Bath & North East Somerset Council

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14 September 2012
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish (Vice-Chair) 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), Ann Berresford (Independent Member), Carolan Dobson (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Rowena Hayward (Trade Unions), Clive Fricker (Town and Parish Councils), 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, 21st September, 2012

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 21st September, 2012** at **2.00 pm** in the **Kaposvar Room - Guildhall, Bath.**

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

The agenda is set out overleaf.

Yours sincerely

Col Spring
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 Col Spring 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 Col Spring 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 Col Spring 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, 21st September, 2012

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is **a disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. MINUTES OF THE MEETING ON 22ND JUNE 2012 (Pages 5 - 12)

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

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

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

8. 2011/12 AUDITED STATEMENT OF ACCOUNTS, THE ANNUAL GOVERNANCE REPORT AND DRAFT ANNUAL REPORT & ACCOUNTS (Pages 13 - 128)

9. ANNUAL REVIEW OF VOTING ACTIVITY (Pages 129 - 166)

10. CONSULTATION ON SCHEME CHANGES (VERBAL UPDATE)

11. PENSION FUND RESTRUCTURE/MIDDLEWARE SOFTWARE PURCHASE (AUTO ENROLMENT) (Pages 167 - 180)

12. MINUTES AND RECOMMENDATIONS FROM THE INVESTMENT PANEL (Pages 181 - 186)

13. REVISED STATEMENT OF INVESTMENT PRINCIPLES (Pages 187 - 226)

14. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012 (Pages 227 - 300)

15. PENSION FUND ADMINISTRATION: (1) EXPENDITURE AND (2) PERFORMANCE INDICATORS FOR 4 MONTHS TO 31 JULY 2012; (3)STEWARDSHIP REPORT FOR THE 4 QUARTERS TO 31 JULY 2012 (Pages 301 - 346)

16. WORKPLANS (Pages 347 - 358)

The Committee Administrator for this meeting is Col Spring who can be contacted on 01225 395090.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 22nd June, 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), Bill Marshall (HFE Employers), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member), Richard Orton (Trade Unions)

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

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

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mike Drew, Rowena Hayward and Dr Mark Wright.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that there would one additional item: an application for Bristol Disability Equality Forum to be admitted to the Fund as a Community Admission Body.

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: 16TH MARCH 2012

The public and exempt minutes of the meeting of 16th March 2012 were confirmed as a correct record and signed by the Chair.

8 APPLICATION FOR BRISTOL DISABILITY EQUALITY FORUM TO BE ADMITTED TO THE AVON PENSION FUND AS A COMMUNITY ADMISSION BODY

The Investments Manager explained that since the publication of the agenda an application for admission to the Fund had been made by Bristol City Council on behalf of Bristol Disability Equality Forum, which was a registered unincorporated charity established to take over the provision of services from Bristol City Council. The admission agreement would be "closed", so that employees engaged after the transfer would not become members of the Fund. Bristol City Council had agreed to guarantee any pension liabilities not funded by Bristol Disability Equality Forum. This would obviate the need to have recourse to individual trustees in the event of default.

RESOLVED to admit Bristol Disability Equality Forum to the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as the guarantor, subject to completion of the Admission Agreement.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE - ANNUAL REMINDER AND CONFIRMATION OF INVESTMENT PANEL MEMBERS

RESOLVED

i. To note the roles and responsibilities of Members, advisors and officers;

ii. To note the Terms of Reference of the Committee and the Investment Panel;

iii. To note the Governance Compliance Statement;

iv. To agree the non-B&NES Members to be on the Investment Panel.

10 CONSULTATION ON SCHEME CHANGES

The Technical and Development Manager updated Members, referring to the briefing paper circulated with the agenda

The Local Government Association and the Unions had launched an informal consultation with their members. The Department of Communities and Local Government were expected to begin a statutory consultation in Autumn 2012.

11 CASH MANAGEMENT POLICY

The Investments Manager presented the report.

She agreed with a Member that it was too early to assess the impact on cash flow of the forthcoming scheme changes. The Head of Business, Finance and Pensions said there were two aspects of the revised scheme that could have implications for cash flow: auto-enrolment and the 50/50 arrangements, which might prove attractive to additional members. However, there was insufficient data available at present to allow these to be modelled.

A Member said that he was assured that what was proposed was reasonable in the short term, but that actuarial projections following the scheme changes would need to be carefully evaluated for their implications for cash flow in the longer term. The Investments Manager agreed.

A Member said a significant watershed had been reached, when contributions no longer generated sufficient income. At a time when fixed interest payments and gilt yields were low, it would be right to utilise dividend income where possible. The Investments Manager agreed, and said that this would be included in the strategic review.

A Member requested that the Committee should be kept informed of the cash flow position. The Investments Manager replied that it would be included in the quarterly investment report to Committee.

A Member asked whether reductions in staff numbers had an impact on cash flow. The Investments Manager replied that there was a direct link to reductions in staff numbers and to the pay freeze imposed for the past three years. The Head of Business, Finance and Pensions the impacts could be projected through the cash flow model, which was being continually refined.

RESOLVED

i. to note the forecast change in the Fund's cash profile and the monitoring procedures, including reporting activity to the Committee;

ii. to approve the proposed policy for cash management as set out in section 6;

iii. to delegate responsibility to the Head of Business, Finance and Pensions to implement the policy in line with paragraph 6.2.

12 RESPONSIBLE INVESTMENT POLICY

The Investments Manager presented the report. She said that the challenge was to integrate responsible investment with the Fund's strategic investment strategy.

The Chair said that this policy represented a big step forward for the Committee, because hitherto Socially Responsible Investment had been pursued through a small dedicated portfolio, but in future it would be applied across all the Fund's investments.

Members applied the public interest test to appendices 1, 2 and 3 of the report and 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 ("the Act"), that the public be excluded from the meeting during the discussion of appendices 1-3 of the report for this item because of the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act as amended.

After returning to open session, the Committee discussed appendix 4 of the report. A Member said that he was disappointed by the draft policy, which seemed simply to be a statement of what the Fund was doing now and not what it intended to do. He did not see that this took the Fund forward. The Head of Business, Finance and Pensions responded that the RI policy is a framework for strategic decision-making in the future to ensure RI risks are addressed within its overall duty to maximise financial returns. The Chair said that the draft policy was written in the present tense, but this did not mean that everything in it was already being done; it was his view that the use of the present tense had a more powerful impact than a statement of future intentions would.

A Member said that the policy was not as strong as he would like. He referred to the first paragraph of the first bullet point at the top of agenda page 110, which stated that the Fund "includes in tenders an assessment of managers' processes for evaluating responsible investment risks within their investment processes" and said that he considered that it should state that responsible investment was a criterion for the appointment of a manager. He would prefer to state that the Fund would "give priority to those with greater Socially Responsible Investment capacity." Another Member said that this would encourage investment managers to put pressure on companies to be more socially responsible. However another Member was concerned about the legality of making SRI the main selection criterion. The Strategic Director – Resources agreed; SRI should be a factor to be taken into account when appropriate, but not the main selection criterion. After discussion Members agreed that the following should be added to the end of the first paragraph of the first bullet point on page 110:

> "and make use of this as an integral part of the selection process when relevant."

It was **RESOLVED** by 6 votes to 3

i. To adopt the proposed Responsible Investment Policy included in Appendix 4;

ii. To agree the implementation process included in Exempt Appendix 1.

13 BRIEF FOR STRATEGIC INVESTMENT REVIEW

The Assistant Investments Manager presented the report.

RESOLVED

i. to note the scope of the Strategic Review;

ii. to note the provisional timetable for the Review.

14 INVESTMENT PANEL MINUTES AND RECOMMENDATIONS FROM INVESTMENT PANEL

The Assistant Investments Manager presented the report. The Panel had recommended to the Committee a new policy for rebalancing between equities and bonds.

RESOLVED

i. to note the draft minutes of the Investment Panel meeting held on 17 May 2012;

ii. to approve the revised Rebalancing Policy set out in Appendix 4, which incorporates the recommendations from the Investment Panel.

15 ANNUAL REPORT TO COUNCIL

The Investments Manager presented the report. She reminded Members that the Fund submitted an Annual Report to B&NES Council as the administering authority for the Fund.

A Member noted that because of the publication schedule the report was already three months out of date. The Chair agreed and noted that it was not uncommon for organisations to include matters in their annual reports significant matters that had occurred after the end of the reporting year.

A Member asked when the Fund's bank account had been separated from that of B&NES Council. The Investments Manager replied that this had been done in 2009/10. The Chair suggested this should be clarified in this Annual Report.

RESOLVED

i. to approve the Annual Report to Council, subject to the comments made by Members.

16 DRAFT ACCOUNTS 2011/2012

The Finance & Systems Manager (Pensions) presented the report.

A Member noted that the derivatives analysis on agenda page 176 was an entirely new section of the Accounts, and suggested that it might be worth drawing attention to the fact.

A Member noted the sum indicated as invested in Lyster Watson on page 177, and asked whether this was just the residue of the Fund's previous investment in this manager. The Investments Manager confirmed that this was the case.

A Member asked whether the risk arising from the Fund's tactical position in corporate bonds versus gilts should be mentioned as a specific risk on page 182. The Investments Manager replied that she did not think that this had materially changed the level of risk.

A Member asked whether the residual balance in respect of Lyster Watson was due to a tax reclaim. The Investments Manager replied that it was not a tax reclaim, but a sum pending the final settlement of the termination proceeds.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2012 for audit.

17 REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2012

The Assistant Investments Manager presented the report and highlighted the key figures. The funding level had improved from 66% to 70% over the quarter. A meeting had taken place with Man, who had given some reassurance after announcing changes to the way in which the portfolio was managed.

The Finance & Systems Manager (Pensions) informed Members that because of recent credit downgradings, the Fund could no longer invest cash with the NatWest call accounts, though they were still used for day-to-day current accounts. Barclays and RBS were still useable even after the downgrades.

The Strategic Director – Resources suggested that it would be useful to circulate a note to Members setting out current credit ratings.

Mr Finch commented on the JLT report. He said that the UK gilt yield was now 2.87%. The UK's retention of its AAA credit rating had had a dramatic impact on gilt yields and on pension funds, because fund valuations were linked to gilt yields. There was only a limited amount that could be done through investment policy to counteract low gilt yields. He was concerned that if gilt yields remained low there could be a significant impact on the next Fund valuation. A Member asked whether it would be possible to discount gilt effects in the valuation. The Investments Manager replied that this would be discussed with the actuary, but the actuary had a duty to act prudently. The Vice-Chair said that the issue was the calculation of the Fund's liabilities, not a decline in the value of its investments. He thought this should be explained to Fund members, so that they were not unduly alarmed. The Strategic Director – Resources agreed that this was an important, but it was difficult to explain the discounting of future liabilities in simple terms.

As far as the Eurozone was concerned, Mr Finch thought that the Greek general election had merely "kicked the can down the road", and another factor creating uncertainty was the election pending in Germany.

Mr Finch drew attention to the information on aggregate manager performance given in the JLT performance report on pages 216 and 217 of the agenda.

RESOLVED to note the information set out in the report.

18 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 MARCH 2012 & PERFORMANCE INDICATORS FOR YEAR ENDING 2012 & STEWARDSHIP REPORT

The Finance & Systems Manager (Pensions) presented the financial report. The total variance for the year had been £85,000 under budget. The Committee was asked to approve an addition to the list of discretions in respect of "payments for persons incapable of managing their affairs", as set out in paragraph 10.2 of the covering report.

The Pensions Manager presented the performance report. Graph 2 on page 267 showed the growth in hits on the Fund's website, perhaps reflecting the high media profile of public sector pensions. As reported in section 7 of the report, there had been a fall in the number of opt-outs, which may have been helped by the introduction of the 50/50 option. The APF had been included in a shortlist of 4 organisations nominated for the national Best Pensions Administration Award, sponsored by Financial News. APF was the only LGPS fund on the shortlist and had been second runner-up. Members congratulated the Pensions Administration team on this achievement.

The Committee applied the public interest test to the information contained in Appendix 7 to the report and passed the following resolution with one Member voting against:

> 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 ("the Act"), that the public be excluded from the meeting during the discussion of Appendix 7 of the report 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.

Following discussion of Appendix 7t, the Committee returned to open session.

RESOLVED

1. To approve the addition to the list of Fund Discretions in respect of *"Payments for persons incapable of managing their affairs"*.

2. To note 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.

19 WORKPLANS

The Investments Manager drew attention to the addition to the Committee workplan of workshops and a special Committee meeting for the review of Strategic Investment Review.

RESOLVED to note the workplans.

The meeting ended at 4.02 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	21 September 2012	**AGENDA ITEM NUMBER**
TITLE:	**2011/12 Audited Statement of Accounts, the Annual Governance Report & draft Annual Report and Accounts**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – 2011/12 Audited Statement of Accounts** **Appendix 2 – Draft Annual Governance Report 2011/12** **Appendix 3 – Draft Avon Pension Fund Annual Report 2011/12**		

1 THE ISSUE

1.1 The Annual Governance Report summarises the results of the Audit Commission's audit of the 2011/12 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I) 260) – "Communication of audit matters with those charged with governance".

1.2 The Audited Statement of Accounts is now presented for final approval and the Annual Governance Report to be noted.

1.3 The Corporate Audit Committee will be recommended to approve the final audited Statement of Accounts for 2011/12 and note the issues raised in the Governance reports at its meeting on 27 September 2012, subject to any recommendations from the Avon Pension Fund Committee.

1.4 The Fund's Annual Report 2011/12 is a statutory document which the Auditor reviews as part of the Fund's audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

2.1 Approves the final audited Statement of Accounts for 2011/12.

2.2 Notes the issues raised in the Annual Governance Report.

2.3 Approves the draft Avon Pension Fund Annual Report 2011/12.

2.4 Notes the arrangements for distribution of the 2011/12 Annual Report & Accounts

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2012 as £2,766,294 thousand. This is unchanged from the figure in the draft accounts prior to the external audit.

4 THE AUDITED STATEMENT OF ACCOUNTS AND ANNUAL GOVERNNANCE REPORT

4.1 The Committee noted the draft Statement of Accounts 2011/12 at its meeting of 22 June 2012.

4.2 Following comments by members of the Committee at its meeting of 22 June additional explanations and clarifications have been added to notes 12 and 24 of the Statement of Accounts. In note 12 these relate to currency hedging and to residual balances held by former Investment managers. In note 24 these relate to the switch from the UK Gilt portfolio to Corporate Bonds. Since then there have been no other significant presentational or technical changes to the accounts.

4.3 The Annual Governance report is in Appendix 2. The Auditor has not raised any significant issues.

5 CHANGES FROM LAST YEAR'S STATEMENT OF ACCOUNTS

5.1 The Statement of Accounts 2010/11 differed significantly from the 2009/10 Statement of Accounts in order to comply with the then new CIPFA code of practice based on International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The 2011/12 Statement of Accounts was prepared on the same basis consequently there is no significant change in the 2011/12 Statement of Accounts from the 2010/11 Statement of Accounts.

6 DRAFT ANNUAL REPORT AND ACCOUNTS 2011/12

6.1 Under the Local Government Pension Scheme (Administration) Regulations 2008, the annual report has become a statutory document, with all funds required to publish a report annually by 1 December. As this is before the next committee meeting, the Committee are asked to approve the 2011/12 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1 December 2012 deadline.

6.2 The external auditor has reviewed the annual report as part of the audit.

6.3 An electronic copy of the 2011/12 Annual Report will been sent to all employing bodies in the Avon Pension Fund (with a request that it is made available to their pension scheme members for reference purposes). Hard copies will be available on request. Scheme members will be able to most easily access a copy of the Annual Report either via their employer, on the Avon Pension Fund website or at any of the clinics organised by the Fund. In addition, the next newsletters for members will include a synopsis of the Annual Report.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment and funding strategy that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The work in relation to this years audit has not identified any new corporate risks or significant changes.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary

8 OTHER OPTIONS CONSIDERED

8.1 None as this report is a statutory requirement.

9 CONSULTATION

9.1 Consultation has been carried out with the Section 151 Finance Officer.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 No decision as this is a statutory requirement.

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	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 22 June:Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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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 2011/12 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 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

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. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24d.

Events After the Balance Sheet Date

2.12 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period, but where material disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

2.13 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value.

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 and 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**	1,963	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 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	7,194

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

Note: the greater number of contracts open at 31st March 2012 is due to the implementation of the active currency hedging mandate.

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. The residual balance held by Lyster Watson at 31 March 2012 relates to the final settlement of mandate termination proceeds.

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 Net Assets	Value at 31st March 2011	% of Net Assets
Aquila Life UK Equity Index Fund (BlackRock)	269,730,449	9.78%	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	8.25%	131,992,313	4.97%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236,861	6.28%	169,742,352	6.39%
Genesis Emerging Markets Investment Fund	140,717,205	5.10%	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 £'000		31 March 2011 £'000
CURRENT ASSETS				
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 £'000		31 March 2011 £'000
CURRENT ASSETS				
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.

The Fund is governed by Central Government regulation. 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. During the year around 2% of assets were switched from the UK gilt portfolio and invested in corporate bonds. The credit risk within the bond portfolio has altered as a result of this technical switch and this is shown in the analysis of credit risk. 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 £’000	Value on Decrease £’000
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 £'000	Value on Decrease £'000
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.

		Change in net assets	
As at 31 March 2012	Value £'000	+100 bps £'000	-100 bps £'000
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:

As at 31 March 2012	Value £'000	Change in net assets +100 bps £'000	-100 bps £'000
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 £'000	Value on Decrease £'000
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 £'000	Value on Decrease £'000
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 £'000	Value on Decrease £'000
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 £'000	Value on Decrease £'000
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).

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:

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

Since 31st March 2012 the ratings relating to the bank accounts have been downgraded.

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. The reduction in AAA assets as at 31 March 2012 reflects the switch from UK Government gilts (AAA rated) into corporate bonds.

(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	410,522	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 Academy	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 Academy	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

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

Annual governance report

Avon Pension Fund

Audit 2011/12

audit commission

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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 11 September 2012 I expect to issue an unqualified audit opinion.

The accounts were produced to a good standard in line accounting Code of Practice and supported by good quality working papers. I have requested no material adjustments to the accounts.

As part of the audit I review reports produced by the auditors to the fund managers on the financial controls at these institutions. This is to gain assurance on the controls at the fund mangers and therefore to provide comfort over the information provided for Avon Pension Fund. For some fund managers who work for a large number of local government pension funds this review of control reports is done centrally by the audit commission. I am awaiting the outcome of this work.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the Corporate Audit Committee to:

- take note of the matters referred to in the financial statements section of this report; and
- approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

I have not requested any changes to the monetary amounts disclosed in the accounts.

Significant risks and my findings

In my Audit Plan issued in January 2012 I identified one significant risk I regarded as relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risk and findings**

Risk	Finding
Pooled investment vehicles	
Avon pension fund has some £2 billion of units in pooled investment securities. A large portion of these investments is in unquoted securities. There is an inherent risk to the valuation of these investments because there is no direct market to independently check the valuation of these units, although we understand the underlying securities are quoted.	My review of reports by the auditors to the fund managers responsible for the pooled investment vehicles has not identified any material risks and confirms the effectiveness of controls at the institutions. (This work is almost complete at September 12 2012). I have also considered the controls at Avon Pension Fund over the work of the fund managers, for example the work of the investment panel to evaluate the performance of the fund managers. I have tested the amounts in the pension fund accounts to the fund managers reports and to the Custodians records. I have tested a sample of funds to the underlying quoted securities. During the course of my audit I have noted that officers do considerable cross checking of records to ensure accuracy. I have not identified any issues that impact on the valuation of these securities in the net assets statement.

Internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. Based on my work I have not identified any significant weaknesses in internal control.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I report the following relatively minor matters.

Table 2: **Other matters**

Issue	Finding
Accounting policies The statement of accounts includes a section, the accounting policies which set out the basis for including amounts and disclosures. Sufficient detail is required to ensure the reader of the accounts understands the approach adopted.	I have agreed additional disclosure will be added: ■ to explain the basis for including events after the balance sheet date; ■ provide some explanation of the financial instruments note; and ■ to further explain the approach to accounting estimates.
Accounts disclosures The accounting Code of Practice requires the disclosure of payments to key management, including pension benefits. The guidance issued with the accounting Code of Practice suggests key management is likely to include officers.	Avon has decided that key management of the pension fund rests with the Pension Fund Committee. This is a judgement. The notes to the accounts should include more information on accrued pension benefits for those deemed to be responsible for managing the Fund. This should be considered for next year.

Pension Fund Annual Report

The Pension Fund prepared its Annual Report and made it available to me on 7 September. As a result I have not yet completed my review and report on the financial statements included in the Annual Report. However I expect to complete this by 30 September.

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee of £46,622.

Appendix 1 – Draft independent auditor's reports

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Bath and North East Somerset Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and auditor

As explained more fully in the Statement of the Divisional Director of Finance's Responsibilities, the Divisional Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director of Finance's; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Bath and North East Somerset Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and auditor

As explained more fully in the Statement of the Divisional Director of Finance's Responsibilities, the Divisional Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Bath and North East Somerset Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

W Rickard

District Auditor

District Auditor

Audit Commission

3-4 Benheim Court

Matford Business Park

Lustleigh Close

Exeter EX2 8PW

28 September 2012

SEPARATE OPINION TO INCLUDE IN THE PENSION FUND ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and auditor

As explained more fully in the Statement of the Divisional Director of Finance's Responsibilities, the Divisional Director of Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

W Rickard
District Auditor

Audit Commission

3-4 Benheim Court

Matford Business Park

Lustleigh Close

Exeter EX2 8PW

28 September 2012

Appendix 2 – Draft letter of management representation

To: Wayne Rickard

District Auditor

Audit Commission

3-4 Benheim Court

Matford Business Park

Lustleigh Close

Exeter EX2 8PW

Bath and North East Somerset Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule and uncorrected misstatements from previous year's are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware]

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Bath and North East Somerset Council

I confirm that the this letter has been discussed and agreed by the Corporate Audit Committee on 27 September 2012

Signed

Name

Position

Date

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

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

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

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

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

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

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

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pension Fund Committee and the Audit Committee.

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0844 798 7070

Design and production by the Audit Commission Publishing Team.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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September 2012

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Avon Pension Fund
Annual Report 2011/12

This year’s report includes photographs celebrating a year of participation and enthusiasm in sport.

