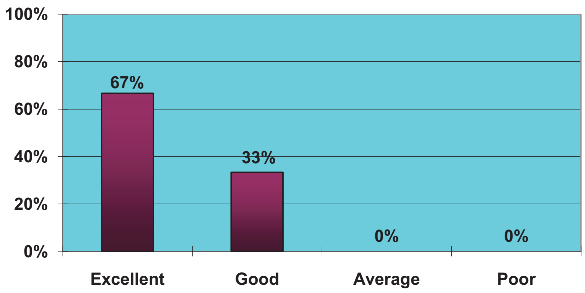
3C. Did you receive your Lump Sum Payment....?



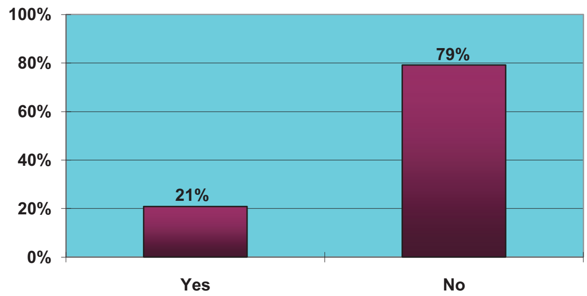
4. Did you receive your First Pension Payment...?



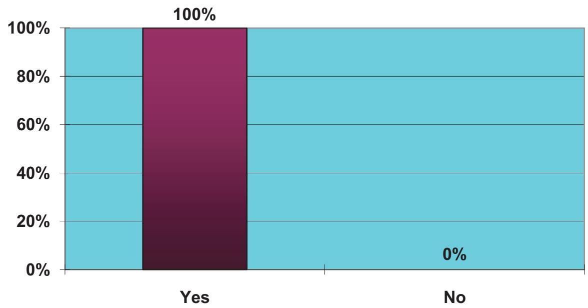
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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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: 22 June 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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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 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. The workplans include the provisional workshops for the Strategic Investment Review.

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 WORKPLANS

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an ongoing review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 Reviewing the future workplan provides the opportunity for the Committee to consider the process to be undertaken for each project, their level of involvement and whether any of the work should be delegated to the Investment Panel and/or officers.

4.3 At this stage the primary focus of the Panel is monitoring the investment managers as no investment projects are currently delegated to the Panel

4.4 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	

Appendix 1

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
Review of investment strategy	Committee to review investment strategy. Series of 2 workshops followed by Special meeting to agree future policy Review potential of infrastructure and the various approaches for investing.	Workshop 1 – 18 October 2012
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	2013
Investments Forum	Organise forum meeting expected to be held in 4Q12	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for employing bodies	
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter

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WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2013

Project	Proposed Action	Report
Employer Self Service	*Employer Self Service (*a heywood software application). Latest release allows employers to go on-line and input starters, changes and leavers electronically. The leavers form is currently being tested by APF and the Expected roll out to employers in late summer 2012.	N/A
Administration Strategy & (SLA) Agreements- rollout work	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	To put in place a workable strategy/project plan to effectively communicate the proposed changes to LGPS 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 for approval 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. First employers "staging dates" will be the four unitaries in March-May 2013.	

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Appendix 3

Committee Workplan to 31 March 2013

SEPTEMBER 2012
Annual Review of Voting Activity
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
Investment Panel Minutes & Recommendations
Approve final accounts 2011/12, and governance report prior to formal approval by Corporate Audit committee
Revised SIP
Update on 2014 LGPS consultation
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 & Recommendations
Update on 2014 LGPS consultation
Annual review of internal control reports of external service providers
Workplans
Planned Workshops **Workshop 1 Investment Review** - 18 October 2012, Aix-en-Provence Room, Guildhall **Workshop 2 Investment Review** - late November, tba

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 & Recommendations
Audit Plan 2012/13
Workplans
Planned Workshops **Special Meeting – Investment Review**, late February 2013, tba. **2013 Actuarial valuation assumptions and New Scheme**, tba.

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2013

Panel meeting / workshop	Proposed reports	Outcome
5 Sept 2012 Meeting and workshop	• Review mangers performance to June 2012 • Meet the managers workshop (Gottex and Stenham)	• 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 (TT Int'l)	• 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	2013 onwards following 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**
Strategic review parts 1 & 2	Asset Liability Study, use of risk budget, asset allocation, approaches to investing	4Q12
Strategic Review part 3	Setting investment objective, agree strategy and investment structure; ongoing monitoring of strategy	1Q13
Triennial Valuation	Pre–valuation review of assumptions and potential impact of new scheme	1Q13