Chairman’s Foreward

As the Chairman of the Avon Pension Fund Committee I am pleased to present the Fund’s Annual Report and Financial Statements for the year ended 31 March 2012.

The Fund is undergoing a period of intense change with the introduction of auto-enrolment during 2012/13 and a new scheme in 2014. The Hutton review in 2011 highlighted the value to employers and staff of well-managed, locally accountable pension funds within the Local Government Pension Scheme. Stemming from this review, we now have a set of proposals for a new scheme that should ensure that it remains viable and affordable in the long term.

Against this background the investment environment has been volatile. The value of pension liabilities is particularly high which negatively affects the funding level (the difference between investment assets and liabilities). However, there is a funding plan in place to return the Fund to full funding over 23 years and this plan will be reviewed in 2013 as part of the triennial valuation.

Having robust strategies and policies in place are vital if the Fund is to successfully meet the challenges it faces. The Administration Strategy is critical in terms of data management and ensuring resources are in place to cope with the increasing number and variety of employers. The well diversified Investment Strategy has protected the Fund against extreme moves in financial markets and has delivered relatively good returns, above those of the average local authority fund over the last year. Lastly good governance, demonstrated by our high level of compliance with best practice governance standards and the collective knowledge and experience of the Committee, enables the Fund to continuously develop the quality of service it provides.

Finally I would like to take this opportunity to thank the staff for their contribution to delivering a high standard of service throughout the year.

Paul Fox

Chairman, Avon Pension Fund Committee

Review of the Year

LGPS 2014

This year has seen the Government, employers and the trades unions making strides towards the reform of public service pension schemes, following the Government's acceptance of the recommendations given in Lord Hutton's independent review of public service pensions.

Although the reforms were intended to become effective from 1 April 2015, the Government had announced in its Comprehensive Spending Review in October 2010 that employee contribution rates would increase for public service schemes by 3.2% on average between April 2012 and April 2015.

The fact that the LGPS (Local Government Pension Scheme) is the only public service scheme that is funded caused concerns that such a significant increase in contributions would lead to large numbers of members electing to opt out of the LGPS resulting in serious issues with sustainability. DCLG (the Department for Communities and Local Government), employers, trade unions and LGPS funds lobbied HM Treasury to agree to the savings being met in other ways. At the end of June 2011, the Government agreed to discuss reforming the LGPS separately from the other public service schemes.

In October 2011, DCLG issued its Statutory Consultation Document which set out options for Scheme amendments to apply from April 2012 proposed by themselves, HM Treasury and the LGA (Local Government Association). The Statutory Consultation Document was released without trades union agreement having been achieved.

During the statutory consultation period there was a growing consensus that, instead of having separate scheme changes coming into effect both in 2012 and 2015, it would be more appropriate to combine them into one set of changes to be effective from April 2014.

In December 2011, the Government set out their views on reform with a preferred scheme design of a Career Average Revalued Earnings (CARE) Scheme with a 60ths accrual rate. The public service pension schemes have each been set individual 'cost ceilings' in order to ensure on-going affordability and sustainability, and each scheme has the freedom to change the scheme design provided it is still within its cost ceiling, subject to the approval of HM Treasury.

As part of agreements made with the Government in December 2011 regarding all public service pension schemes it was decided that, for the LGPS, employers and trades unions would work together to formulate a new scheme that would incorporate all matters to ensure affordability and sustainability provided that the overall financial constraints are met (effective from April 2014).

'The New LGPS 2014 Project' comprising representatives from the LGA and trades unions (GMB, UNISON and Unite), with input from the DCLG, has put forward proposals for the new LGPS. This concentrates, in particular, on member contribution rates, accrual rates and the scheme retirement age.

The proposals for scheme design was submitted to the Government in February and are currently being considered by ministers. A formal consultation is expected in autumn 2012, with draft regulations to be issued early in 2013 and actual regulations to be operative from April 2014.

Pensions Administration Strategy

Legislation in 2008 empowered LGPS funds to develop a Pensions Administration Strategy (the Strategy) for the purpose of improving the administrative processes within their Fund. Given the complexity of a multi-employer pension fund, the Fund introduced its Strategy from 1 April 2011, following consultation with Scheme employers.

The purpose of the Strategy is to develop best practice in service delivery in order for the Fund and scheme employers to meet future challenges more efficiently. The focus of the Strategy is:

- to improve communications between the Fund and employers
- to increase the utilisation of technology for capturing and processing data
- to provide more training for in-house staff and for employers' staff dealing with pensions

Integral to the Strategy are the Service Level Agreements between the Fund and individual employers. These agreements set out agreed performance standards for both parties that will be monitored in order that any processing, training or communication issues can be resolved. Several meetings have been held with the main employers during the year to review performance.

In addition, the Avon Pension Fund Committee reviews the summary performance reports to ensure the Strategy is being implemented and the administration process is working efficiently. (More detail is contained in the Administration Report on page11)

Funding Level

The last triennial valuation reflected the funding situation as at 31 March 2010. At that time the funding level was 82% leaving a deficit of 18% or £552m. Since then there has been significant turmoil in the bond and equity markets; as a result, the funding level (the balance between the investment assets and pension liabilities)has fallen to an estimated 70% as at 31 March 2012.

Much of the deterioration is due to the rise in the value of the liabilities. The value of the liabilities has been affected by the fall in gilt yields, especially since June 2011. UK gilt yields were already at relatively low levels before the Eurozone crisis erupted in mid-2011. As Euro-denominated government debt was deemed 'risky', investors sought relative safety in UK gilts, pushing yields to historic lows. As the discount rate used to value future pension liabilities is based on gilt yields, the value of the pension liabilities rose as the gilt yield fell. In addition, asset returns although positive, were not sufficient to offset the rise in liabilities.

The next valuation is due in March 2013. At this time it is expected that the 'new scheme' changes will be incorporated in the valuation and be reflected in the contribution rate for future service from 2014 onwards.

Fund Performance and Investment Strategy

Fund assets rose 3.5% to £2.76bn

Fund assets increased by £99 million (or 3.5%) during the year to £2.76 billion at 31 March 2012. Performance was driven largely by strong returns across fixed income assets and to a lesser extent property, with equity markets experiencing mixed returns. Over the last 10 years the Fund's return of 5.8% per annum is marginally below the level of returns assumed by the Fund's funding strategy.

This year's performance was achieved against a background of volatile investment markets. The dominant issue was that of the uncertainty surrounding European government debt given the prospect of sovereign credit default and the potential break-up of the euro. As the year came to an end, the economic outlook was for a long period of low or zero growth in developed markets with European political instability still at the fore.

During the year there was no change to the strategic asset allocation of 60% equities, 20% bonds, 10% hedge funds and 10% property. Changes to the investment structure included implementation of an active currency hedging programme over the Fund's US dollar, euro and yen denominated equity assets with the aim of protecting the sterling value of the portfolio from detrimental movements in exchange rates. In December 2011, the Fund commenced a review of its responsible investment policy which will conclude in 2012.

Governance

2011 was an election year across the four unitary councils in the Fund and, as a result, there were a number of changes in the Avon Pension Fund Committee membership (the Committee). However, the inclusion of non-council nominated members provides a significant degree of continuity on both the Committee and Investment Panel.

A series of induction sessions were arranged for new Committee members to gain a broad understanding of the governance and assurance framework, administration, funding and investment strategies.

Change from RPI to CPI

A group of trade unions and pensioners challenged the Government's decision to change the method of revaluation of public service pensions from the retail prices index (RPI) to the consumer prices index (CPI). However, the High Court ruled that the change was lawful. The case was taken to the Court of Appeal, which ruled that the Government had not acted unlawfully.

Changes to Scheme Factors (change of Discount rate)

The Government changed the discount rate which, although primarily used by the unfunded public service pension schemes, did have implications for LGPS. As a result, the Government Actuary's Department (GAD) issued revised guidance and factors for a number of LGPS calculations, including transfers, pension sharing on divorce and adjustments for early and late retirements. There were some administrative problems that resulted because of delays in receiving the guidance from GAD and implementing this via our software system.

HMRC changes

The Government reduced the Annual Allowance from £255,000 to £50,000 for the tax year 2011/12. All affected members must be notified by the administrators of their pensions arrangement within 6 months from the end of the tax year if they exceed the new Annual Allowance limit. Regulations were expected for 'Scheme Pays' whereby a member can elect for any tax payment due exceeding £2,000 to be paid by the Scheme and subsequently deducted off their pension benefits at retirement. However the necessary guidance and factors to operate 'Scheme Pays' in the LGPS are still awaited from DCLG and GAD.

The Government has also reduced the Lifetime Allowance from £1.8m to £1.5m from 6 April 2012. Scheme members affected by this were notified by Avon Pension Fund that they could apply to HMRC for fixed protection.

Governance & Management Structure as at 31 March 2012

Administering Authority:

Bath & North East Somerset Council

Governance:

Members of the Avon Pension Fund Committee:

Councillor Paul Fox (Chair)
Bath & North East Somerset Council

Councillor Gabriel Batt
Bath & North East Somerset Council

Ann Berresford
Independent Member

Councillor Nicholas Coombes
Bath & North East Somerset Council

Councillor Mike Drew
South Gloucestershire Council

Carolan Dobson
Independent Member

Councillor Charles Gerrish
Bath & North East Somerset Council

Councillor Katie Hall
Bath & North East Somerset Council

Rowena Hayward
GMB

Bill Marshall
University of the West of England

Councillor Mark Wright
Bristol City Council

Non - Voting Members:

Clive Fricker
Parish & Town Councils

Richard Orton
Unison

Steve Paines
Unite the Union

Paul Shiner
Unite the Union

Independent Investment Advisor:

Tony Earnshaw

Council Officers:

Andrew Pate
Director of Resources & Support Services

Tony Bartlett
Head of Business Finance & Pensions

Liz Woodyard
Investments Manager

Steve McMillan
Pensions Manager

Vernon Hitchman
Monitoring Officer

Investment Managers:

BlackRock, Genesis, Gottex Fund Management, Invesco, Jupiter, Record, TT International, Man Investments, rlam royal london asset management, Partners Group, Schroders, Signet, SSgA State Street Global Advisors, Stenham

Actuary:

Mercer

Legal Advisors:

Osborne Clarke

Investment Consultant:

JLT

Global Custodian:

BNY Mellon Asset Servicing

Bankers:

NatWest, The Bank of New York Mellon

AVC Providers:

Friends Life, Equitable Life

Fund Governance

Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council (B&NES), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations. The Council delegates its responsibility for administering the Fund to the Committee, which is the formal decision making body for the Fund.

The Committee is responsible for the following:

- *The determination of investment policy objectives*
- *Ensuring appropriate investment management arrangements are in place*
- *The appointment of investment managers and the ongoing monitoring of investment performance*
- *The commissioning of actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations*
- *Approving requests from organisations wishing to join the Fund as an admitted body*
- *Making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme;*
- *All aspects of benefit administration*

The Committee structure is shown in Table 1. The Committee membership as at 31 March 2012 is set out on page 5.

Table 1: Committee Structure

Voting members (12):	5 elected members from Bath & North East Somerset Council
	2 independent members
	3 elected members nominated from the other West of England unitary councils
	1 nominated from the Higher/Further Education bodies
	1 nominated from the Trades Unions
Non-voting members (4):	1 nominated from the Parish Councils
	3 nominated from the Trades Unions

The Committee meets formally each quarter and attendance at these meetings during the year was 87.5% for the voting members and 50% for the non-voting members. The attendance record for each Committee member is set out in Table 2.

In addition to the quarterly meetings, the Committee held two workshops in 2011/12 to review:-

i. the Fund's policy towards Socially Responsible Investing
ii. the Interim Actuarial Valuation

Investment Panel

Given the size of the Committee and complexity of investment issues, the Committee is supported by an Investment Panel (the Panel) which considers investment issues in greater depth. The Panel has no delegated powers, and can only make recommendations to the Committee.

The Panel consists of up to six voting members of the Committee and meets at least four times a year.

The Panel is responsible for the following:

- *Recommending strategic investment objectives, policy and strategic asset allocation*
- *Regularly reviewing in detail and assessing the performance of the investment managers, investment advisors, custodian and actuary*
- *Recommending appointment and termination of investment managers and professional service providers as required*
- *Reviewing the Statement of Investment Principles and submit to Committee for approval*
- *Making recommendations to the 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 section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted the Chair of the Panel).*
- *Reviewing any legislative changes which have implications for investment governance and make recommendations to the Committee as appropriate*

As there was a new Panel from June 2011, only three meetings were held during the year. Overall attendance was 87.5%. In addition the Panel

Table 2: Committee Attendance Record

	Committee		Investment Panel	
	Meeting	**Workshop**	**Meeting**	**Workshop**
Number of Meetings during year	4	2	3	1
Voting Members				
Councillor Paul Fox (Chair)	4	2	N/A	
Councillor Gabriel Batt	4	2	2	0
Ann Berresford	4	2	3	0
Councillor Mary Blatchford	3	1	3	1
Councillor Nicholas Coombes	4	2	2	1
Carolan Dobson	2	0	N/A	
Councillor Mike Drew	4	2	N/A	
Councillor Charles Gerrish	3	2	3	1
Councillor Katie Hall	4	2	N/A	
Rowena Hayward	3	0	N/A	
Bill Marshall	4	1	3	0
Councillor Mark Wright	2	0	N/A	
Non-voting members				
Clive Fricker	2	2	N/A	
Richard Orton	3	2	N/A	
Steve Paines	1	2	N/A	
Paul Shiner	1	2	N/A	

held one workshop as part of a programme to review each of the investment managers over the twelve month period. The rest of these reviews were accommodated within the quarterly meetings.

Training

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. The Fund provides training for Committee members and staff to ensure they possess an appropriate level of knowledge, skill and understanding to discharge their duties. The Head of Pensions is responsible for ensuring that those responsible for the pension fund have the required level of knowledge to discharge their duties effectively.

The Fund's approach to training is based on the Myners principles for best practice in decision making 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 formal training framework which is based on the Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds, which identifies six areas of knowledge as follows:

- Legal and governance context
- Pensions Auditing and Accounting Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- 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. The training provided in 2011/12 is shown in Table 3.

In addition, Committee members and staff are encouraged to attend seminars and conferences which broadens 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 were held for new members tailored to the Fund's agenda. The topics covered included governance, administration strategy, investments, fund solvency and risk management. During the year new Committee members attended the Fundamentals Training Courses offered by the Local Government Pension Committee.

Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives. The administering authority's approach is to ensure that the officers responsible for the management of the Fund possess, in aggregate, the skills and knowledge required for them to fulfil their role.

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Committee in December 2009 and remains current as there have been no changes to the governance arrangements. The statement shows a high level of compliance with best practice and is summarised in Table 4.

Copies of the latest Governance Compliance Statement can be obtained either from the Fund's website *www.avonpensionfund.org.uk* or by email from *avonpensionfund@bathnes.gov.uk*

Table 3: Training provided in 2011/12

Topic	Delivered by:
Governance • Legal responsibility of Committee & Officers • Governance & assurance framework • Administration Strategy • Investment Regulations	Committee reports External conferences/training course In-house training for new members
Employer and Funding risks • Admission bodies • Employer risks • Funding level/solvency	Committee reports cover funding position and employers risks Interim Actuarial Report & workshop In-house training for new members
Investment Strategy • Asset Allocation • Performance monitoring • Investment manager monitoring • Stewardship activities • Responsible investing policy	Quarterly Committee reports review investment strategy and performance Workshop to review Responsible Investing Policy External conferences In-house training for new members

Table 4: Governance Compliance

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admission bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description and circulated prior to appointments.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / Facility time / Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the Committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of benefits administration and admissions to the Fund. The Committee reviews the risk register, the internal control reports of key 3rd party suppliers and all statutory policy statements.
Publicity	Compliant	All statutory documents are made available to the public.

Risk Management

Bath & North East Somerset Council is responsible for the administration of the Avon Pension Fund. The Council has delegated this responsibility to the Committee which is responsible for the risk management process and compliance with regulations.

In establishing this governance structure, the Council is satisfied that there are adequate risk management processes in place to address the risks faced by the Fund. The creation of the Investment Panel has strengthened the risk management process with regard to investment issues.

The Fund's approach to risk management is to manage risk rather than eliminate it entirely. The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. Internal controls and processes are in place to manage administration, financial and other operational risks.

The Committee reviews the Fund's risk register which is drawn up in accordance with Bath & North East Somerset Council's risk management policy. The register identifies the key risks that the Fund is exposed to and, having evaluated the impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk. The Council's Internal Audit annually assesses the processes in place within the Pension Fund in order to provide independent assurance that adequate controls are in place.

The Committee is subject to the Council's Standing Orders and financial regulations as well as the Code of Conduct.

Investment Risks

Investments by their very nature expose the Fund to varying degrees of risk. These include market, interest rate, foreign currency, credit and liquidity risks. The main tool for controlling these investment risks is the Strategic Investment Policy. Investment risk is managed through the diversification of assets, approaches to investment (for example passive investing or active investing) and managers. The statement of investment principles sets out the strategy for managing investment risk.

The provision of expert advice is crucial to the decision-making and risk management processes. The Fund has appointed investment consultants to provide ongoing investment advice. This will include advising on managers' performance as well as strategic advice. The Fund's actuary provides strategic and operational actuarial advice. Other expert or specialist advice (including tax and legal advice) is commissioned as required.

In addition, the Committee's level of knowledge of investments must be sufficient for advice to be challenged and understood. To facilitate this, Committee members are required to undertake training in order to discharge their duties. In addition, an Independent Investment Advisor supports the Committee and Investment Panel members. Their role is to ensure that all the relevant advice has been presented to the members and that all the issues have been fully considered and debated by the Committee and/or Panel.

Much of the investment management process is outsourced to investment managers and the global custodian. This arrangement provides a clear segregation of duties within the Fund, with the in-house Investments Team closely monitoring compliance with regulations and mandates. The risks of the 3rd party suppliers are monitored by the Fund and the Internal Control Reports of all the service providers are reviewed annually by the Committee.

The Committee monitors both the performance of the Fund and the managers on a quarterly basis. The Investment Panel supports the Committee by reviewing in greater detail the investment managers' performance on a regular basis and raising any issues to Committee. A robust manager selection process is undertaken in which the risks of the investment approach, and therefore the risk the manager will pose to the Fund, are determined at the outset.

Actuarial Risks

The Funding Strategy Statement sets out the funding strategy for the Fund. It is reviewed at least every three years as it forms the basis for the actuarial valuation. A key risk for employers is that the employer contribution rate is incorrectly calculated due to the membership information held by Fund not being accurate. The Fund regularly reconciles the membership data to identify and resolve data queries with employers.

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk to the Fund and other employers. The Fund requires all bodies that wish to be admitted to the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise.

Some actuarial risks can be mitigated by the investment strategy. The funding and investment strategies focus on the expected real returns from the assets, thus mitigating the affect of inflation which affects the value of the pension liabilities. In addition the allocation to index-linked bonds mitigates some of the risk of inflation being higher than expected.

Financial Risks

The Fund operates within the Council's financial framework. The Fund's budget, which is set annually as part of the three-year forward looking service plan, is monitored by the Committee. The financial accounting system is integrated with the Council's and the segregation of duties and control structure is agreed with, and annually reviewed by, Internal Audit.

A key financial risk is the non-payment of contributions by employers. The Regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly.

The Pension Fund operates a separate bank account from the Council's to ensure transparency and accountability of the Fund's banking arrangements. Management of the Fund's cash balance is delegated to the Council's Treasury Management Team who manages the cash separately from the Council's cash, in line with the Fund's own Treasury Management Policy.

Benefits Administration Risks

The administration risks relate mainly to the inability of the Administrator to meet its obligations to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risks are non-payment or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection legislation or failure to comply with Freedom of Information Act requests and Disclosure of Information requirements. All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan and mitigated in the Risk Register.

Business Continuity Plan

The Business Continuity Plan is in place primarily to deal with "disaster recovery" and includes contingency measures. The Plan identifies critical activities whose failure would lead to an unacceptable loss of service, documents and sets out measures to minimise the risk of disruption to service and specifies what "triggers" the contingency measures coming into effect.

Risk Register

A summary of the key risks identified in the pension fund's Risk Register are shown in Table 5 below.

Table 5: Key Risks

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities.	Set a Fund-specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee
Offices and /or systems not accessible. Implications are that failure would cause disruption to benefits processing and delay benefit payments and create backlog of tasks.	Business Continuity and disaster recovery policy and plans are in place. These consider the different scenarios of building, hardware and systems not being available and specify the circumstances in which disaster recovery measures are triggered.
Non-compliance with the Data Protection Act. Implications are that fines could be imposed, risk of criminal/civil prosecutions, adverse publicity and data processing could be suspended.	The Fund is DP registered through the Administering Authority. Confidentiality Agreements are in place with third parties on restrictions on use of confidential member data.
Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	Ongoing monitoring of financial standing of all admitted bodies. Explore options for obtaining stronger guarantee from the employer or sponsoring authority if the employer is in the Fund.
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Appointed two independent members to the Committee (independent from the administering authority, scheme employers and unions)

Pension Administration

New Pensions Administration Strategy implemented

Following consultation with the employers participating in the Fund during autumn 2010, and approval by the Committee in December 2010, the Pension Administration Strategy ("the Strategy") came into effect from 1 April 2011. The Strategy sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirements of the employers. This covers benefits administration, staff and employer training, the IT strategy and the Communications Strategy. Part of the Strategy aims to identify where improvements are required and establish milestones for delivery of notification of member changes in a timely fashion. Significant changes to the LGPS benefit structure are expected over the next 3-5 years and this Strategy will be key to preparing the Fund for these changes.

The primary objective of the Strategy is for the Fund and employers to work together more effectively in order to meet future challenges and to continue to deliver an high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, comprehensive process training for both the Fund's staff and pension staff at the employers, and the more effective utilisation of technology to capture and process data.

The Strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Larger/medium sized employers already have SLAs in place. However, these will be updated to include agreed 'stretch' targets against which the performance of both parties will be monitored. Results will be published in Individual Stewardship Reports for the larger employers showing both APF's and employer performance against set targets are produced each quarter and considered at review meetings with those employers. In addition, the Avon Pension Fund Committee has a monitoring role to play and is therefore given a summary performance report which is reviewed at each quarterly meeting.

Technological Advances

The Fund seeks to maximise technological enhancements wherever possible. The Fund's website has been significantly improved in recent years. A separate employer's website is being developed and is expected to go live in the autumn of 2012.

The main initiatives are:

1. **Self-service modules** for members and employers have been introduced:

- **Member Self Service ("MSS")**: The web-based Member Self Service facility allowing members' access to their pensions information with the facility to perform "*what if*" calculations has generated significant interest and there are now over 2,500 registered members. The number of enquiries has reduced probably as a consequence of this and the more comprehensive information easily available on the Fund's website
- **Employer Self Service ("ESS"):** Following the success of MSS, a similar access facility for employers was launched in October 2011 and most employers have signed up. This facility allows employers themselves to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund cost which is an important element for employers when considering such cases. This has reduced the number of estimate requests APF received from employers. The new facility has been well received by employers as it puts them in control and speeds up the process. ESS is provided to employers at no direct cost as costs have been met by APF.

2. Proposed Changes to electronic delivery to members

Costs of production and postal delivery of hard-copy documents sent to members have been rising steeply in recent years and it is recognised that application of modern technology can reduce these costs significantly. The Fund's main com-munication costs arise from production and despatch of the active and pensioner member newsletters (normally twice a year) and Annual Benefit Statements in hard-copy which, in total, requires the sending of 150,000 printed documents at a significant annual cost.

A move to reduce these costs, as a first step the Fund is combining with Club Together (a subsidiary of Xaffinity Paymaster) from early 2014 and will be sending its magazine to pensioner members in place of the current "*atease*" newsletter. A specific newsletter for pensioners will still be produced by the Fund to send with the Club Together magazine but Fund's content will be limited to non-generic articles. It is expected this will save significant printing and postage costs each year.

In a further move, the Fund proposes to move to electronic delivery of all communications with members by 2014. This will be achieved through the rollout of Member Self Service to as many Fund members as possible.

3. Electronic delivery by employers

Employers are encouraged to send notification of all changes which affect members' benefits to the Fund electronically thorough a secure portal which ensures protection of the data sent. Several employers including the largest, Bristol City Council with over 40% of the Fund's members, are successfully using this facility and this has improved efficiency for both the employer and the Fund. The Fund produces a 3-year Service Plan and Budget on a rolling basis each year which is approved by Committee. It sets out targets to be achieved by the Fund. Electronic delivery provides an interface with the Fund's own administration software resulting in automatic updating and reducing the number of manual errors and file rejects. A key target in the 2011 Service Plan was to extend electronic delivery to the other large to medium employers.

The Administration Strategy includes targets for electronic delivery by employers of changes to members' pensions data. Some progress has been made and employers have been given an extended target date of March 2013 for setting up electronic delivery. Smaller employers are being encouraged to use ESS from March 2013 when the facility for individual on-line updating of changes to member data will be available. Non-compliance will result in additional charges to employers for APF having to process paper-based changes.

Performance Indicators

The Fund takes part in the annual Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Administration Benchmarking Club ("the Club"). The published results are used to target areas for improvement in the Service Plan to understand the specific service pressures that the Fund faces and to operate as efficiently and effectively as possible.

Table 6 (below) uses data from the 2012 CIPFA Benchmarking Report which compares the data and performance of local authority pension funds in the Club (62 out of the 99 LGPS funds). It shows performance of LGPS Funds which have chosen to be benchmarked against industry standard targets.

The Fund's own targets are set out in the Service Level Agreements (SLAs) it has in place with its employers covering over 90% of the active members. In many cases these targets are more challenging than the industry standard. Quarterly SLA review meetings are held with larger employers.

The Fund also publishes a Customer Charter which is on the Avon Pension Fund website. This includes its targets (in working days) for completion of processing of member benefits.

Communications

The Fund publishes its Communication Policy on its website which now forms an integral part of the Administration Strategy.

The Fund believes that clear and meaningful communication with members and employers is vital and it uses various media to achieve effective communication including newsletters for members (Avon Pension News), a separate newsletter for pensioners (at*ease*), and an employers' newsletter.

One of the Fund's objectives is to communicate electronically, where appropriate, in order to reduce printing and postage costs.

Website

The Fund has had its own dedicated pension website for over 10 years and this is now a major source of information for members and employers. The site was redesigned in 2008 to provide separate sections for each category of membership and one for employers. This enables the Fund to target its information appropriately for each audience.

The website received an increased

Table 6: Performance Indicators 2011-12

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA club average
Letter detailing transfer in quote	10 days	79	83
Letter detailing transfer out quote	10 days	87	87
Process refund and issue payment voucher	5 days	77	73
Letter notifying retirement benefit amount – **estimates**	10 days	94	92
Letter notifying **actual** retirement benefits	5 days	81	88
Letter acknowledging death of member	5 days	87	95
Letter notifying amount of dependant's benefits	5 days	87	85
Calculate and notify deferred benefits	10 days	58	75

number of 'hits' this year demonstrating Members' and media interest in pensions, particularly following the Hutton Review of Public Sector Pensions. The new Member and Employer Self-Service modules are web-based which increases the usefulness and importance of this medium.

Member Satisfaction

The Fund places considerable importance on the feedback it receives from members on the service provided. The information gathered feeds the service development programme and is published to members in the Fund's newsletters.

Pension Clinics

The Fund offers to hold pension clinics for members at employers' sites. At these clinics individual members' queries are addressed with them on a one-to-one basis. During the calendar year 2011, 19 clinics were held and over 250 members were seen. These members were asked to complete satisfaction questionnaires rating the adequacy of staff's response and their helpfulness, the suitability of the venue location and the privacy afforded them. Ratings ranged from 88% to 100% with an average rating of 96%.

Retirements

Shortly after retirement, questionnaires are sent to members for feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. An overall rating of 98% as good or excellent was received on the quality of service received.

Complaints

The Fund received no complaints about its service during the year.

Disagreements Procedure

The Fund operates a Disagreements Procedure ("the Procedure"), the terms of which are defined by statute. This Procedure is used in cases where a member disagrees with the pension benefits he/she has been awarded or is in disagreement with a decision made by his/her employer that affects the pension benefits he/she is awarded. The Procedure is shown in detail on the Fund's website.

During the year there was one case in progress under Stage1 (appeals against initial decision of the administering authority). There were two cases completed and two cases in progress under Stage 2 (further appeal where the initial decision and Stage 1 was completed by the employer).

Key Staffing Indicators

The Fund is administered by Bath & North East Somerset Council and the administration of the Fund is undertaken 'in house' by the Council. The Pensions Service is split into 3 sections, namely, Investment and Finance, Benefits Administration, Systems Support and Pensions Payments. A detailed Organisation Chart is available on the Avon Pension Fund website: *www.avonpensionfund.org.uk*

The total number of staff in the Pensions Service administering the Scheme was 38.5 in 2011/12 and of these 19.1 are involved in benefits administration.

Table 7 is an analysis of staff based data from the CIPFA Benchmarking Club 2012 Report. This shows the average number of members dealt with by each of the Benefits Team staff and the average number of cases processed per member of staff.

Table 7: Key Staffing Indicators 2011-12

Key Staffing Indicators	2012	(CIPFA club average)	2011	(CIPFA club average)
Number of staff administering the LGPS scheme	19.1		18.7	
Fund Member / Staff ratio	4,617	(3637)	4,568	(3,484)
Average number of cases dealt with by benefits staff	242		244	

Investment Report

1. Investment Regulations

(a) Investment Limits

The Avon Pension Fund is a funded scheme which means that the contributions and Fund monies not currently needed to meet pension and benefit payments are invested and the Fund receives income from these investments. The Fund's objective is to meet the future pension payments of both past and current members.

The LGPS regulations provide a framework for the investment strategy. A wide range of investments are permitted but certain limits are set to ensure diversification and reduce risk.

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- loans from the Fund may not exceed 10% of the value of the Fund;
- no more than 35% may be invested in any one insurance contract;
- no more than 5% may be invested in any single partnership;
- investments in partnerships may not exceed 5% of the value of the Fund.

(b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles.

The SIP was revised during the year to reflect the following changes:

1. Implementation of the active currency hedging mandate
2. Implementation of changes to the hedge fund portfolio following review in March 2011
3. Amendment of the statement regarding realisation of investments (paragraph 22), specifically, that the investment strategy will be reviewed to manage the use of income/divestments to meet pension payments.

In July 2010 the FRC published the Stewardship Code, a set of best practice principles that are intended to frame both shareholder engagement with companies, and the disclosure of such activity. The Fund published a statement describing how the principles of the Code have been applied and an explanation where elements of the Code have not been complied with.

In addition, 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.

The latest SIP was approved by the Committee at its meeting in March 2012. A copy of the statement can be obtained either from the website *www.avonpensionfund.org.uk* or by email from *avonpensionfund@bathnes.gov.uk*

Compliance with the Myners Principles

The six Myners Principles codify a model of best practice for investors. As part of the SIP, administering authorities are required to state how they comply with the Myners Principles and explain where they do not comply.

The Fund's current compliance with the Myners' Principles is summarised in Table 8, but a full explanation can be found in Appendix 5 to the SIP.

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

The Committee reviewed the investment strategy in 2009 and concluded that although the overall asset allocation remained appropriate, the allocation to UK equities should be reduced in favour of overseas equities to enhance the return potential and increase diversification. This was completed during in April 2011 with the funding of a global equity portfolio managed by Schroder Asset Management. The Fund also made changes within the hedge fund portfolio in July and August 2011 following the review of hedge funds completed in early 2011.

During the year the Fund implemented an active currency hedging programme over the Fund's US dollar, euro and yen denominated equity assets (excluding those in emerging markets). Active currency hedging aims to protect the sterling value of the portfolio from detrimental movements in exchange rates (i.e. when sterling is appreciating) whilst allowing the Fund to benefit from favourable movements (i.e. when sterling is weakening). In addition, this approach was taken to minimise the potential cash flows arising from a currency hedging process.

Towards the end of 2011 the Fund deviated from its strategic benchmark, increasing its allocation to corporate bonds and reducing the exposure to UK gilts. This tactical position took advantage of the perceived value of corporate bonds compared to UK gilts. The tactical

Table 8: How the Avon Pension Fund achieved compliance with the Myners Principles

1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓

2 Clear Objectives	Compliance
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	✓
A customised benchmark reflecting the Fund's own liability profile	✓
Consideration of different asset classes and their impact on return and risk	✓
Individual performance targets for the investment managers, monitored by the Committee	✓
Expert advice when considering its investment objective and strategy	✓

3 Risk and Liabilities	Compliance
Investment objective and strategy reflects the specific liability profile of the scheme members	✓
Covenant of the employer and their ability to pay contributions is taken into account	✓
Risk-management process in place to ensure risks are identified and mitigating action is taken where possible	✓

4 Performance Assessment	Compliance
Fund's performance measured against investment objective, investment managers performance measured against their benchmarks	✓
Contracts with advisors assessed on an ongoing basis	✓
Performance of decision-making bodies assessed by external auditors	✓

5 Responsible Ownership	Compliance
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓

6 Transparency and Reporting	Compliance
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate	✓
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders	✓

Table 9: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation	Actual Allocation 31 March 2011	Actual Allocation 31 March 2012
UK Equities	18.0%	24.9%	19.6%
Overseas Equities	42.0%	37.7%	40.3%
Index-Linked Gilts	6.0%	6.0%	6.9%
Fixed Interest Gilts	6.0%	7.2%	4.9%
UK Corporate Bonds	5.0%	5.2%	8.7%
Overseas Fixed Interest	3.0%	2.8%	2.8%
Fund of Hedge Funds	10.0%	8.3%	7.8%
Property	10.0%	6.5%	7.1%
Short term deposits / Other	0.0%	1.4%	1.9%

position remains in place as the year ended.

In December 2011, the Fund commenced a review of its responsible investment policy which will conclude in 2012/13.

Strategic Asset Allocation

The strategic asset allocation and actual asset allocation as at 31 March 2012 and the previous year is shown in Table 9. Note that as at 31 March 2012, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property, and the tactical allocation to UK corporate bonds from gilts was in place.

Investment Management Structure

The Fund's investment strategy is implemented by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2012 is set out in Chart 1. Following the 2011 hedge fund review the mandate with Lyster Watson was terminated and the allocation to MAN reduced with the proceeds invested with two of the other managers, Stenham and Signet. In addition, Schroders global equity portfolio of c.6% was funded in April 2011.

3. Market Background

Here we describe the backdrop against which the Fund's asset performance (set out in section 4) was achieved.

2010/11 ended with a month which saw the devastating earthquake and tsunami in Japan, the political turmoil in the Middle East and concerns over the Portuguese economy and Irish banks. As a result, the outlook at the outset of 2011/12 was for a slowing recovery, with uncertainty remaining and concerns over Europe still at the fore. The year that followed experienced continuing volatility as investors responded to the changing economic information and market sentiment, with investors fluctuating between a "risk-on" outlook (where investors were looking to invest in riskier assets such as equities) and a "risk-off" approach where they seek safe havens such as bonds and eschew risk assets.

The dominant issue of the year was the uncertainty surrounding European sovereign credit defaults and the potential break-up of the euro which was exacerbated by an unwillingness by European policy makers to take substantial action to address the crisis. Finally in December 2011, the European Central Bank commenced it's Long Term Refinancing Operations which stabilised markets, only for uncertainty to resurface early in 2012 as some non periphery countries (France and Holland) faced the prospect of holding elections in the face of rising opposition to austerity measures.

Other themes throughout the year included the threat of a global double dip recession and a slowing of growth in China.

As the year came to an end, the outlook was for a long period of low or zero growth with political instability returning in some Eurozone countries. Despite the US showing signs of recovery and the potential for growth (albeit lower) within emerging markets, a double dip recession still seemed possible, with the future path of growth in the Chinese economy a key determining factor. In essence, the year ended as it began, with uncertainty the overriding characteristic.

The returns for the individual asset classes and markets in 2011/12 along with the three year returns in sterling are set out in Chart 2. Key characteristics over the year were the strong performance of fixed income assets compared with the relatively poor performance of equity markets, with only north American equities achieving a significant positive return, whilst European equity markets understandably produced the largest negative performance. Property maintained its diversification value producing a positive return, whereas hedge funds failed to generate positive returns in the challenging market environment.

4. Investment Performance

Here we describe the investment performance that was achieved during the year at both fund and individual manager level.

Following a robust performance in 2010/11 of 7.8%, the value of the Fund rose by 3.5% (or £99 million) during 2011/12, to £2.76 billion at 31 March 2012. Performance was driven largely by strong returns across fixed income assets and to a lesser extent property. Equity markets experienced mixed returns with the most striking comparison of North America +6.9% and Europe -11.2 %.

Chart 1: Strategic Asset Allocation by Manager 31 March 2012

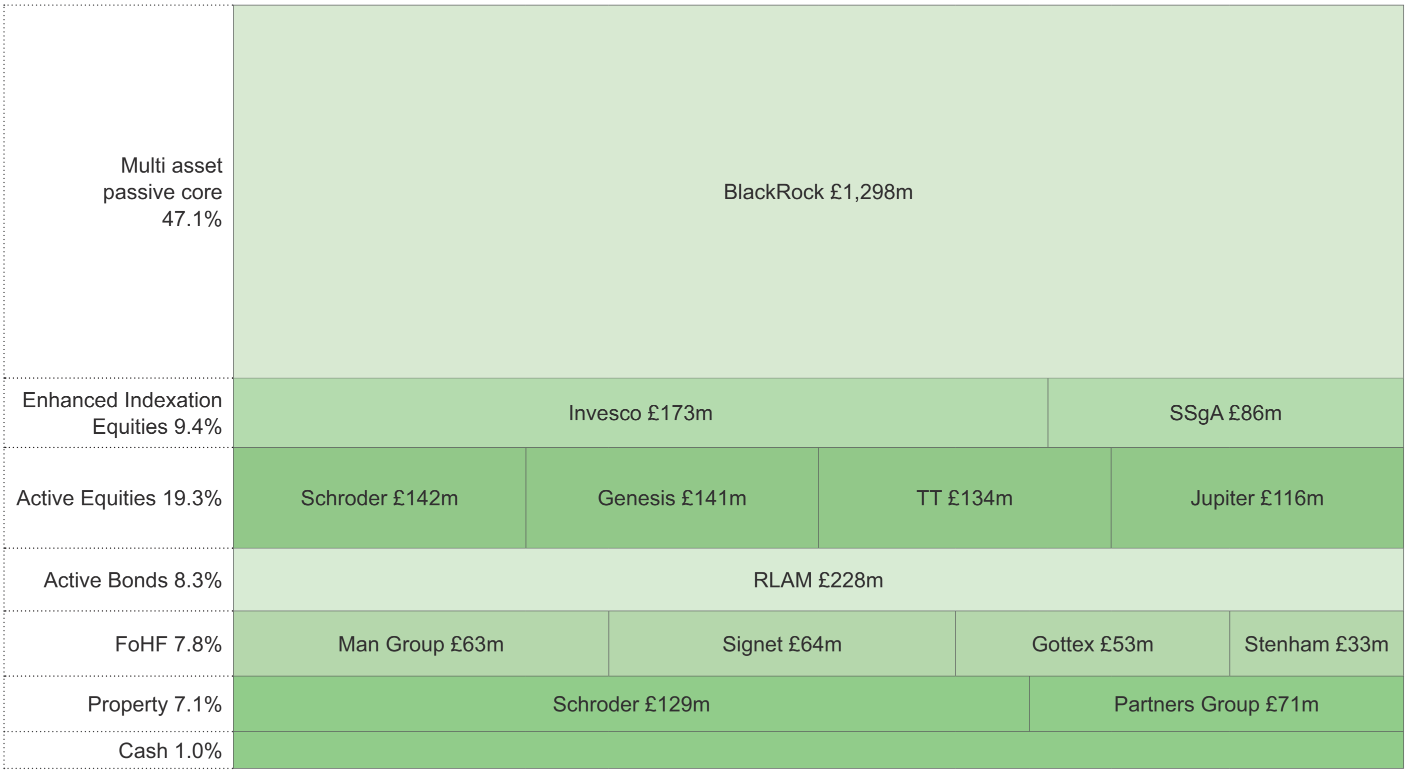
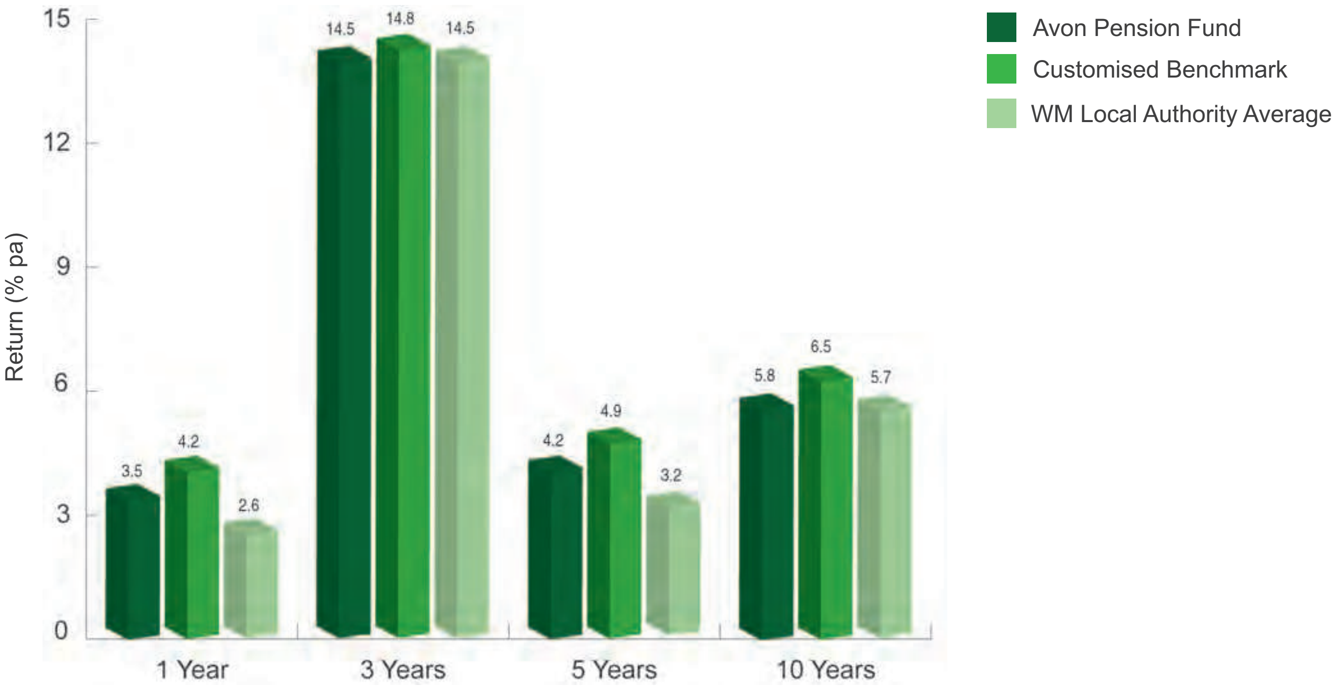


Chart 2: Market Performance by Asset Class (Return % p.a.)

Chart 3: Long Term Performance



Over the last three years the Fund returned 14.5% per annum falling to 4.2% per annum when viewed over the last five years. However over ten years the Funds return of 5.8% per annum is marginally below the level of returns assumed by the Fund's funding strategy.

The longer term performance of the Fund is shown in Chart 3 (the returns are annualised). The Fund has a customised benchmark, the return for which is included in the chart together with the return of the WM Local Authority Fund Average (the average local authority pension fund return as calculated by WM Company).

Compared to the WM Local Authority Fund universe, the Fund outperformed the average fund over the year. This was largely due to the Fund's lower than average allocation to equities (equities performed negatively over the year). Over three years the Fund's return of 14.5% per annum was equal to the average fund return, and over longer time periods the Fund has marginally outperformed the average.

The customised benchmark (which measures the relative performance of the managers in aggregate), shows that the Fund's managers in aggregate underperformed their specific index returns over the year. Jupiter, Invesco, Genesis and Partners Group had strong relative performances with Schroder global equity and the hedge funds being the main detractors.

Chart 4 shows the performance of the Fund's external investment managers against their benchmark during 2011/12. Note that the Fund of Hedge Fund Managers have a cash based benchmark rather than an index. Also note that the performance of Partners reflects the fact that they are still part way through investing their portfolio.

Investment Managers' Voting Record

Managers are expected to vote at all company meetings where possible. The Fund has appointed a vote monitoring agent and they will publish a report on the managers' voting activity later in 2012.

5. Largest Holdings

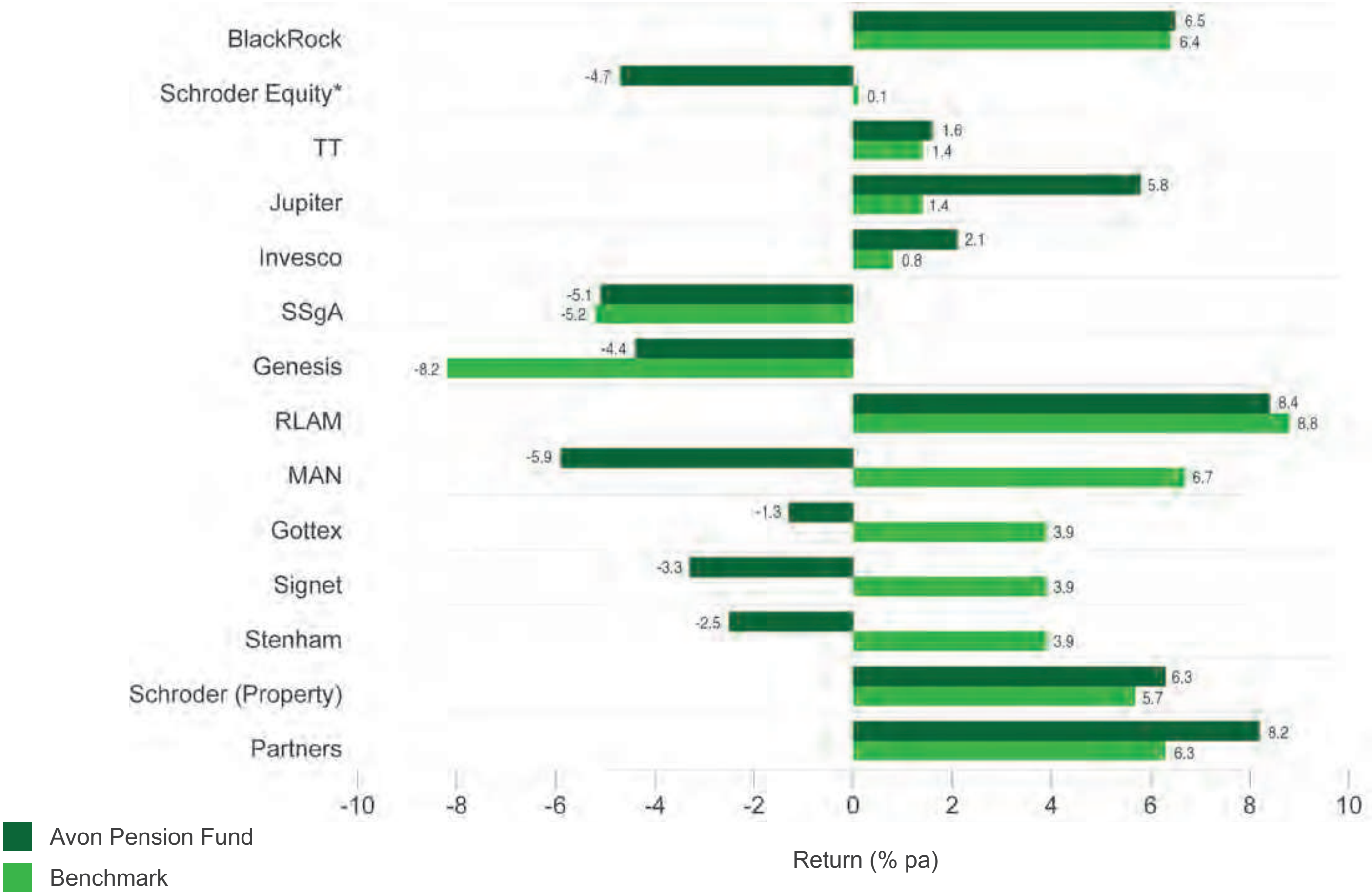
The 10 largest investment holdings of the Fund at 31 March 2012 are shown in Table 10.

6. Investment Administration

The Fund's custodian is responsible for the safe–keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

The Fund has a separate bank account to the Council which provides transparency and accountability of the Fund's and Council's banking arrangements. In addition the Fund has a separate Treasury Management Policy which ensures the investment of the Fund's cash is consistent with the risk parameters of the Fund. The management of the pension fund's investment cash is delegated to the Council.

Chart 4: Performance by Manager 2011-12



Note: * Schroder Equity portfolio invested part period only.

Table 10: Top 10 Largest Investment Holdings at 31 March 2012

Top 10 Largest Investment Holdings	£'000s	% of Fund
Aquila Life UK Equity Index Fund (BlackRock)	269,730	9.8%
BlackRock World Index Fund	229,083	8.3%
RLPPC UK Corporate Bond Fund (Royal London)	227,557	8.3%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236	6.3%
Genesis Emerging Markets Investment Fund	140,717	5.1%
MSCI Equity Index Fund B-US (BlackRock)	129,948	4.7%
BlackRock Europe ex-UK Index Fund	115,541	4.2%
Aquila Life Overseas Bond Index Fund (BlackRock)	77,972	2.8%
Signet Global Fixed Income Fund - GBP Share Class	64,378	2.3%
RMF Investment Strategies SPC Class TM56 Fund (Man)	63,099	2.3%

Actuarial Report and Funding Strategy Statement

In line with the LGPS Regulations, the Fund's actuarial position is reviewed every three years with the latest triennial valuation based on membership data and asset values as at 31 March 2010. This valuation set the employer contribution rates for the period from 1 April 2011 to 31 March 2014.

The 2010 valuation produced a funding level of 82% leaving a deficit of 18% which is only slightly lower than the funding level of 83% at the previous valuation in 2007. However, in monetary terms the deficit has increased from £459 million in 2007 to £552 million in 2010. The deterioration in the deficit was due to investment returns being less than that assumed in the previous valuation and the rise in the liabilities (due to a rise in longevity and a reduction in the yields on index-linked gilts which reduces the discount rate used to value future benefits).

By 31 March 2012, the funding level is estimated to have fallen to 70% and the deficit is estimated to have risen to £1.1 billion. This is largely due to the rise in liabilities. The future value of the pension liabilities is calculated using a discount rate based on gilt yields. As gilt yields have fallen to historic lows during 2011/12, the value of the liabilities has risen (by approximately 30% since the 2010 valuation), in turn generating a higher deficit. This will pose significant pressure at the next triennial valuation due 31 March 2013, given that public sector employers will still be facing severe reductions in funding.

Over the two years since the 2010 valuation, asset values have risen approximately 12% which has only partially offset the rise in the value of the liabilities.

Funding Strategy Statement

The 2010 valuation was undertaken within a very challenging environment for local authorities and public sector bodies. Given this backdrop, the Funding Strategy Statement for the 2010 valuation reflected the need to balance the long term solvency of the Fund with cashflow pressures faced by the scheme employers over the three year valuation period.

The Regulations provide that the Funding Strategy Statement must

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

Using the flexibility provided within this framework, the Fund managed to keep employer rates (when expressed as a percentage of pensionable pay) stable with the 2007 valuation outcome. However, in order to achieve stability, the period over which the deficit is recovered from each employer was increased to a maximum of 30 years from 20 years at the 2007 valuation. Overall, the Fund's deficit recovery period increased from 20 years to 23 years.

In addition, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract given the reduction in the public sector, the deficit recovery contribution (or past service contribution), which has traditionally been expressed as a percentage of pay, has been expressed in annual monetary amounts. At the next triennial valuation, it is expected that any changes arising from the current negotiations to introduce a "new" LGPS, will be incorporated into the actuarial valuation. As the government has committed to preserving accrued pension benefits across the public sector schemes, the new LGPS is not expected to reduce the deficit significantly. However, future service costs should be reduced through a combination of benefit changes and an increase in the retirement age.

A copy of the Funding Strategy Statement can be obtained either from the website *www.avonpensionfund.org.uk* or from *avonpensionfund@bathnes.gov.uk*

Statement of Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £2,459 million represented 82% of the Fund's past service liabilities of £3,011 million (the "Funding Target") at the valuation date.

Funding position as 31 March 2010 valuation (£m)

The valuation also showed that a common rate of contribution of 11.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate equivalent to 4.8% of pensionable pay for 23 years. This would imply an average employer contribution rate of 16.6% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.85% per annum	6.75% per annum
- post retirement	5.7% per annum	6.75% per annum
Rate of pay increases:	4.5% per annum*	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

* allowance was also made for short-term public sector pay restraint over a 2 year period, as announced in 2010 by the Government

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Paul Middleman
Fellow of the Institute of Actuaries,
Mercer Limited, May 2012

Employer Contribution Rates

Participating Employers	Contribution Rates			
Year Ended 31st March	2012		2011	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire & Rescue	10.9	£221,500	15.4	-
Bath & North East Somerset Council	12.2	£3,949,400	17.5	-
Bristol City Council	11.8	£12,281,900	17.2	-
North Somerset Council	11.8	£4,224,900	18.6	-
South Gloucestershire Council	11.9	£4,677,000	16.8	-
Further & Higher Education Establishments				
Bath Spa University College	11.2	£365,900	15.9	-
City of Bath College	11.2	£66,600	13.4	-
City of Bristol College	11.4	£414,500	14.6	-
Norton Radstock College	12.3	£32,000	14.0	-
South Gloucestershire & Stroud College	10.4	£173,200	14.3	-
St. Brendan's College	11.4	£24,300	13.8	-
University of the West of England	11.0	£1,484,200	14.5	-
Weston College	10.4	£147,300	14.7	-
Other Education Establishments				
Academy of Trinity	12.5	£1,012	-	-
Backwell School Academy	13.7	£5,666	-	-
Beechen Cliff Academy	12.2	-	-	-
Bristol Cathedral Choir School Academy	13.2	-£4,700	11.7	-
Bristol Free School Trust	13.4	-	-	-
Bristol Music Trust	14.7	-	-	-
Broadoak Mathematics & Computing College	11.6	£9,100	-	-
Cabot Learning Federation of Academies	10.8	-	12.0	-
City Academy Bristol	10.4	£13,400	11.1	-
Churchill Academy	13.0	£47,300	-	-
Clevedon School Academy	12.1	£7,700	-	-
Cotham School Academy	11.8	£27,300	-	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2012		2011	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Colston Girl's School Academy	14.2	-£650	14.0	-
Elmlea Junior School Academy	12.4	£6,500	-	-
Fosseway Special School	10.2	£22,500	-	-
Gordano School Academy	12.5	£56,700	-	-
Gordano Sports Trust	20.0	-	-	-
Hans Price Academy	12.1	£43,300	-	-
Hayesfield Girls School Academy	12.9	£18,700	-	-
Henleaze Junior School	12.2	£3,600	-	-
Ilminster Avenue E-ACT Academy	15.0	£1,600	-	-
Kings Oak Academy	13.2	£14,000	-	-
Merchant's Academy	11.2	-	13.7	-
Midsomer Norton School Partnership	12.1	73,000	17.5	-
Oasis Academy Brightstowe	11.5	-	12.6	-
Oasis Academy John Williams	12.1	-	13.2	-
Oldfield School Academy Trust	13.9	£10,500	-	-
Priory Community School	11.9	£51,000	-	-
St Bede's School Academy	11.9	£9,833	-	-
St. Ursula's E-ACT Academy	11.8	-	-	-
The Ridings Federation of Academies Winterbourne	11.8	-£19,600	13.0	-
The Ridings Federation of Academies Yate	11.4	-£8,700	11.8	-
Waycroft Junior School	12.9	£13,200	-	-
Wellsway Academy	12.0	£17,700	-	-
West Town Lane Primary School	14.0	£3,100	-	-
Westbury-on-Trym School	12.3	£12,200	-	-
Writhlington Academy	11.0	£24,000	-	-
Designating Bodies				
Bath Tourism Plus	14.1	-	14.0	-
Backwell Parish Council	14.0	£1,100	16.9	-
Bradley Stoke Town Council	13.4	£6,400	16.6	-
Charter Trustees of the City of Bath	14.3	£3,200	15.4	-
Clevedon Town Council	13.2	-	14.0	-
Destination Bristol	12.5	£7,100	11.7	-
Dodington Parish Council	14.8	£1,100	14.8	-
Downend and Bromley Heath Parish Council	11.5	£100	10.8	-
Easton in Gordano Parish Council	12.9	-	14.0	-
Filton Town Council	10.2	£1,100	9.6	-
Frampton Cotterell Parish Council	14.0	£1,000	16.6	-
Hanham Abbots Parish Council	10.0	-	14.0	-
Hanham Parish Council	12.9	£2,800	31.1	-
Keynsham Town Council	14.5	£10,900	20.0	-
Long Ashton Parish Council	24.4	£600	24.6	-
Mangotsfield Rural Parish Council	10.7	£1,500	14.3	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2012		2011	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Midsomer Norton Town Council	10.8	£6,500	-	-
Nailsea Town Council	14.0	£3,100	16.6	-
Norton Radstock Town Council	-	-	21.3	-
Oldland Parish Council	11.7	£200	11.2	-
Patchway Town Council	12.0	£5,600	15.6	-
Paulton Parish Council	13.4	£1,600	16.0	-
Peasedown St John Parish Council	14.0	-	14.0	-
Portishead & North Weston Town Council	16.2	£2,500	21.3	-
Radstock Town Council	7.5	£3,100	-	-
Saltford Parish Council	13.9	£300	15.0	-
Stoke Gifford Parish Council	14.9	£5,600	19.1	-
Thornbury Town Council	17.1	£10,600	21.8	-
Westerleigh Parish Council	11.9	-	12.5	-
Westfield Parish Council 01/04/11	18.4	£3,300	-	-
Weston Super Mare Town Council	10.6	£4,500	11.0	-
Whitchurch Parish Council	12.3	£100	10.5	-
Winterbourne Parish Council	17.3	£300	17.6	-
Yate Town Council	11.3	£9,000	15.9	-
Yatton Parish Council	14.0	-	14.0	-
Community Admission Bodies				
Ashley House Hostel	14.6	£4,100	18.8	-
Bath & North East Somerset Racial Equality Council	15.3	£500	16.1	-
Centre for Deaf People Bristol	14.9	£19,500	17.0	£26,360
Clifton Suspension Bridge Trust	15.9	£2,300	14.1	-
The Care Quality Commission	16.7	£33,000	18.0	-
Learning Partnership West Limited	11.1	£211,300	14.6	-
Holburne Museum of Art	10.0	£14,000	13.5	-
Merlin Housing Society (SG)	14.2	-	12.5	-
Merlin Housing Society Ltd	15.9	£420,900	17.0	-
NSAH (Alliance Homes) Ltd	13.6	£65,900	11.3	-
Off the Record Bath & North East Somerset	8.9	£10,500	12.1	-
Somer Community Housing Trust	14.6	£211,200	15.0	-
Somer Housing Group Ltd	12.4	£24,400	9.4	-
Southern Brooks Community Partnership	11.0	£4,500	12.1	-
South West Academies	9.9	£300	-	-
Southwest Grid for Learning Trust	11.2	£22,900	12.0	-
University of Bath	11.6	£496,100	14.3	-
West of England Sport Trust	13.8	£12,300	14.6	-
Vision North Somerset	15.5	£8,300	26.8	-
Transferees Admitted Bodies (Scope)				
Active Community Engagement Ltd	13.7	-£3,300	10.2	-
Agilisys Ltd	14.3	-	14.3	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2012		2011	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Agincare BANES Ltd	15.7	-	16.6	-
Aquaterra Leisure	8.8	£28,400	10.5	-
Aramark Ltd	15.6	-	14.4	-
BAM Construct UK Ltd (for Henbury School)	16.6	£8,600	15.4	-
Bespoke Cleaning Services Ltd	15.7	-	16.5	-
Churchill Contract Services Ltd	15.6	-	17.0	-
Circadian Trust (formerly South Glos Leisure)	9.5	£28,800	9.5	-
Circadian Trust No 2 (formerly South Glos Leisure No 2)	9.2	-	8.5	-
Eden Food Services (Initial Catering)	13.8	£75,500	13.7	-
English Landscapes Maintenance Ltd	16.1	£1,400	16.0	-
The Genuine Dining Company Ltd	12.5	-	12.2	-
ISS Mediclean Ltd (Cabot Learning Federation)	16.8	£800	11.9	-
ISS Mediclean (Bristol)	13.9	-	12.6	-
Kier Facilities Services Ltd	14.6	-	14.6	-
Liberata UK Ltd	14.3	-	14.3	-
Mouchel (B&NES School's IT)	11.9	-	11.9	-
Mouchel Business Services Ltd	14.4	£58,500	20.5	-
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.1	-
Northgate (Colstons Girls School IT)	-	-	11.2	-
Northgate Information Solutions UK Ltd	-	-	9.1	-
Prospects Services Ltd	13.5	£119,000	13.7	£119,100
Quadron Services Ltd	15.3	-£3,600	13.7	-
RM Data Solutions Ltd	23.5	-£3,900	20.0	-
Shaw Healthcare (North Somerset) Ltd	15.5	£16,100	22.6	-
Sirona Care & Health CIC	14.8	-	-	-
SITA Holdings UK Ltd	21.9	£48,600	15.7	£53,760
Skanska (Cabot Learning Federation)	27.3	£1,600	9.5	-
Skanska Rashleigh Westerfoil	12.7	£500	9.5	-
SLM Community Leisure Charitable Trust	13.8	£4,600	10.9	-
SLM Fitness & Health Ltd	12.4	£4,400	8.7	-
Sodexo Ltd	17.1	-	17.1	-
Team Clean Ltd	13.6	£200	13.3	-
Tone Leisure (Taunton Deane) Limited	13.4	-	-	-
The Brandon Trust	15.2	£22,000	17.3	-

Statement of Accounts 2011/12

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 2011/12 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:

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.

	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

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 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates. 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. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24d.

Events After the Balance Sheet Date

2.12 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period, but where material disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

2.13 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value.

Fund Account for 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

		Notes	31 March 2012		31 March 2011	
Investment Assets			**£'000**	**%**	£'000	%
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 and 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 HM 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
Employers' normal contributions		**£'000**		£'000
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**	1,963	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 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 during the year.

8. Administration Expenses

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

	2011/12	2010/11
	£'000	£'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	2010/11
	£'000	£'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	7,194

10. investment Income

	2011/12	2010/11
	£'000	£'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
Total	**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	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/12**
	£'000	£'000	£'000	£'000	**£'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	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees and 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 contract

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		**'000**	£'000	£'000
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 at 31 March 2011	-	(59)
					Net forward currency contracts at 31st March 2011	**(59)**

Note: the greater number of contracts open at 31st March 2012 is due to the implementation of the active currency hedging mandate.

Exchange Traded Derivatives held at 31 March 2012:-

Contact Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE Equity Futures	June 2012	15,869	(514)

Exchange Traded Derivatives held at 31 March 2011:-

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	0.0
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. The residual balance held by Lyster Watson at 31 March 2012 relates to the final settlement of mandate termination proceeds.

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**	**Net Assets**	Value at 31st March 2011	Net Assets
	£'000	**%**	£'000	%
Aquila Life UK Equity Index Fund (BlackRock)	**269,730,449**	**9.78%**	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**	**8.25%**	131,992,313	4.97%
Invesco Perpetual Global ex UK Enhanced Index Fund	**173,236,861**	**6.28%**	169,742,352	6.39%
Genesis Emerging Markets Investment Fund	**140,717,205**	**5.10%**	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)
Total 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)
Total 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 employees' and employers' 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
	£'000	£'000
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 IAS 26 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 IAS 26 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.

The Fund is governed by Central Government regulation. 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 March 2012	31 March 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. During the year around 2% of assets were switched from the UK gilt portfolio and invested in corporate bonds. The credit risk within the bond portfolio has altered as a result of this technical switch and this is shown in the analysis of credit risk. 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	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
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	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
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
	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	31 March 2011
	£'000	£'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 2011	**£'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	31 March 2012	31 March 2011
	£'000	£'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	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
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	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
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
	£'000	%	£'000	£'000
Overseas Equities	1,025,106	11.5%	1,142,489	907,723
Overseas Fixed Income	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
	£'000	%	£'000	£'000
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).

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:

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

Since 31st March 2012 the ratings relating to the bank accounts have been downgraded.

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	31 March 2011
	£'000	£'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	2,880
	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.

Credit Analysis 31/03/2012	AAA	AA	A	BBB	BB	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'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 is shown below:

Credit Analysis 31/03/2011	AAA	AA	A	BBB	BB	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'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. The reduction in AAA assets as at 31 March 2012 reflects the switch from UK Government gilts (AAA rated) into corporate bonds.

(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	Level 2	Level 3	Total
	£'000	£'000	£'000	£'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**	**410,522**	**2,757,365**

The fair value hierarchy as at 31 March 2011 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'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 & Rescue	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	

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

Admission Bodies	
Active Community Engagement Ltd	Merlin Housing Society (SG)
Agilisys Ltd	Mouchel Business Services Ltd*
Agincare BANES Ltd*	Mouchel Business Services Ltd (BANES School IT)*
NSAH (Alliance Homes) Ltd	Mouchel Business Services Ltd (Nailsea IT)*
Aquaterra Leisure	Northgate (Colston Girls School IT)
Aramark Ltd*	Off The Record Bath & North East Somerset
Ashley House Hostel	Prospects Services Ltd*
BAM Construct UK Ltd (Henbury School)*	Quadron Services Ltd*
Bath &NE Somerset Racial Equality Council	RM Data Solutions Ltd
Bespoke Cleaning Services Ltd*	Shaw Healthcare (North Somerset) Ltd*
Bristol Music Trust	Sirona Care & Health CIC
The Care Quality Commission	SITA Holdings UK Ltd*
Centre for Deaf People Bristol	Skanska (Cabot Learning Federation)*
Churchill Contract Services Ltd	Skanska Rashleigh Westerfoil*
Churchill Team Clean	SLM Community Leisure Caritable Trust*
Circadian Trust	SLM Fitness and Health Ltd*
Clifton Suspension Bridge Trust	Sodexo Ltd
Eden Food Services (Initial Catering)*	Somer Community Housing Trust
English Landscapes Maintenance Ltd*	Somer Housing Group Ltd
Genuine Dining Ltd	Southern Brooks Community Partnership
Holburne Museum of Art	South West Academies Ltd
ISS Mediclean Ltd (Bristol)*	Southwest Grid for Learning Trust
ISS Mediclean Ltd (Cabot Learning Federation)*	The Brandon (Taunton Dean) Ltd*
Keir Facilities Services Ltd	Tone Leisure Trust*
Learning Partnership West Ltd	West of England Sports Trust
Liberata UK Limited	Vision North Somerset
Merlin Housing Society Ltd	

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

The Statement of Responsibilities for the Avon Pension Fund Account

Bath & North East Somerset Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Avon Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Divisional Director of Finance responsible for financial administration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year

Divisional Director of Finance responsibilities

The Divisional Director of Finance is responsible for the preparation of the Avon Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Divisional Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements which were reasonable and prudent;
- complied with the Code of Practice.

The Divisional Director of Finance has also:

- Kept proper and up-to-date accounting records;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2012.

Tim Richens

Divisional Director of Finance
(S151 Officer)

September 2012

Audit Opinion on the Accounts of the Avon Pension Fund

The auditors of local authorities are appointed by the Audit Commission under section 2 of the Audit Commission Act 1998 to audit the accounts of a local authority as a whole, including the accounts of the local authority's pension fund.

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 53.

Auditors Report

Independent Auditor's Report to the Members of Bath and North East Somerset Council

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and Auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Wayne Rickard

District Auditor

Audit Commission
3- 4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

30 September 2011

Five Year Summary of Financial Statistics

Year Ended 31 March	2008	2009	2010	2011	2012
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Net Contributions	112.4	125.3	134.7	139.5	138.0
Investment Income	32.6	19.9	16.0	22.6	27.7
Net Cash Transfer	5.5	4.8	0.3	0.5	1.7
	150.5	**150.0**	**151.0**	**162.6**	**167.4**
Expenditure					
Pension & Benefits	95.0	105.2	115.1	121.7	129.2
Investment Management Expenses	4.8	5.0	6.9	7.2	9.2
Administration Costs	1.8	2.0	1.9	2.1	2.0
	101.6	**112.2**	**123.9**	**131.0**	**140.4**
Surplus for the Year	48.9	37.8	27.1	31.6	27.0
Revaluation of Investments	(55.0)	(396.4)	612.4	177.9	71.2
Change in Fund Value	**(6.1)**	**(358.6)**	**639.5**	**209.5**	**98.2**
Total Fund Value	**2,177.7**	**1,819.1**	**2,458.6**	**2,668.1**	**2,766.3**

Pension Increase

Year Begining April	Rate of Increase %	Index
2003	1.7	RPI
2004	2.8	RPI
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI

Increases in pensions (excluding the State Guaranteed Minimum Pension) are based on the change in the published Consumer Price Index (CPI) for the 12 months to 30 September of the previous year. Prior to April 2011, these increases were based on the change to the published Retail Price Index (RPI). Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began.

All pensions are subject to the increase with the exception of those pensions awarded for non ill-health retirements where the recipient is under the age of 55 years. These pensions are subject to the accrued increase rate payable from the recipient's 55th birthday.

The Table shows the rate of increases that have applied during the last ten years.

The Fund is responsible for payment of increases in respect of the State Guaranteed Minimum Pension accrued since April 1988 up to a maximum of 3% per annum (or the rate of inflation if less). Any increase above 3% is the responsibility of the State.

The increases shown above also apply to deferred pensions.

Contact Names

For further information on issues relating to the Fund's Investments and the Accounts please contact:

Martin Phillips
Pension Fund Accountant

Liz Woodyard
Investments Manager

If you have any queries on the benefits or administration of the Avon Pension Fund please contact:

Steve McMillan
Pensions Manager

Or you can write to us at:

Avon Pension Fund
Floor 3 South
Riverside, Temple Street,
Keynsham,
BS31 1LA

Tel: 01225 477000
Fax: 01225 395258

Alternatively, email us at
avonpensionfund@bathnes.gov.uk

Further general information regarding the Avon Pension Fund can be found at:
www.avonpensionfund.org.uk

Appendix

Local Goverment Pension Scheme

How the Local Government Pension Scheme Works

Avon Pension Fund is part of the Local Government Pension Scheme (LGPS) which is administered in accordance with the LGPS Regulations which are Statutory Instruments approved by Parliament.

The benefits of Councillor Members come under the LGPS Regulations 1997 (as amended).

The benefits of all other active members come under the new LGPS Regulations, which mainly came into effect on 1 April 2008. These are:

- LGPS (Benefits, Membership & Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Transitional Provisions) Regulations 2008

The LGPS Regulations can be viewed online here: *http://timeline.lge.gov.uk/*

The regulations specify the pension and other benefits payable and fix the rate of member contributions. Employer contributions are set every three years by the actuarial valuation.

The Avon Pension Fund covers the old Avon County Council area and on reorganisation in 1996, Bath & North East Somerset Council were selected to administer the Fund on behalf of all the participating employers.

The Avon Pension Fund Committee, as advised by the Director of Resources and Support Services, is responsible for the Fund's investment management arrangements. The Committee sets the overall investment policy and monitors the performance of the investment managers.

The Fund has members from over 139 employers which are classed as 'scheduled bodies', 'designating bodies' or 'admission bodies'. They are listed on pages 50-51. Scheduled bodies are defined in the Regulations and their employees have a statutory right to participate in the LGP. Admission bodies fall into two categories – those who apply to join on an autonomous basis and those who are entitled to join as part of a Best Value arrangement with an existing fund employer; in each case, they must satisfy specific criteria set out in the Regulations.

Contributions

From 1 April 2008, most active members pay contributions of between 5.5 and 7.5% of pensionable pay depending on their pay band.

Councillor members pay pension contributions at the rate of 6% of pensionable pay.

The employer contribution rates are assessed every three years following an actuarial valuation. A list of participating employers together with their contribution rates is shown on pages 23-26.

Benefits

The LGPS provides significant benefits to members. The following summary is provided as an illustrative guide only and is not intended to give full details of all the benefits provided or all of the specific conditions that must be met before benefits can be obtained.

- Annual Pension. The LGPS is defined benefit scheme. The pensions of most members are based on 1/80th of final pensionable pay for each year of membership until 31 March 2008 and 1/60th of final pensionable pay for each year of membership thereafter. The pensions of Councillor Members are based on 1/80th of their career average pay for each year of membership.
- Pensions Increase Orders made under the Social Security Pension Act 1975 provide for pensions to be assessed in line with an index specified by the government. Historically this was the Retail Price Index but from April 2011 the government changed the index to the Consumer Price Index. The increases implemented over the last ten years are shown on page 55.
- Lump Sum Retirement Grant. In addition to an annual pension, most LGPS members receive a tax-free 'lump sum retirement grant' of three times annual pension on membership up to 31 March 2008. At retirement, a member will also be able to give up part of their annual pension to provide an additional lump sum. Each £1 of annual pension given up will buy £12 of lump sum. The lump sum of Councillor Members is based on 3/80th of their career average pay, also with the option of giving up part of their pension to provide additional lump sum as above.
- Deferred Benefits. Members who leave their employment or opt out of the LGPS with membership of 3 months or more, or with less than 3 months membership but have transferred service in, are entitled to Deferred Benefits and will have their benefits preserved in the Fund until retirement or they can be transferred to another approved pension arrangement.
- Refund of Contributions. A refund of contributions will be paid to members who leave employment with less than 3 months membership, provided they have not transferred in any additional membership.
- Death Benefits. When a member dies in service, a lump sum death grant is payable. For most Active Members, this is the equivalent of three times the member's final year's pensionable pay. For Councillor Members, this is the equivalent to twice the member's career average pay.

Legal Spouses and Civil Partners are also entitled to receive a Survivor's Pension based on the member's Scheme Membership at the date of death. Active Members from 1 April 2008 who are not married or in a civil partnership may nominate an eligible cohabiting partner to receive a Survivor's Pension subject to certain qualifying conditions. Councillor Members cannot nominate a cohabiting partner to receive a Survivor's Pension.

Glossary

Accrual Rate

The proportion of final salary which is payable as pension for each year of service accrued. For example, under the current scheme effective from 1 April 2008, each year of service will generate 1/60th of final salary.

Actuary

An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The actuary produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Active Investing

An investment strategy whereby the manager deviates from an index or benchmark through stock selection or asset allocation in order to generate a rate of return in excess of the index or benchmark.

Annual Allowance

The amount of pension savings specified by HMRC that an individual can accrue in a tax year before becoming potentially liable for tax. Any unused allowance from the three previous years can be used to offset. Where eligible, the member can elect for the pension fund to pay the tax, if it exceeds £2,000, and have their pension adjusted accordingly (this is known as 'Scheme Pays')

Civil Partnership

A civil partnership is a relationship between two people of the same sex which is formed when they register as civil partners of each other.

Consumer Price Index (CPI)

CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and RPI is that CPI excludes some items used in RPI such as mortgage interest payments and Council Tax, and includes other items not used in RPI.

Community Admission Bodies

Bodies, which either have sufficient links with a Scheme employer, and provides a public service in the United Kingdom otherwise than for the purposes of gain or are approved by the Secretary of State for the purposes of admission to the Scheme; a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes. Such a body can become a member of the Avon Pension Fund subject to Pension Committee approval.

Corporate Bonds

Fixed interest securities and index-linked securities issued by companies registered either in the U.K. or overseas. They represent 'loans' to the companies which are repayable on a stated future date (for definitions of "fixed interest" and "index-linked" see 'Fixed Interest Government Securities' and 'Index-linked Government Securities'). In the annual accounts, these are included in 'Sterling Bonds' and 'Non-Sterling Bonds'.

Customised Benchmark

A customised benchmark reflects the asset mix determined by the Fund. It is expressed in terms of asset proportions and market indices (e.g. 45% UK Equities invested in the FTSE-Actuaries All Share Index). On this basis a benchmark return can be calculated. The significance of a customised benchmark is that it represents "normal fund policy".

Deferred Pension

The pension benefit payable from Normal Retirement Age (or earlier if the Rule of 85 is satisfied) to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

Designating Body

A body, listed in Part 2 of Schedule 2 of the LGPS (Administration) Regulations, whose employees can only be eligible for membership of the Scheme, if designated by that body.

Discretionary Compensatory Added Years

Until 1 April 2007, employers could award an additional period of service under discretionary regulations up to a maximum of 10 added years. Since this date, this provision has been withdrawn. Employers who have awarded additional service are recharged for any payments made in respect of them exercising such a discretion.

Equities

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Salary Scheme

A pension scheme that provides a pension and in some cases a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed Interest Government Securities

Investments in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Hedge Funds

Otherwise known as "absolute return funds', these funds have as their objective a performance target expressed as a margin above the return which can be achieved on cash deposits. The advantage of these funds is that they should achieve a positive return even if the stock market falls.

Independent Members

Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the committee, appointed principally because of the financial/investment expertise which they have acquired in the course of their professional careers.

Indexed-Linked Government Securities

Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the government are adjusted to allow for inflation. Investments in government stocks represent ‘loans’ to the government which are repayable on a stated future date.

Lifetime Allowance

The total amount of pension savings, specified by HMRC, that can be provided to an individual without incurring a tax charge. This includes pension benefits accrued in all tax ‘registered’ pension schemes.

Market Value

The price at which an investment can be bought or sold at a given date.

Myners Principles

A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so.

Nominated Co-habiting Partner

Someone you have nominated to receive a survivor’s pension in the event of your death. The nominee must be someone you are living with as if you are married or are in a civil partnership, and your relationship has to meet certain conditions laid down by the LGPS. The nomination must be submitted on a ‘Nomination of a Cohabiting Partner’ form.

Normal Retirement Age

Age 65 for both men and women but certain protected members whose age and membership, when combined, total 85 or more can retire at any time from age 60 without actuarial reduction (see Rule of 85).

Passive Investing (Indexation)

An investment strategy whereby the manager replicates an index in order to generate a rate of return in line with the index. The manager has no discretion over stock selection within the index. If it is a multi-asset portfolio, the asset proportions are prescribed within the mandate.

Pooled Funds

Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units. These include Managed Funds which are a form of unit trust whereby the Fund makes payments under an insurance policy and is allocated units in an Investment Fund by way of benefits. In certain circumstances this form of unit trust can have tax advantages compared with a conventional unit trust.

Retail Price Index (RPI)

A measure of the general level of inflation based on the change in the price of a fixed basket of goods and services, such as food, energy, petrol, travelling costs, mortgage interest payments and Council Tax.

Rule of 85

Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65.

If the sum of the member’s age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced.

However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule.

The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill health, where benefits are paid without reduction.

Transferee Admission Bodies (Scope Body)

A body, that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer transfering, must act as guarantor for such bodies.

Unlisted Securities

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

WM Local Authority Average

The average local authority pension fund investment return as calculated by The WM Company. The universe comprises approximately 100 local authority funds.

Notes

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 SEPTMEBER 2012**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT OF VOTING ACTIVITY**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Monitoring Review of Proxy Voting 2011		

1 THE ISSUE

1.1 Exercising shareholder rights to vote at investee company meetings is one way in which the Fund can seek to influence companies to address risks to shareholder value. The governance characteristics that the Fund is most concerned with given their potential materiality for shareholder value are:

(1) An independent and accountable control of accounting and finance functions

(2) A strong independent Board and sub committees with a diversity of skills and experience

(3) A link between (executive and board) reward and strategic performance

1.2 The Fund's voting policy is to delegate voting decisions to the investment managers to vote on the Fund's behalf.

1.3 A vote monitoring service was implemented during 2011 to provide greater insight on voting issues and to improve monitoring of the voting activity of the Fund's investment managers. The report at Appendix 1 is provided by Manifest, the Fund's independent vote monitoring service provider and summarises the voting activity carried out on behalf of the Fund. This is the first annual report and represents approximately one half of the calendar years' voting, as the process started part way through the year. Future annual reports will encompass a full calendar year's voting and will be presented at June committee meetings.

1.4 Manifest has been invited to present their report at the meeting.

2 RECOMMENDATION

That the Committee note:-

2.1 The review of voting activity undertaken in 2011 on behalf of the Fund.

2.2 Based on this annual review, the issues the Fund will focus on with its managers in the 2013 voting season are (i) remuneration policy and its link with strategic performance and (ii) governance structures including the independence and diversity of the Board.

3 FINANCIAL IMPLICATIONS

3.1 There is a provision in the budget for the costs of this annual monitoring service.

4 BACKGROUND AND APPROACH

4.1 Voting is one of several tools used by shareholders to influence company behaviour. Often voting is used in conjunction with (and in support of) engagement with companies.

4.2 The aim of Manifest's vote monitoring service is to provide an insight into:

(1) The overall voting activity taken by the investment managers on the Fund's behalf, and how managers use voting rights to influence company behaviour

(2) Wider voting issues

(3) Governance standards at companies

4.3 The monitoring process uses Manifest's 'best practice' template to highlight governance issues. The template is a best practice policy in terms of corporate governance standards for investee companies rather than a voting policy template, but is being used as a benchmark to analyse and compare managers' voting activity. The analysis provided by Manifest shows:

(1) How well companies' are aligned with the best practice template (i.e. a benchmark of the governance standards at underlying companies)

(2) How the Fund's investment managers have voted compared to the template and to other shareholders, and whether this is in-line with expectations

4.4 Often, a single issue at a company can trigger multiple resolutions within a single company meeting. For example, numerous director election resolutions can be triggered if there is an issue of Board diversity at a company. Therefore the template identifies a large number of resolutions in its analysis.

4.5 The Fund does not require managers to vote in line with the template, but gives managers discretion to vote in line with their own voting policy. Managers can often vote tactically, choosing which resolutions to focus protest on and how best to combine voting with their on-going engagement with companies.

5 VOTING ACTIVITY REPORT - MAIN THEMES

5.1 In general, the most common areas at investee companies where issues were triggered by the best practice template were:

(1) Independence of Board / Committees

(2) Remuneration reports, incentive plans and specific payments to directors.

(3) Board structure and practices, and issues relating to the reporting of information.

5.2 The report shows that the Fund's managers are marginally more active in voting against management than the average shareholder.

5.3 Manager voting activity was in-line with expectations given the mandate and investment approach taken by each manager. This report focuses on the 3 managers for which there was a large enough body of data to undertake meaningful detailed analysis (next year's report will include detailed analysis on all managers as the data will cover the full calendar year for all managers). The report highlights the differences between the 3 equity portfolios and managers:

(1) The large passive equity portfolio managed by BlackRock brings into play a higher exposure to potential governance risks, evidenced by the relatively lower alignment of the companies in the portfolio with the governance standards of the best practice monitoring template. This is a reflection of both the global nature of the mandate and its exposure to the variance in governance standards across global equity markets, and the fact that as a passive manager, BlackRock has to hold the majority of stocks within the relevant index. This relatively higher governance exposure places a greater emphasis on the use of shareholder rights to mitigate governance risks to which the portfolio is inevitably exposed. BlackRock is the second most active of the Fund's managers (measured by dissent with management) and they hold by far the largest number of holdings of all the Fund's managers.

(2) As expected, companies held in the Jupiter UK SRI portfolio exhibited a higher than average alignment with the best practice governance standards reflected in the monitoring template, affirming the fact that governance concerns form an integral part of the stock selection and management process.

(3) The TT portfolio exhibits an average degree of alignment with the best practice governance standards, and when compared with general shareholder voting activity, TT's voting records show they are in-line with the average investor. This would suggest a relatively neutral approach to governance in terms of stock selection and use of share voting.

5.4 The report also highlights issues to monitor by individual manager. Particular areas for future focus include remuneration, director elections, and incentive pay plans.

6 ONGOING MONITORING

6.1 As the first report of this type for the Fund, it will serve as a base on which to report and compare future voting activity. It is envisaged that the report will develop in subsequent years as the data provides a more meaningful analysis of the trends. This will enable the Fund to focus on the issues and challenge managers on their voting activity.

6.2 Officers will follow up the issues raised in the report with each manager and discuss with the Investment Panel in manager meetings as appropriate.

6.3 Based on the issues highlighted in this initial report and the materiality of the issues to the Fund, the areas of particular focus with the managers in the 2013 voting season will be:

(1) Remuneration policy and how this relates to corporate performance and objectives

(2) Whether governance structures provide adequate independence to the decision making process and draw experience and knowledge from a diverse selection of individuals.

7 RISK MANAGEMENT

7.1 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 how the Fund is using its voting rights to protect shareholder value which forms part of the overall risk management process.

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 N/a

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.

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Background papers	
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Bath & North East Somerset Council

Monitoring Review of Proxy Voting 2011

Avon Pension Fund

Prepared by:

manifest

the proxy voting agency

September 2012

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Bath & North East Somerset Council

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Bath & North East Somerset Council

1 Introduction

1.1 Aim of Vote Monitoring

This is the first year for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund (Avon), putting the trends and tendencies of Avon's fund manager voting behaviour into a comparative and wider context.

The aim of the report is to provide further understanding of:

- voting activity taken on behalf of the Fund
- wider voting issues
- governance standards at companies
- how the Fund's investment managers use voting rights

As an ongoing annual report, the report provides a foundation for assessment of progress in terms of companies' governance standards versus best practice, and looks at the full picture of how Avon's fund managers are making use of the Fund's voting rights. It will enable Avon to better understand and challenge fund managers about the role their voting activity plays in ownership strategy.

1.2 Voting in Context

Avon's voting policy gives discretion to investment managers to vote in line with their own voting policy and therefore does not require investment managers to follow Manifests' best practice template. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for best practice investee company behaviour.

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management process.

1.3 Scope of Analysis

The analysis covers the Fund's equity managers, who vote at investee company meeting throughout global markets, with the large majority in the developed markets of UK, Europe and North America. The period covered by this report encompasses the period up to the 31st December 2011. It represents at most three quarters of a calendar years' voting, as a proportion of the year was prior to the completion of the set up process. Future annual reports will encompass a full years' voting.

The earliest full monitoring meetings covered occurred, in respect of each fund manager, on the following dates (these dates differ due to the time taken to set up the monitoring service with each individual manager):

Fund Manager	Date of earliest meeting
BlackRock	30th September
INVESCO	19th July
Jupiter	20th April
Schroder	19th October
State Street Global Advisors	3rd November
TT International	13th April

Avon's fund managers voted at a total of 285 meetings in the UK, Europe and the US. These 285 meetings brought a total of 3,396 resolutions for consideration, a number of which were voted by more than one manager, resulting in 3,796 resolution analyses. Of these, 1,560 were voted by BlackRock, representing the largest proportion of the report data.

Manifest analyses the issues at hand to provide a 'Template Recommendation' for each voting resolution. This Template recommendation is the result of assessing the company and the resolutions proposed for the meeting in light of Manifest's best practice voting template.

Members should consider the template itself as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of voting decisions by investors. The voting advice, whilst helpful, is less useful as a guide for 'best practice', as the precise tactical use of voting rights is in itself a strategic investment consideration.

Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution is more significant than whether the template suggests an 'Abstain', 'Against' or 'Case by Case' consideration. It is in this light that we have analysed and compared fund manager voting against issues of potential concern identified by the template, with the emphasis on 'potential'.

1.4 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2011/2012.

2 Executive Summary

The opportunity to vote at Investee company meetings forms part of the Fund's risk management framework. It is a way in which the Fund can seek to influence companies in which it invests to address risks to shareholder value. In essence, companies should have the governance structure in place to adequately address such risks.

Governance risks that the Fund is particularly concerned with include:

- Ensuring there is an independent and accountable control of accounting and finance functions
- Fostering a strong independent Board and sub-committees that reflect a diversity of skills and experience
- Maintaining a link between (executive and board) reward and strategic performance

Within this context, this report seeks to analyse the voting activity taken on behalf of the Fund. It looks at the governance standards at underlying investee companies, and at the Fund's investment managers' voting activity in the context of their investment approach.

The analysis of shareholder meeting voting results shows the most controversial types of resolution in general were those concerning remuneration (remuneration reports, remuneration amounts and non-salary compensation) and resolutions pertaining to company Articles of Association.

The most common governance criteria that were identified as issues of concern by the monitoring template were gender diversity, committee independence, board size, overall board independence, the proportion of executive directors on the board, length of tenure of non-executive positions, lack of ESG considerations in performance pay, lack of performance pay caps. These are the substantial issues on which shareholders should focus, more than merely whether resolutions were opposed or otherwise.

Overall, Avon's managers are marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent stands at a little over 4% on average, Avon's fund managers opposed management on 4.68% of resolutions, a little above the institutional 'norm'. There is some evidence to suggest Avon manager voting on resolutions associated with compensation did not oppose management as much as the average shareholder. This is an area in which Avon should place some focus as part of the issues highlighted above, especially given the heightened prominence of remuneration in the 2012 voting year so far.

In terms of specific fund manager observations, the voting activity is in line with expectations given each mandate and the manager's approach to investing. The large global passive portfolio of BlackRock brings into play a higher exposure to potential governance risks at underlying investee companies. This places a greater emphasis on the use of shareholder rights to mitigate governance risks in this portfolio. The companies held in the UK SRI portfolio managed by Jupiter exhibited a higher than average compliance with the best practice governance standards, demonstrating that governance concerns form a part of the stock selection and management process. Companies in the UK portfolio managed by TT exhibit an average degree of compliance, and voting records show an average response from TT, suggesting a relatively neutral approach to governance in terms of stock selection and use of share voting.

Overall, this report serves as an important benchmark against which to evaluate fund manager voting practices in forthcoming years, in order to be able to better understand the role of governance considerations in the investment management practices they employ in carrying out their mandates for the fund.

3 Explanation of Voting Activity and Monitoring Approach

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings. The overwhelming number of resolutions are proposed by management with the occasional resolution proposed by shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Like investment decisions, the consideration of shareholder voting decisions often takes into account multiple questions, including company disclosures, company practices, shareholder preferences and wider engagement strategy undertaken by fund managers.

This is especially true on the report and accounts resolution. A vote against a particular resolution such as the report and accounts may be explained by any number of various factors.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio. This may mean that, despite the presence of some potentially significant issues, investors may agree to support management in the short term with their votes as part of an engagement process for addressing longer term concerns.

This report will analyse voting resolutions and look at the Fund's investment managers' approach to voting in more detail in a subsequent section of the report.

Meeting Types

Manifest's experience is that companies have approximately 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders.

Mandatory business includes:
- Receiving of the annual report and accounts;
- Director (re)elections;
- Director remuneration;
- Approval of annual dividend; and
- Reappointment and remuneration of auditors.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (usually one third of current Issued Share Capital (ISC)), along with an accompanying request for the dis-application of pre-emption rights which is usually used for the payment of share-based remuneration schemes for employees. This is why, as noted above, AGMs have a significantly larger number of resolutions on average than do other types of meetings.

This pattern has become more marked this year due to the introduction in the UK of annual director elections, which has added more resolutions to corporate AGM agendas. During the year UK and European companies in particular began to change the legal terminology for non-Annual General Meetings. As a consequence, some meetings during the period under review were reported as an EGM, whilst other meetings identical in nature were reported as simply General Meetings (GM). In future, GM will replace the term ‘EGM’. A Special General Meeting is what some companies might use to refer to an EGM, where a Special resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout.

Other types of meetings include Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management, and Class Meetings where only shareholders of a specified class of share may vote.

During the period under review, of the 285 meetings in the full monitoring sample Avon Fund Managers voted at,79.2% were AGMs (226 out of 285), with the majority of the rest constituting EGMs (9.8%) and GMs (5.96%). The remaining 14 were Court Meetings or Special General Meetings. There were no Class meetings in the data set. This is broken down per manager as follows.

Fund Manager	AGM	EGM	GM	SGM	Court	Total
BlackRock	107	15	13	8	3	146
Jupiter	59	2	1	-	-	62
TT International	47	2	3	-	1	53
State Street	9	8	-	2	-	19
Schroder	3	1	-	-	-	4
INVESCO	1	-	-	-	-	1
Total	**226**	**28**	**17**	**10**	**4**	**285**

The relatively significant number of meetings analysed for BlackRock, Jupiter and TT International enable some meaningful analysis to be made this year to then act as a benchmark, both in terms of progress in next years’ summary report for those three managers, and as a benchmark for a full year’s voting data for State Street, INVESCO and Schroders.

3.2 Monitoring Approach

The best practice template applies best practice governance expectations to the consideration of company meeting business. Where there are local variations to best practice (for example, the length of time after which an independent director may no longer be deemed independent), Manifest apply the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the voting template will naturally suggest supporting management.

Manifest uses the best practice governance template to identify issues, and to monitor the voting behaviour of investment managers compared to both the average shareholder and the best practice template for company governance. It is understood that investment managers voting will differ from the template, due to variances in views on governance and voting issues, investment strategy and voting strategy.

4 Common Policy Issues At Investee Companies

4.1 Introduction

Analysis of the settings in the best practice voting template allows for an in-depth study of the specific governance issues at investee companies which have been identified by Manifest's research systems. We have selected the most common issues which have been triggered in the voting template, to illustrate the most common issues with companies in the Avon portfolios set out in the template used for monitoring fund manager voting.

Table 1: Most Common Policy Issues

Flags	Description
199	The percentage of female directors on the (Supervisory) Board is less than 15%
177	Less than 50% of the Nomination Committee are independent of management
167	Less than (50-100)% of the Remuneration Committee are independent directors
137	Less than (50-100)% of the Audit Committee are independent of management
121	The (Supervisory) Board will exceed (15-21) members following the meeting.
100	Nominee is a non-independent member of the Audit Committee and less than 100% of the Audit Committee are independent
98	The percentage of the Remuneration Committee (excluding the Board Chairman) considered to be independent is less than (50-100)%
97	Less than (33.3 - 50)% of the Board is comprised of independent directors.
93	Nominee has served for more than (84-144) months on the board
93	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
77	Nominee is not considered to be independent by the Board
76	Nominee is a non-independent member of the Remuneration Committee and less than (50-100)% of the Remuneration Committee are independent
60	The upper bonus cap, where set and disclosed, exceeds (100-200)% of salary
57	Nominee represents a major shareholder
54	The aggregate non-audit fees exceed 100% of the aggregate audit fees
49	Nominee is a member of the Audit Committee in cases where the non-audit fees exceed 100% of the audit fees
48	A Nomination Committee does not exist (or its membership is not disclosed).
43	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded (100-250)% of salary (on a market value basis, based on maximum possible vesting).
40	The authority sought exceeds (5-50)% of issued share capital (UK 5-33.3%)
40	Fewer than (2-3) members on the Audit Committee
39	The potential severance payment in the event of early termination of the directors' employment following a change in control exceeds 12 months' salary
37	The amount of the proposed authority exceeds £25,000
37	The potential severance payment in the event of early termination of the directors' employment exceeds 12 months' salary
36	Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan

( ) indicate where there is variance in local best practice throughout global markets

Overall, Manifest flagged 3,712 governance related concerns across the 3,796 resolutions analysed for this report. This high number is because some resolutions were subject to multiple concerns. Manifest's voting templates system allows for an individual issue to be taken into consideration in the context of more than one resolution at a company. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – Director Elections.

For example, concerns relating to board or committee independence may be taken into consideration in the approval of the report and accounts, director elections and possibly remuneration related resolutions (where the remuneration committee is thought to be insufficiently independent).

Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.2 Director Election Resolutions

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 42.9% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.2.1 Percentage of Female Directors on the board

Whilst the issue of female directors on the board may not be a critical risk consideration on its own, the fact that director independence in general is so frequently flagged might point to a wider problem with adequate application of diversity considerations when making board appointments, of which female presence on the board is perhaps the most obvious measure.

Please see the discussion in the appendix on the issue of board diversity.

4.2.2 Nomination Committee Independence

Globally it is acknowledged that the Nomination Committee should consist of at least a majority of independent directors. Independence and objectivity of input are the best conditions for the nomination of suitably independent and diverse candidates for future board positions.

4.2.3 Board Considers the Nominee is Not Independent

Most frequently the board will acknowledge that the nominee fails one or more of the independence criteria that apply to non-executive directors, and that the individual's independence may be compromised. This code therefore is nearly always flagged alongside one of the other independence criteria.

4.2.4 Independence Criterion: Tenure

This consideration is applied to the re-election of non-executive directors, and the 'trigger' varies between 7 and 12 years depending on the market. The UK (and most common) standard is 9 years.

Whilst tenure is frequently one of the independence criteria set out in the governance codes, it is perhaps the least critical of the criteria in terms of strict application. The Financial Reporting Council (FRC) is the guardian of the UK

Corporate Governance Code and their research has witnessed a visible relaxation of investors' attitudes towards holding issuers responsible to the letter on this specific issue.

Because of this, issuers are, in turn, less worried about putting forward for election directors who may have been at the company for a little (but not much) over nine years, on the basis that their character of independence is not suddenly compromised materially and that their expertise is of more value to the board. Investors should expect to see some degree of succession management, however.

4.2.5 Individual is Non-Independent Member of a Committee Which is Not Suitably Independent

Where an individual is partly or fully the reason why a committee is not deemed sufficiently independent, the re-election of that individual to the board may be called into question.

The committee independence criterion may vary across markets and company size.

4.2.6 Member of an Audit Committee Allowing High Non-Audit Fees

The relationship between the fees paid to the auditor for audit work and that paid for non-audit work is a core consideration regarding the independence of the auditor and, correspondingly, the potential reliability of company reporting.

Directors who are responsible (through their membership of the audit committee) for the auditor being paid for additional non-audit-related work to an extent which may compromise the independence of the audit work (usually where non-audit fees exceed audit fees), may be held individually accountable through this consideration.

4.2.7 Independence Criterion: Represents a Major Shareholder

Where an individual represents a major shareholder, their ability to serve all shareholders as an independent non-executive may be compromised. Some markets establish an explicit threshold for establishing a majority shareholder for the purposes of this consideration (10% in Belgium, for example), whereas most do not.

4.2.8 Executive Director Elections: Severance Arrangements Greater than One Years Pay

Where the potential severance payment in the event of early termination of the directors' employment following a change in control exceeds 12 months' salary, the issue has been flagged in relation to the resolution proposing the individual's election.

This issue is designed to be a part of the checks and balances in place to prevent executive directors from acting in their own interests with the long term future of the company, by placing a limit on the 'compensation' they might receive in the event of the company being taken over.

4.2.9 Audit Committee Size

The size of the committee responsible for overseeing the work of the auditor is a critical consideration in terms of assessing their capacity to fulfil their very important role. Therefore, the size of the audit committee is a consideration for director election resolutions as well as reporting and auditor-related resolutions.

4.2.10 A Nomination Committee does not exist (or its membership is not disclosed).

Without a clear nomination committee, the provenance of director election proposals is unclear. This is therefore a consideration which has flagged on director elections.

4.3 Remuneration Resolutions

Remuneration related resolutions are most frequently to do with the proposal and approval of the Remuneration Report or the approval of new or amended incentive plans, and sometimes the approval of specific payments made to directors.

4.3.1 Remuneration Committee independence

Independence of the remuneration committee is a criterion which is taken into consideration in a number of contexts, including the approval of the remuneration report and other remuneration-specific resolutions (Remuneration Reports, bonuses and long term incentive plans) and election of directors who are currently on the committee.

The importance of independent input from the Remuneration Committee needs little introduction in the current climate. Remuneration committees may sometimes contain the chief executive, because of the link between remuneration and company strategic implementation. This may often trigger an independence concern.

4.3.2 Consideration of ESG Issues When Setting Performance Targets

This consideration was flagged mainly on Remuneration Report resolutions but also significantly on financial reporting resolutions.

The growth of the importance of ESG considerations not just from the point of view of responsible investment but also the strategic importance of sustainable business means that investors often now look for the inclusion of ESG related targets within the framework of performance related pay.

4.3.3 The upper bonus cap, where set and disclosed, exceeds (100-150)% of salary

This consideration was triggered by remuneration report resolutions. The market standard limit for the bonus cap, expressed as a percentage of salary, varies from market to market.

4.3.4 The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded (100-250)% of salary (on a market value basis, maximum possible vesting).

This consideration was also triggered uniquely by remuneration report resolutions. Clearly, this relates to the structural quantum of incentive pay, by picking up on the ‘worst case scenario’ of full vesting of an award. As with upper bonus caps, the standard limit applied varies from market to market.

4.3.5 Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan

Again, this consideration has been triggered on remuneration report resolutions. It relates to whether there is a limit in the extent to which any one individual may benefit from a company Long Term Incentive Plan.

It is one of the aspects in which the quantum of individual pay received may be checked, and the distribution of benefits from Long Term Incentives may be more evenly spread.

4.4 Annual Report

Annual report resolutions are frequently those on which concerns about general board structures and practices may be concentrated, in addition to issues relating to the verification and reporting of information.

4.4.1 Audit Fees Exceed Non-Audit Fees

We analyse the relationship between non-audit fees and non-audit fees both on an annual basis and separately on an aggregate three year basis.

It is a consideration for the approval of financial and non-financial reporting, because it relates to judging the independence of the audit process which underpins company reporting and therefore has been flagged on Report & Accounts resolutions.

4.4.2 Overall Board independence

Best practice provisions vary between proposing board composition of a minimum of 25% independent directors up to 66%. The UK (and most common) standard is 50%.

Board independence is key to its proper function as the representative for the shareholders in implementing the strategy agreed. This criterion is highlighted most frequently in the context of a specific director election where that director is themselves not deemed to be independent, however it is also flagged under financial reporting.

4.4.3 Overall board size

Most codes contain provisions relating to board size, varying between 15 and 21 members where explicit numbers are referred to.

Whilst some maintain that defining at which point board size becomes an impediment to effective corporate governance is to an extent an arbitrary exercise, the general consensus is that the bigger a board gets, the more unwieldy it becomes. Investors therefore frequently have a preference for an acceptable level of board size when considering board effectiveness.

It is worth noting perhaps that in the main, those companies that tend to have boards considered to be too large often tend to be large companies, therefore a portfolio consisting of many large companies is more likely to encounter this particular governance concern.

4.5 Auditors

4.5.1 Audit Committee independence

Audit committee independence is important in the consideration of not only the approval of the report and accounts but also the election of auditors and their remuneration as well as often the management of internal control. The independence of participants on this committee is clearly central to the authenticity of the company reporting function.

4.5.2 Auditor pay for non-audit work

We analyse the relationship between non-audit fees and non-audit fees both on an annual basis and separately on an aggregate three year basis.

The value of non-audit related consultancy work is naturally a consideration for the approval of auditor elections and remuneration, given the potential for conflicts of interest and the importance of audit independence, and therefore has been flagged on Auditor resolutions.

4.6 Political Donations

Under European jurisdictions, companies are required to seek approval for political donations, which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying.

4.6.1 The amount of the proposed authority exceeds £25,000

Whilst it may seem arbitrary to set an absolute figure on such a resolution, this is actually in line with investor preferences in the sense that it would not seem appropriate for shareholders to approve a figure expressed relative to company size or turnover as that would imply that political donations are an acceptable routine aspect of corporate life. Secondly, given that laws relating to disclosures require absolute amounts to be disclosed, an absolute limit is also a more transparent means of applying a preference.

5 Aggregate Voting Behaviour

5.1 Fund Manager Voting compared to general shareholder voting and best practice template – Support for Management

Table 2 below shows the total number of resolutions voted by each fund manager during the period under review. It also shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice voting template suggested supporting management. Lastly, it shows the number of those resolutions for which Manifest obtained meeting results from the companies in question, and of those, how shareholders were reported to have voted.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Voted With Management	Template For Management	Resolutions With Poll Results	General Shareholders Supported Management
BlackRock	1,560	93.78%	43.14%	1330	94.81%
Jupiter	1071	97.48%	81.23%	1008	97.51%
TT International	953	97.59%	70.83%	914	96.67%
State Street	139	92.09%	32.37%	57	94.03%
INVESCO	54	96.30%	64.81%	19	97.11%
Schroder	19	94.74%	84.21%	18	91.13%
Total	**3,796**	**95.76%**	**60.96%**	**3346**	**96.11%**

The table shows that fund managers vote with management a high proportion of the time, and that the voting template identifies potential issues of concern on a much higher proportion of resolutions than the fund managers choose to oppose.

In respect of BlackRock, Jupiter and TT, it is also interesting to note the proportion of resolutions for which the template suggests supporting management. In particular, the companies in the Jupiter portfolio display a comparatively high level of compliance with governance best practice, with 81% of resolutions free from governance best practice concern. Jupiter's portfolio of companies compares particularly favourably with those of BlackRock's portfolio, which are less in line with best practice. This reflects Jupiter's ability to reflect a company's governance characteristics in their investment decision making, whereas BlackRock as a passive investor, must hold all stocks in the index. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock portfolio is global and therefore has a higher variance of governance standards.

We can compare each fund manager's average overall voting pattern with how other shareholders voted on the same resolutions, to see whether the fund managers are voting with management more often than shareholders in general.

We do this by using our own analysis of the poll data (where made available by companies).

Table 2 shows that, overall, Avon's fund managers oppose management very slightly more often than shareholders in general do. Given the small number of resolutions in the data set voted by State Street, Schroders and INVESCO, the following comments are made in respect of BlackRock, Jupiter and TT only.

TT have supported management marginally more than most shareholders, Blackrock have tended to oppose management more often than shareholders in general, and Jupiter's support of management is almost exactly the same as other shareholders.

It is interesting to note here the general differences in shareholder support for management. The fact that shareholders supported management at companies in the BlackRock portfolio rather less often than at TT and Jupiter is indicative that in general, there are perhaps more concerns at companies in the BlackRock portfolio which is to be expected given it is a passive index portfolio .

The differences between the investment manager portfolios (in terms of shareholder support for management) also reflects the nature of the different mandates and investment approach taken by the manager. This is explained further in section 6.

5.2 Fund Manager Voting compared to general shareholder voting and best practice template - by Resolution

Manifest seeks to collect the meeting results data for all meetings analysed. In many jurisdictions, provision of such information by companies is not guaranteed. However, of the 3,796 resolutions analysed in this report, Manifest obtained poll data for 3,346 resolutions, allowing for a meaningful analysis of the resolution data set.

Using the vote outcome data collected in respect of the significant majority of meetings at which Avon fund managers have voted, we have used the same information to identify which were the most contentious resolutions and the reasons for them being contentious.

5.2.1 Dissent By Resolution Type

Where we use the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and "For plus 'Abstain' votes where Management recommended 'Against').In respect of shareholder resolutions, dissent is measured by 'For' votes, being in support of the shareholder rather than management.

Table 3: General Dissent By Resolution Type

Resolution Type	Number of Resolutions	Average Dissent
Director Appointment	1518	2.53%
Capital Raising	327	3.30%
Auditor & Oversight	314	1.38%
Distributions to Shareholders	291	0.79%
Annual Reporting	169	1.04%
Remuneration Reports	162	9.93%
Meeting Procedures	137	5.32%
Say On Pay Frequency	93	18.92%
Political Donations	59	3.26%
All-employee Share Plans	48	3.76%
Incentive Pay Plans	46	10.64%
Remuneration - Approve Amounts	39	9.18%
Transactions	31	2.35%
Company Constitution	20	1.30%
Shareholder	19	24.00%
Non-executive Remuneration	18	3.92%

Table 3: General Dissent By Resolution Type above shows the most common types of resolutions at meetings voted at by Avon's fund managers. We calculate the average dissent figure by aggregating all the poll data (expressed in terms of % of votes cast 'For') on all resolutions of that type, then dividing the aggregate figure by the number of resolutions. In most cases, this gives an accurate statistical indication of the dissent that a typical resolution type attracts, relative to others.

When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions was 3.89% - in other words, an approval rating of more than 96%.

Avon's fund managers are marginally more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 161 occasions out of 3,796 resolutions, constituting an overall average opposition level of 4.24%. Some patterns within this are demonstrated and explored more fully below.

One general observation that may be made is that, compared to the previous year, general dissent has increased slightly in most categories, with Remuneration in particular increasing as a focus again, having been relatively flat in the 2010 season. This is also in the context of Remuneration still being by far the most contentious regular issue. Judging by events in the 2012 season so far, this trend is likely to continue upward.

Table 4 shows patterns of voting on various significant types of resolution. The specific wording of corporate meeting resolutions varies from company to company, so the headings below represent meaningful summaries of the types of resolutions voted on.

The list is sorted in relation to the best practice voting template used to monitor the fund manager voting. The more frequently a resolution type is flagged by the template, the higher up the list it appears, due to the lower percentage of resolutions of that type on which the voting template suggested supporting management. The 'Avon Voted with Management' column uses the same basis as the 'Average Shareholder Votes with Management' column, but relates to the actual votes of Avon's fund managers.

Table 4: Aggregate Voting by Resolution Type

Resolution Type	Template with Management	Average Shareholder Votes with Management	Avon Voted with Management
Remuneration - Approve Amounts	5.00%	90.82%	100.00%
Transactions	11.90%	97.65%	100.00%
Share Capital Structure	20.00%	97.36%	90.00%
Remuneration Reports	20.34%	90.07%	93.79%
Political Donations	21.67%	96.74%	100.00%
Incentive Pay Plans	23.40%	89.36%	93.62%
Corporate Governance Policies	33.33%	99.84%	100.00%
Company Constitution	51.16%	98.70%	100.00%
Annual Reporting	52.33%	98.96%	99.48%
Remuneration - Non-executive	57.14%	96.08%	100.00%
Director Appointment	57.48%	97.47%	96.26%
Director Discharge	62.16%	99.63%	100.00%
Auditor & Oversight	66.57%	98.62%	100.00%
Treasury Shares	69.23%	96.30%	92.31%
All-employee Share Plans	78.00%	96.24%	98.00%
Distributions to Shareholders	83.63%	99.21%	98.81%
Capital Raising	85.90%	96.70%	97.91%
Say on Pay Frequency	90.32%	81.08%	38.71%
Shareholder	0.00%*	76.00%	86.96%

* Shareholder Resolutions are flagged as 'Case by Case', therefore no template votes with Management are possible

The following sub sections explain some of the resolution types from the list above which are not featured in the key themes analysis in section 6, and provides some more background to the issues that are reflected in various voting resolutions.

5.2.2 Auditor & Oversight

Most annual meetings include a resolution approving the election and remuneration of the auditors. It is not normally a particularly contentious resolution in shareholder voting terms, though the relevant considerations have very important implications. Obviously, the work of the auditors is vital in enabling the shareholders to obtain a fair, true and balanced view of the performance of the company and verification of its reporting. Therefore the main issues of concern pertain to the independence of auditors.

Across the 347 such resolutions voted, the most common concerns identified by Manifest are outlined in Table 5 below. Where a single resolution was proposed for both the (re-)election and remuneration of auditors, frequently the same concern was flagged twice on the same resolution in respect of each consideration.

Table 5: Auditor & Oversight Main Issues of Concern

Frequency	Issue
54	The aggregate non-audit fees exceed 100% of the aggregate audit fees
50	Less than 100% of the Audit Committee are independent of management
31	The aggregate non-audit fees exceed 100% of the aggregate audit fees paid on a three year average
15	The number of years for which the auditors have provided services to the Company for statutory audit purposes exceeds 10
14	The Chairman sits on the Audit Committee

5.2.3 Company Constitution

Resolutions of this type relate to the company by-laws, and therefore can relate to a wide range of issues from share capital, continuation of the company to definition of shareholder rights. Most of the resolutions returned a 'Case by Case' recommendation, meaning that they are issues which are less likely to be contentious but require close attention due to the specific nature of the considerations.

5.2.4 Say on Pay Frequency

Many US companies had three resolutions on their agenda relating to proposals to have a say on pay vote each year, every other year, or every three years. On each agenda, management would oppose two of the three resolutions (by definition, if they support one, they are in opposition to the others) and the same is for shareholders. In total there were 31 companies who between them accounted for 93 resolutions.

This goes some way to explaining the otherwise very high level of general dissent of 48%. Most shareholders - in common with the template recommendation - tended to vote in favour of annual say on pay (proposals for an annual vote received almost 90% general support on average), and most boards recommended annual as well. A handful of boards recommended supporting the tri-ennial proposal, which largely accounts for the general dissent when it occurred (87% dissent on average).

Avon's Fund managers tended to vote in favour of a tri-ennial say on pay – therefore against Management on such proposals. The result was Avon's fund managers dissenting a high proportion of the time both by by generally opposing proposals for annual say on pay and supporting proposals for a triennial say on pay. Nearly all of the 38% support for management from Avon's fund managers on say on pay resolutions came from normally opposing proposals for a bi-ennial say on pay.

5.2.5 All Employee Share Plans

With an overall level of 3.76% general dissent, All Employee Share Plans are generally much less controversial than incentive plans specifically designed for board members. It is common for executive board members to be able to participate in all employee share plans as well.

Key considerations on such resolutions include share dilution, and, where there might be an additional incentive plan in place for executive directors, linkage between performance criteria of the all employee plans and the board-specific plans in place.

5.2.6 Remuneration – Approve Amounts

Remuneration reports normally contain within them both forward-looking policy proposals, as well as an account of amounts paid to directors in the year under review. However, some resolutions are proposed to approve specific payments to directors, either retrospectively or to approve proposed payments. This type of resolution is therefore often out of the ordinary, or at least gives shareholders the opportunity to pass judgement on specific amounts paid to directors.

These resolutions attracted a general dissent level of 9.18%, which is reasonably consistent with the dissent levels seen on remuneration reports.

These 40 resolutions between them triggered 285 code concerns, an average of over 7 triggered per resolution, which is a high concentration suggesting a potentially high level of contention. The most common concerns identified are listed in Table 6, all of which were triggered on the majority of the resolutions.

Table 6: Frequent Policy Concerns on Remuneration Amounts Approvals

Frequency	Issue
29	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100% of salary (on a market value basis, based on maximum possible vesting).
28	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
26	Accelerated vesting of LTIP awards on termination is permitted for any of the executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control)
23	The maximum potential severance payment in the event of early termination of any of the directors' employment exceeds 12 months' salary
21	The upper bonus cap, where set and disclosed, exceeds 100% of salary
21	More than 30% of the award tranche vests for threshold performance.
20	The authorised dilution for share plans exceeds 10% of the issued share capital

6 Key Themes and Investment Manager Approach

The following section identifies the key resolution themes, and explores how each fund manager addressed, through their use of voting rights, issues that Manifest identified.

Manifest monitored BlackRock, Jupiter and TT International on a sufficient number of resolutions during the year to enable some meaningful identification of thematic patterns of voting behaviour between them – that is, looking at how they voted in the context of specific types of resolutions.

In all cases, we have identified prominent resolution types using percentage measures of the degree to which Manifest identified issues of potential concern. We have used percentages rather than absolute numbers to balance for the fact that some resolution types occur much more frequently than others (for example, Director Elections account for 43% of all resolutions analysed).

It is useful to be mindful of the difference between a concern as identified by Manifest's best practice analysis, and a vote against management. Voting decisions are rarely made in isolation from the wider investment process. A voting template gives a comprehensive context of the governance concerns which are relevant to the resolution, but the way in which a fund manager may act upon that concern may not necessarily be through a voting instruction on the resolution.

Share voting is an important part of a wider responsible investment management framework which may include portfolio screening, engagement with investee (and potential investee) companies, the taking of a longer term view on an issue(i.e. to put a marker down to take action if the issue is still apparent the following year) and a strategic decision that the importance of supporting management at that particular company outweighs the importance of voting against them.

The result is that we would not expect fund managers to automatically vote against management on every concern the template identifies. But the result of the voting template is a useful guide to establish what are the underlying issues of governance concern, in order to then be able to evaluate how the fund manager is addressing such concerns.

6.1 General comments

In respect of each of the three managers analysed above, we outline overall characteristics of the approach to voting in the context of the mandate they are responsible for.

Within their passive equity portfolio, companies held by **BlackRock** had the lowest level of alignment with the governance standards in the monitoring template. BlackRock also opposed management on over 6% of all resolutions – more than Jupiter or TT; the data also suggests they had more reason to do so than the others.

The passive nature of BlackRock's mandate means they have to hold the vast majority of companies in the relevant index and therefore cannot take governance issues into account in their investment decision. This highlights the importance of expressing governance concerns through voting and engagement activity.

BlackRock's approach to governance and voting is to identify key areas of risk to focus their voting and engagement activity on, rather than trying to research each resolution at each meeting in detail. In January 2012, the Chief Executive of BlackRock, Laurence Fink, wrote a letter to the 600 largest constituent companies of the BlackRock equity portfolios to encourage those companies to engage directly with BlackRock on pre-meeting issues of concern, prior to engaging with proxy advisors. This renewed emphasis on investor ownership of voting decisions is a welcome development which promises much towards promoting genuine responsibility for all aspects of the investment process.

The companies in the **Jupiter** portfolio had the highest level of compliance with the voting template of all of the fund managers. More than 80% of the resolutions proposed by the portfolio companies were free of any potential governance policy concerns.

Only three types of resolution attracted a higher than average level of concern compared to all resolutions in the portfolio.

This is to be expected given the SRI characteristics of the mandate and shows Jupiter does take governance standards into account when making investment decisions.

Overall, **TT**'s portfolio companies were broadly in line with the global average in terms of general shareholder dissent, which TT more or less matched with their actual voting decisions. This is inline with expectations as TT take a more neutral approach to voting.

6.2 Report & Accounts Resolutions

Report & Accounts resolutions are the backbone of most AGMs, as they pertain to shareholders approving the actions of the company during the reported year. There are numerous governance considerations associated with this, including disclosure, audit and internal control management and board independence.

BlackRock supported management on all Report & Accounts resolutions, whereas Manifest identified potential concerns with 88% of them. The most common concerns identified included an absence of a Senior Independent Director, lack of linkage of Environmental, Social and Governance (ESG) targets to remuneration, lack of ESG reporting verification, lack of sufficient Audit Committee independence, overall board independence and an absence of meetings of non-executives without executives present.

6.3 Director Appointments

Board proposed director elections include the election of executive and non-executive directors. They are the most common type of resolution to be voted, given that largely, the practice is for directors to be re-elected on an individual basis and that in some markets (including the UK) this is now normally done in respect of all directors every year.

BlackRock opposed management on 4.35% of all director resolutions; Manifest identified some level of concern with nearly 73%. Common issues of concern included independence concerns with the Nomination Committee, the Board in general, Remuneration and Audit Committees, all of which are considered of concern with executive and non-executive elections alike.

With regard to Non-Executive Director elections, prominent issues highlighted included the fact the board did not consider the nominee independent, the percentage of female directors on the board and duration of tenure of the current office.

The most prominent concern specific to executive director elections related to the level of potential severance payments and bonuses payable upon termination.

Director elections in the **TT** portfolio were less contentious compared to the remuneration issues identified below, but nevertheless Manifest identified concerns in 26% of cases across the 458 resolutions voted. TT opposed 3.28% of them.

Common issues included board size being too large, non-independent nominees who are members of the Audit Committee, non-executives deemed no longer independent because of length of tenure and non-independent nominees who are members of the Remuneration Committee.

6.4 Remuneration Reports

Through a mixture of hard and soft law, the proposal of a specific resolution on general remuneration arrangements (both *ex-post* and *ex-ante*) is increasingly common, and may be expected at most meetings in the survey data sample.

BlackRock opposed 5% of Remuneration Report resolutions, Manifest highlighted concerns in respect of 66% of them. After the concern identified above relating to an absence of ESG linkage to remuneration strategy, the next most frequent concerns identified in the context of Remuneration Reports were the upper bonus cap, and the aggregate value of Long Term Incentive Plan (LTIP) awards made during the year, being too high in comparison with salary.

Manifest identified concerns with 87% of these resolutions in the **Jupiter** portfolio, of which 9% resulted in a vote against management by Jupiter.

Common concerns related to the fact that maximum LTIP awards were made during the year under review and remuneration committee independence. Also highlighted were arrangements for payment of unearned bonus as part of termination provisions, upper bonus cap levels, recruitment or retention payments and lack of director shareholding requirements.

Manifest highlighted concerns with 93% of all Remuneration Reports in the **TT** portfolio. TT supported management on all but one.

The most common issues Manifest found included Remuneration Committee independence, LTIP awards set at the maximum allowed under plan rules, upper bonus cap exceeding 150% of salary and arrangements for payment of unearned bonus as part of termination provisions.

6.5 Incentive Pay Plans

Incentive pay plans are resolutions which are specifically tabled to approve a new plan, or an amendment to an existing plan. They are therefore typically more specific in nature than Remuneration Report Resolutions.

The resolution type that **Jupiter** opposed most (2 out of 17) was Incentive Pay Plans. Manifest identified concerns in respect of 12 of them: 8 shared the same issue which was in relation to the maximum percentage of salary that may be granted/awarded under the plan in 1 year exceeding 200% (based on face value).

Only two of these resolutions received a notable level of dissent at over 25%: BT Group plc and Hansen Transmissions International NV.

Manifest identified issues on 16 of the 20 Incentive Pay Plan resolutions, one of which **TT** opposed.

By far the most common issue we identified (in 12 of the 16 cases) was that the maximum that may be granted/awarded under the plan in 1 year exceeded 200% of salary based on face value.

6.6 Political Donations

Under European jurisdictions, companies are required to seek approval for political donations, which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying.

Jupiter approved all resolutions pertaining to political donations, which is not uncommon to do. However, four of the resolutions did attract rather high levels of dissent: Barclays and Centrica both received in the region of 11% dissent, British Land and First Group around 8%.

16 of the 28 Political Donations resolutions sought approval for amounts of more than £25,000, and a further 4 had made direct contributions to political parties during the previous year.

Jupiter's decisions on 'political' donations takes into account whether the donation is to a pressure group whose aims are in alignment with the SRI goals of the mandate.

6.7 Genesis

Genesis' voting reports did not include issue categories to facilitate reliable, consistent comparison across issue types, meaning that only aggregate analysis of all resolutions was possible.

Genesis reported a total of 1,107 resolutions voted during quarters 2, 3 and 4. In line with global patterns, the distribution of resolutions across the quarters was far from equal. Quarter 2 saw 851 of the resolutions voted – over 76% of all resolutions in the reporting period.

26 of the resolutions had "No Voting Instruction", as they were unvotable items.

Of the remaining items, Genesis' proxy advisor recommended supporting management on 84% of resolutions. Genesis supported Management on 89.55% of resolutions.

Of the resolutions where Genesis was advised to vote against management, Manifest manually categorised them as follows:

Resolution Type	Advised to Oppose	Genesis Opposed
Director Appointment	86	53
Transaction	17	6
Capital Raising	12	4
Share Structure	11	4
Company Constitution	9	4
Remuneration Approve Amounts	9	2
Remuneration - Incentive Pay Plan	8	0
Remuneration Policy	4	1
Other	3	2
Distribution to Shareholders	2	1
Donations	1	0
Grand Total	**162**	**77**

It is notable that there are proportionally more resolutions pertaining to capital raising, share structures and corporate and significant transactions, all of which are characteristic of emerging, evolving markets, as are the higher risks of such issues to minority shareholders in these markets.

However, Genesis also opposed 5 resolutions which their advisor had advised supporting. Three of them were on the grounds of insufficient data to make a decision, one was a resolution to omit dividends, and one was a share issue for which there was insufficient justification in the eyes of the fund manager.

7 Conclusions

Despite the fact that the data set for 2011 was incomplete due to set-up during the second quarter of the year, this report provides a sound comparison point for a review of a full years' voting in 2012.

In particular, the volume of voting data and analysis, enabled partly by the size of BlackRock's passive portfolio and partly due to the fact that Jupiter and TT International were both able to report in respect of Quarter 2 2011 onwards, means that there is enough benchmark material against which to measure other fund managers with their voting in 2012, as well as to be able to monitor progress in the BlackRock, Jupiter and TT portfolios.

The comparison with a best governance practice analysis template and voting behaviour both between managers and against general shareholder voting behaviour enables a detailed understanding of the key issues in terms of governance and voting throughout the Avon equity portfolios.

With regard to governance issues identified throughout the portfolio, the most numerous questions unsurprisingly relate to director elections, the resolution type which occurs most frequently. Much of this relates to concerns about the tenure of Non Executive Directors, and the knock-on effect they have on the technical independence assessment of committees and boards. An issue we expect to see develop is that of gender diversity, which did also feature in the analysis.

Remuneration is also a prominent theme, with the most common concerns being related to the potential and actual quantum of annual and long term incentives in relation to salary. Remuneration Committee independence is also noteworthy, though this is often as a result of the tenure issue highlighted above.

Lastly, the role of environmental and social sustainability considerations (ESG) is a growing theme for investors. Incidents such as the Deepwater Horizon oil spill and the mis-management of highly complex hybrid securities in the financial sector are but two examples which highlight the relevance of 'extra-financial' considerations in business processes in terms of potential damage to returns on investment. As a consequence, reporting of ESG information by companies, and its relevance to the incentive structures in place, are becoming more and more common as considerations in the investment process, including voting decisions.

With regard to voting, in general terms, the analysis shows that Avon's fund managers are selective in their use of voting power to oppose management, but nevertheless are marginally more active than shareholders in general.

As noted above, Avon does not give fund managers explicit direction as to how shares should be voted, expecting each fund manager to apply their own investment judgement to voting decisions. The immediate materiality of many voting decisions is rarely significant, however the medium to long term risks of neglecting such considerations are well documented. Expectations of fund managers in this regard should therefore be placed not on the 'what' of their voting decisions, but on the 'why' and 'how' of their management of such issues through the portfolio. Vote monitoring is therefore an essential tool in this process, because it enables fund manager ownership strategy to be better understood and placed in context.

In terms of specific fund manager observations, it is clear that the passive portfolio of BlackRock brings into play a higher exposure to potential governance risks, as is reflected in the relatively poor alignment of the companies in the portfolio with the governance standards of the monitoring template. This places a greater emphasis on the use of shareholder rights to mitigate governance risks to which the portfolio is inevitably exposed. Specific issues to observe are Report and Accounts resolutions, Director Elections and Remuneration Reports.

As expected, the active Jupiter portfolio exhibited a higher than average compliance with the best practice governance standards reflected in the monitoring template, demonstrating that governance concerns form a part of the stock selection and management process. Although Jupiter supported management with their votes to a greater extent than all but one of the other managers, average shareholder dissent across their portfolio was even lower, indicating that not only Manifest and Jupiter analysis concludes generally favourably but also other shareholders do as well. Notwithstanding the above, readers may wish to observe voting on Remuneration Reports, Political Donations and Incentive Pay Plans.

The active TT portfolio exhibits an average degree of compliance, and voting records show an average response from TT, in terms of comparison with general shareholder voting activity. This would suggest a relatively neutral approach to governance in terms of stock selection and use of share voting in line with their investment strategy. In terms of divergence from identification of potential concerns and actual voting behaviour, issues to observe in particular are Remuneration Reports, Incentive Pay Plans and Director Elections.

With the 2012 season one of the most spectacular yet, this report will form a solid backdrop to put 2012 analysis into a helpful perspective.

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8 Appendix - Hot Governance Topics

8.1 The EU Paper on Corporate Governance

In the spring of 2011, the European Commission published a Green Paper (discussion paper) on Corporate Governance. It followed on from the 2010 paper on Corporate Governance in Financial Institutions (CGFI), recognising that many of the reforms proposed in the CGFI paper bore relevance to varying degrees to other listed entities.

One of the lessons of the financial crisis is that corporate governance, until now usually based on self-regulation, was not as effective as it could have been. It is important that companies are better run. If companies are better run, not only is a future crisis less likely but they should also be more competitive.

It was a truly wide ranging consultation, exploring three broad themes:

- **Board of directors**: questions addressed referred to their effective functioning and ensuring they are composed of a mixed group of people, e.g. by enhancing gender diversity, a variety of professional backgrounds and skills as well as nationalities. Functioning of boards, namely in terms of availability and time commitment of directors were also under scrutiny as well as questions on risk management and directors' pay.
- how to enhance **shareholders' involvement** on corporate governance issues and encourage more of them to take an interest in sustainable returns and longer term performance, but also how to enhance the protection of minority shareholders. It also sought to understand whether there is a need for shareholder identification, i.e. for a mechanism to allow issuers to see who their shareholders are, and for an improved framework for shareholder cooperation.
- How to improve **monitoring and enforcement of the existing national corporate governance codes** in order to provide investors and the public with meaningful information. Companies who don't comply with national corporate governance recommendations have to explain why they deviate from them. Too often, this doesn't occur. The Green Paper asked whether there should be more detailed rules on these explanations and whether national monitoring bodies should have more say on companies' corporate governance statements.

The Commission is now in the process of considering whether to take any further action. If a decision is made to do so, the next step will be a regulatory impact assessment (which will mean, in practice, another consultation).

8.2 Independent Commission on Banking

On 16 June 2010, the Chancellor of the Exchequer announced the creation of the Independent Commission on Banking, chaired by Sir John Vickers. The Commission was asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the Government by the end of September 2011.

The 363 page Vickers Report was published in September 2011, recommending in essence the 'ring-fencing' of risky investment banking activities from retail banking, so that in the event investment banking caused significant losses, as happened as the main trigger point in the financial crisis of 2008-9, the retail bank would not be critically affected.

Ring-fencing was chosen in preference to complete separation so as to maximise diversification of earnings for shareholders, maintenance of a 'one-stop shop' model for those who wish to access retail and investment banking in one place (a significant portion of the UK banking market), retention of economies of scope and shared knowledge, and retention of valuable branding and some operational infrastructure.

At the heart of the report was the recognition of the important role that retail banking plays in the daily economic life of Britain, and that this should not be adversely affect or overshadowed by the lucrative but global economic activity of investment banking which is also carried out in significant volume by institutions based in the UK. It is widely recognised that the former is why the main UK banks are considered 'too big (important?) to fail' (hence, why government intervention was deemed necessary), but that the latter is important to our economy in terms of revenue, trade and economic innovation keeping Britain's economy prominent on the world stage.

8.3 Board Diversity – Gender

In February 2011, Lord Davies published his report on gender diversity in boards. Board diversity as a theme can be traced back through the development of corporate governance in the UK, but has not until now been treated as a 'solo' topic.

Fundamentally, it is recognized that boards perform best with the best people appointed to them, and that for that reason, diversity of all kinds (including gender diversity) should be encouraged.

Whilst stopping short of promoting the idea of quotas, Lord Davies recommended that UK listed companies in the FTSE 100 should be aiming for a minimum of 25% female board member representation by 2015. He recommended in his report for government that FTSE 350 companies should be setting their own, challenging targets and expects that many will achieve a much higher figure than this minimum.

The report said that companies should set targets for 2013 and 2015 to ensure that more talented and gifted women can get into the top jobs in companies across the UK. Lord Davies also called on chairmen to announce these goals in the next six months (to September 2011) and Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

As part of the report Lord Davies and his panel stated that companies should fully disclose the number of women sitting on their boards and working in their organisations as a whole, to drive up the numbers of women with top jobs in business.

The report also recommended:

- Investors should pay close attention to the recommendations from the report when considering re-appointments to a company board.

- Companies should periodically advertise non-executive board positions to encourage greater diversity in applications.
- Headhunting firms should draw up a voluntary code of practice addressing gender diversity in relation to board level appointments to FTSE 350 companies.
- The Financial Reporting Council to amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity. This should include how they would implement such a policy, and disclose annually a summary the progress made.

Manifest has been monitoring board diversity for some time and we report on gender, nationality and experience in our research. It is difficult for investors to put the information reported into context at present. However, a "one-size-fits-all" approach is not ideal for companies or investors, as it leads to box-ticking and has little effect on the underlying issues. UK companies are being given a chance to develop their own policies so that their boards can reflect the diversity within their company as a whole. It's possible that the threat of imposed quotas from the EU will convince companies to take this seriously enough that we will see some meaningful disclosures in the next 12 months.

We would hope that in the spirit of comply or explain, company-defined targets will be given a chance to prevail before regulation is imposed.

8.4 Direct Shareholder Engagement – BlackRock

In January 2012, the Chief Executive of BlackRock, Laurence Fink, wrote a letter to the 600 largest constituent companies of the BlackRock equity portfolios. The aim of the letter was to encourage those companies to engage directly with BlackRock on pre-meeting issues of concern, prior to engaging with proxy advisors.

At first glance, this may seem a perfectly normal practice, but the fact that Mr Fink felt the need to emphasise it is indicative of the current state of play in the debate about the influence of proxy advisory services.

Regulators in the US and Europe are turning their attention to the degree to which institutional investors, including fund managers, are effectively following the advice they get from third party professional proxy advisors. Recent developments in best practice for institutional investors as shareholders, such as the UK Stewardship Code, have placed an extra focus on how they approach shareholder voting.

As one of the largest global institutional shareholders, BlackRock's stance has served to question popular assumptions about issuers having to negotiate with proxy advisors in order to secure a favourable recommendation and, by 'proxy' a favourable shareholder vote. It has moved attention back to the vitally important relationship between the investor decision-maker and the investee. In terms of voting, BlackRock's renewed emphasis on investor ownership of voting decisions is a welcome development which promises much towards promoting genuine responsibility for all aspects of the investment process.

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Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **21 SEPTEMBER 2012**	**AGENDA ITEM NUMBER**	**11**
TITLE: **PENSION FUND RESTRUCTURE / *MIDDLEWARE SOFTWARE* PURCHASE (AUTO ENROLMENT)**		
WARD ‘ **ALL’**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Report on Benefits Section Restructure/Justification for spend** **Appendix 2A Comparative salary costs for old and new benefit structures** **Appendix 2B Estimated Additional Spend in the Current and following Financial Years**		

1. THE ISSUE

.1 The purpose of this report is to advise the Committee that it is necessary to restructure the pension benefits section in advance of significant changes to LGPS, the introduction of Auto Enrolment and the requirement to have a minimum standard of member data to comply with legal requirements

.2 The restructure will result in a minimal increase in staff in the benefits area and include the creation of a Data Quality Management team with a reduction of the existing 3 benefits team to 2.

.3 To assist Scheme employers in their compliance with *Auto Enrolment* the purchase of specialist software is proposed which will also provide automatic electronic updating of all members’ changes on a **monthly** basis thus avoiding the spike of work at year-end and the need to resolve large numbers of errors. This will be a huge benefit to the Pensions Section and should improve efficiency processing in the long-term.

2. RECOMMENDATION

That the Committee approves:

2.1 The change in the structure of the Pension Benefits Department and authorises:

- An increase in the annual staff salary costs as shown in Appendix 2A
- Additional spend on other necessaries to meet future challenges including new middleware software which will assist employers with their legal obligations under auto enrolment and provide monthly updating of member changes to the Fund’s pension administration database as shown in Appendix 2B

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. THE PROPOSAL

4.1 The attached Report (**Appendix 1)** sets out the current position and the proposal for changes necessary to the existing Benefits teams to enable the Pensions Service to be appropriately and adequately structured and resourced to effectively deal with the major changes expected over the next 18 months. These changes include Auto Enrolment from early 2013, a new LGPS Scheme in April 2014 a legal requirement by the Pensions Regulator for a minimum quality standard of member data.

The position is exacerbated by an increase of over 40% in the number of Fund employers due to outsourcings and schools moving to academy status (from 110 in 2011 to over 150 at August 2012). This trend will continue in 2012 and 2013 and the number of employers is expected to exceed 170 by calendar year end.

In addition a number of schools have chosen to move away from the local authority's payroll and HR services and use an external payroll provider resulting in additional layer of complexity as the local authority retains the responsibility for advising changes in member data making automatic electronic notification virtually impossible. This also complicates the collection of pension contributions and

4.2 Auto enrolment requires employers to automatically enrol eligible staff mainly into LGPS. "Middleware" Software solutions which will help employers assess their staff as required by law are available. One solution available from the Fund's existing pension software suppliers will have the added advantage for the Fund of enabling **updating member records electronically on a *monthly*** basis from an employer's payroll extract**.** This will result in much more accurate data and will remove the need to rectify the large number of errors identified following the year-end reconciliation. The five largest employers are proposing to take this product and part of the arrangement is that the Fund purchases additional middleware software. The coverage for these employers is approaching 90% of the total active membership of the Fund. The annual cost of the middleware will be £34,500 approximately half of this cost will fall in this year's budget.

4.3 For both the new software to be effective in updating member records and for the Fund to be able to meet the Pension Regulators expected requirements on minimum member data quality standards a new Data Quality and Management Team is proposed. This will be resourced partly from the existing Pension Benefits Teams which were 3 but have temporarily reduced to 2 since the beginning of 2012 due to a Benefits Team Leader leaving service.

4.4 **APPENDICES**: The Report at **Appendix 1** sets out in detail the additional requirements in staff resource to meet the challenge of these changes and the additional spend on the purchase of middleware software. **Appendix 2A** contains the

Salary Costs (including on-costs) for the existing and proposed new Benefit Teams' structures. The change results in an increase in staff annual salaries of £106,235. **Appendix 2B** *Estimated Additional Spend in the Current and following Financial Years* details the incidence and impact on this and next year's budgets**.**

5. RISK MANAGEMENT

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

6. EQUALITIES

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

7. CONSULTATION

7.1 None appropriate.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report is for noting only.

9. ADVICE SOUGHT

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

.Contact person	Steve McMillan, Pensions Manager Tel: 01225 395254
Background papers	

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APPENDIX 1 to Pensions Committee Report:

JUSTIFICATION FOR ADDITIONAL SPEND REQUIRED FOR:
1) THE RESTRUCTURE OF PENSION BENEFITS SECTION AND
2) PURCHASE OF NEW MIDDLEWARE SOFTWARE [AUTO ENROLMENT ("AE")]

1. INTRODUCTION

Major changes are set to take place following government reviews of pension provision in the United Kingdom and a separate review by Lord Hutton on all public sector pensions including the local government scheme. A statutory requirement for virtually all employers to enrol staff over a certain age and minimum salary in a pension arrangement comes in from this October. Public sector schemes are set to change to Career Average in place of Final Salary for future service which will introduce a further tier of calculation and complexity. For LGPS this is a year earlier than for the other public sector schemes. The employee bandings for pension contributions which already exist will become more difficult for employers to apply because all pay will be pensionable and employers already have difficulty in ensuring correct contribution rates are applied. There will be significant additional requirements to maintain records for members who have opted out and extra reporting to the Pensions Regulator on this. Data reporting to CLG and GAD for statistical national purposes make it important that member data is accurate and up to date

This Report focuses on the impacts of the major changes in LGPS 2014 and auto enrolment and explains how the Fund proposes to change the way it is currently working to meet the challenges, which involves restructuring the Pension Benefits section.

This Report includes in Appendix 1 a costing of the staff under the proposed new structure and details the additional spend required to put the APF in a position to be able to cope with the changes mention above. Offset against this spend are expected savings which will come through electronic delivery over the next few years. The incidence of the additional spend is included in Appendix 2.

This change is against a backdrop of an increase in the number, type and geographical dispersion of employers at an exponential rate over the last 2 years following outsourcing of services by local authorities and the introduction of the option for schools to convert to academies and to outsource their payroll services. This has significantly increased the pressure on the Pensions Service to be able to continue to provide a high quality service.

2. BACKGROUND

The last administration restructure strengthened the communications, technical and employer relationship functions to support the implementation of changes and impact on the employers following the 2008 LGPS changes. Whilst demands in this area have grown unabated, the Fund and employers now face a significantly different operational challenge – the focus on data quality processing and control.

The Fund's *Pensions Administration Strategy* published in April 2011 aimed to pre-empt some of this by forcing employers down an electronic route but this has only received a lukewarm response. AE has forced the issue and the Fund is now working with the unitaries and other employers to put in place a single electronic middleware solution.

Even though faced with increasingly complex administration due to growth and diversity of employers and their payroll arrangements, officers have waited until the implications of the new 2014 Local Government Pension Scheme (LGPS) became clearer and the impacts of *auto enrolment* were understood, before putting forward this proposal.

3. WHAT IS CHANGING THAT REQUIRES THE PENSION SERVICE TO NEED TO RESTRUCTURE AND PURCHASE EXTRA SOFTWARE?

1. **New LGPS Scheme**) from April 2014
2. **Auto Enrolment** starting for employers in the Fund from early 2013
3. Legal requirement for **minimum data quality standards**

4. **CHANGES IN 3. IN MORE DETAIL**

1. NEW LGPS SCHEME FROM APRIL 2014

The 2014 LGPS Scheme will mean far more complex calculations (3-part) with Career Average to be introduced for future service from 2014 requiring 3 elements to be calculated and explained to members. Two separate salary figures will need to be sent by employers and posted to records. The proposed 50/50Scheme option (half rate pension for half rate contribution) will add a further layer of complication. The Pensions Section will need to be more streamlined to cope with these major changes.

The 2014 LGPS Scheme implementation will require system changes, a significant communication exercise including new literature, training of own and employer staff, all whilst at the same time the 3-year Fund actuarial valuation is taking place from April next year.

2. AUTO ENROLMENT / NEW MIDDLEWARE SOFTWARE

New legal compliance from October 2012 makes all employers responsible for assessing their workforce and where appropriate enrolling all “eligible” employees automatically into a qualifying pension fund, which for most is the LGPS. To achieve this, employers will need help to ensure they comply. All but the smallest of employers will require an electronic monitoring system to be put in place to successfully achieve compliance. Failure to comply can result in large fines for employers. A “middleware“ solution involving data extracts from employer payrolls will assist employers to assess their workforce to establish and be informed when they must be auto enrolled.

Avon Pension Fund (“APF”) is encouraging employers to use such middleware and it transpires that a solution for employers is available which will have the added bonus of providing an interface between those employers using it and the APF which will enable **automatic monthly electronic updating of starters and member hour changes** from payroll data extracts**.** This would be a major advancement for the Fund. It would smooth the change process and avoid the normal large number of data errors and omissions revealed following the reconciliation of member records after the annual year-end update information from employers. Also monthly updating of pay and contributions is likely to be an on-going requirement for the new *LGPS 2014 Career Average* scheme.

Each employer and the Avon Pension Fund needs to separately enter into a contract for the services to be provided. The annual cost for the Fund would be £34,500, with a proportion of the first payment relating to the current financial year; provision had not been made for this in the 2012/13 budget and authority for the additional spend is being sought from the Committee.

For this to work effectively it will be necessary to align the data held on members in their employer payroll systems with that held by on APF's ***Altair*** database. A significant data cleansing/matching exercise is required for current members to enable the new middleware to be fully effective and to avoid a large number of rejected update entries each month. APF need to have resource in place to match membership records for on-going monthly updating for the employers who have taken the product to ensure smooth and effective updating of member records going forward.

Data Management and Quality ("DMQ") team

Given the need to take control of member data it is proposed to establish a separate new ***Data Management & Quality Team*** from October 2012 to manage all aspects of receipt processing and data output, control, quality and training. Its prime function will be to data cleanse records so that the Pension Benefits Team can process cases more quickly without having to spend time on errors and omissions.

Much of the pension benefit administrators time is currently taken up in having to cleanse a member's record (or in the case of multiple employments **2 or more *records***), before they can carry out a benefit calculation. The new DMQ team will help to streamline the process and improve the Fund's efficiency. Most of the DMQ team will come from the existing resources in the 2 benefit teams. There is however the intention to take on 2.5 additional staff and 2 apprentices for a 2-year period, at least one of whom will work in the DQM team. These have been costed into **APPENDIX 2A** of the proposal and represent just under a five percentage increase in the overall 2012/13 Avon Pension Fund Administration Budget. The new structure is aimed to be in place from October and some additional salary costs for the new arrangements are needed from then.

The required level of resource will be kept under review and it is expected that this will be managed down in time through natural wastage as the member data quality is improved by the work of the new DMQ team and the benefits of monthly electronic data updating through the middleware software takes effect.

The number in each benefits team will be reduced to reflect the less time required to process cases with cleaner data. Introduction of ***Auto Tasking*** a Heywood's facility at no extra cost to the Fund will make best use of skills and strengths of benefits staff and maximising staff efficiency by directing case work to those staff who have availability and the expertise to perform that task.

Increase in staffing - building resilience to staffing turnover

The proposal is to increase the current benefits permanent establishment from 17.5 to 20 staff and in addition to take on 2 apprentices for 2 years. **Appendix 2A** details annual salary and on-costs for the current and proposed new structure. With a number of experienced pensions staff due to retire in the next few years, this is a precautionary measure which will build resilience to expected staff turnover.

Appendix 2B shows for the 2012/13 budget and for 2013/4 budget the estimated additional staff and other associated costs and their incidence which the restructure and other necessary expenditure to meet the challenges of implementing the new LGPS 2014 Scheme and auto enrolment will require (see below). An estimated additional £50,250 will be required in the current financial year and £150,000 in 2013/14.

Areas where there will be extra WORK for the Fund
Auto Enrolment will require a significant communications exercise by employers with their employees; training will be required for employers and Fund staff on the 2014 LGPS Scheme; systems upgrades including rigorous testing and an increase in output in processing many more refunds for short-term opters out will require additional resource.

Areas where there will be extra COSTS for the Fund
LGPS 2014: Communications with members on the new LGPS 2014 and an intensive member awareness campaign about the changes and what they will mean for members will inevitably result in extraordinary administration costs. Additional material will be sent to members around February 2013 when the new regulations on the 2014 LGPS are published, followed up by a series of information sessions for both members and employers during 2013 at employer venues mainly around the old Avon area. There will be additional venue costs and significant calls on staff resource. With over 30,000 active members and in excess of 150 employers in the Fund some of whom are based far from the Avon area, this will be an exercise of mammoth proportions and will involve significant one-off costs outside the normal annual budget. Much of these extra costs are however already budgeted for in the 3-year Service Plan.

An additional software development cost in the region of a one-off £20,000 will be needed in 2013/14for Heywood to amend its Altair pensions software to incorporate a *Career Average* Section in the LGPS 2014 Scheme.

3. MINIMUM DATA QUALITY STANDARD – a new legal requirement

It is fully expected that the Pensions Regulator's powers in the private sector to set minimum standards for member data quality and control will be extended to the public sector, although it is not yet known when this will happen, APF need to "get its house in order "as soon as it can. This will include clearing *historic* data errors. Non-compliance could result in significant fines for the Fund.

5. WHERE IS AVON PENSION FUND NOW?
The Fund is in good shape. However the proposed new structure in Benefits is vital if the Fund is to be ready and equipped to meet and overcome the challenges facing us over the next few years.

The structural changes already approved by Committee in the 2012 Service Plan and now in place to strengthen the investments section will release the Employer Relationship Manager to focus more on communications. The recently re-built website will form a good platform for much of the member communications and the recently developed dedicated employer website will ensure employers are kept up to date on all changes and how they are affected. An on-going *Data Cleanse Project* is already in place and the monitoring arrangements are bringing the employers data management role more into focus. Some changes will be needed to the Systems Administration team and Pension Benefits team to dovetail into and work effectively with the new *Data Quality & Performance Team.*

6. OFFSET COSTS & EFFICIENCY SAVINGS BY *"GOING ELECTRONIC"*

Although the changes outlined in this report will mean additional spend the Fund are expected to achieve offset costs & efficiency savings elsewhere. The Fund is moving towards electronic delivery of information to members and electronic receipt of change information from Fund employers both of which will result in significant cost and efficiency savings...The exact time frame for moving entirely to electronic delivery of information to members is not yet finalised. It is however, estimated that when it is fully achieved, annual savings in excess of £50,000 are achievable. The transition will be handled sympathetically and those members who wish to continue to receive paper copies will be given several opportunities to do so. However, from other pension fund's experience this is not expected to be a very significant number. In addition the streamlining of the receipt of employer information through *middleware* for larger employers and *Employer Self Service* for smaller ones will significantly improve the process efficiency of the Service. Progress in both of these areas will be reported to the Committee as appropriate.

It needs to be appreciated however that our customers, both members and employers, are all in transition when it comes to the use of electronic media. We are putting in the resources to achieve electronic service delivery as quickly as possible.

7. CONCLUSION

The changes outlined in this Report and the additional spend required are vital if the Pension Service is to be properly equipped to continue to deliver a high-class service to all its stakeholders. Savings from electronic delivery will help to offset this additional expenditure in future years.

The proposed new structure with the addition of a dedicated Data Quality and Management team and Auto task Management for the benefits team will streamline processes and make best use of existing resources.

8. COMMITTEE RECOMMENDATION

The Committee is asked to approve the new benefits section structure and the purchase of the additional *middleware* software and to authorise the additional spend outlined herein.

Prepared by:

Steve McMillan
Pensions Manager,
Avon Pension Fund
September 2012

- END -

APPENDIX 2B to COMMITTEE REPORT ON PENSION FUND RESTRUCTURE / MIDDLEWARE SOFTWARE PURCHASE
INCREASED SALARY COSTS

B&NES PENSIONS SERVICE (AVON PENSION FUND)

1 Annual Salary Costs (inc. on costs) of existing & proposed Pension Benefts Section inc. new Data Quality & ManagementTeam

Post	Grade	annual salary **(inc *on costs*)** £pa	NOW	**EXISTING** STRUCTURE SALARY COSTS £	NEW	**NEW/PROPOSED** STRUCTURE SALARY COSTS £	Additional annual cost £
Pension Benefits Manager	J	£ 44,400	1	£ 44,400	1	£44,400	
Data Management Team Lead	K	£ 35,600	0	£ -	1	£35,600	
Benefits Team Leader	L	£ 34,550	2	£ 69,100	2	£69,100	
Senior Pension Officer	M	£ 29,170	4	£ 116,680	4	£116,680	
Pension Officer	N	£ 25,550	7	£ 166,075	10	£255,500	
Assistant Pensions Officer	0	£ 22,395	4	£ 89,580	2	£44,790	
Apprentices (2 years only)	*N/A*	*£ 13,000*	*0*	£ -	*2*	*£26,000*	
			17.5	£ 485,835	22	£592,070	£106,235 ***inc on costs***

2 Effect of Proposed Increase in <u>overall</u> administration budget

Additional cost	Total 2012/13 Admin Budget	Increase in overall budget
£106,235	£2,129,000	4.99%

As at September 2012

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APPENDIX 2B to COMMITTEE REPORT ON PENSION FUND RESTRUCTURE / MIDDLEWARE SOFTWARE PURCHASE

Estimated Additional spend in the current and following financial years

	2012/13	**2013/14**
New Middleware (Auto enrolment /electronic updating of member data changes)	£17,250	£35,000
Benefit staff (additional costs)	£20,000	£80,000
2 new Apprentices	£13,000	£26,000
Additional IT costs for new staff	£0	£10,000
Total additional costs for authorisation	£50,250	£151,000

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 SEPTEMBER 2012**	**AGENDA ITEM NUMBER**
TITLE:	**MINUTES & RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 5 September 2012		

1 THE ISSUE

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

1.2 The Panel has held one meeting since the June 2012 committee meeting on 5 September 2012. The draft 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 There are no recommendations from the Panel.

2 RECOMMENDATION

That the Committee:

2.1 **Notes the draft minutes of the Investment Panel meeting held on 5 September 2012**

3 FINANCIAL IMPLICATIONS

3.1 None

4 RECOMMENDATIONS

4.1 There are no recommendations arising from the meeting held on 5 September 2012.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. 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.

5.2 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.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues being considered are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (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 and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 5th September, 2012, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Councillor Nicholas Coombes, Councillor Mary Blatchford and Ann Berresford
Advisors:
Observer: Roger Broughton
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matthew Betts (Assistant Investments Manager) and John Finch (JLT Investment Consultancy)

11 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

12 DECLARATIONS OF INTEREST

There were none.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Tony Earnshaw.

14 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

16 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

17 MINUTES: 17 MAY 2012

The minutes for the meeting of the 17th May 2012 were approved as a correct record and signed by the Chair.

18 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012

The Assistant Investments Manager highlighted the following issues:

- During the quarter the tactical allocation within the bond portfolio was reversed. In August the spread between gilts and corporate bonds reached the pre-determined trigger point (spread between gilt and corporate bond yields narrows to 120 basis points) for the tactical position to be reversed. Officers subsequently arranged the sale of £80m of corporate bonds to unwind the tactical allocation. Having consulted the Investment Consultant, the proceeds were not re-invested into gilts given that gilt yields were (even) lower than when the tactical position was established and the asset allocation between equities and bonds was nearing the lower band of the rebalancing range. Their advice was to invest the proceeds in global equities (to effect rebalancing policy discussed in section 7). After transaction costs, the tactical allocation benefitted the Fund by £2.4m when compared to the outcome had the monies remained invested in gilts over the period.

- MAN remains under close review as they restructure the portfolio after a period of disappointing performance.

- The Schroder global equity mandate has underperformed over 12 months. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile over the short term. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder will be invited to the Panel meeting to be held in 1Q13.

Mr Finch commented that it had been a difficult quarter / last 12 months given the equity markets, recession and austerity measures. He then referred to page 8 of the JLT report (Appendix 2) to highlight the issues in relation to the asset allocation and liability split.

He informed them that based on financial market values, investment returns and cashflows into the Fund, the estimated funding level had slightly decreased over the second quarter of 2012, all else being equal. This was driven by:

- The fall in the reference yield (-0.3%) used to place a value on the liabilities, is expected, all else being equal, to have led to an increase in their value.

- The Fund assets producing a negative absolute return.

A Member asked why there had been better results in Quarter 1 of 2012.

Mr Finch replied that it was due to bond yields going up and inflation going down. He added that yields were currently drifting and believed there would be no significant rise in them over the next 3 – 5 years.

A Member asked what impact the new scheme would have on the next valuation.

The Investments Manager anticipated that there would be some savings made, but that they would be smaller than initially thought as accrued benefits will be protected.

Mr Finch referred to page 16 of the JLT report to show that in aggregate, the managers underperformed the customised benchmark over the quarter and year. He added that six of the Managers / Funds had not met their three year performance targets.

A Member commented that Schroder's performance has been poor, over the short time they have been managing the portfolio.

The Investments Manager advised that the Panel was due to meet with Schroder in the New Year.

A Member asked if Man were actively changing the way in which they manage the portfolio.

The Head of Business, Finance and Pensions replied that they are currently restructuring the portfolio and that the next quarter would be key for them.

A Member commented that currency management had detracted from the performance in the first quarter.

The Investments Manager replied that it would detract when the currency moves in the Fund's favour but there are still hedges in place. The programme is designed to protect the Fund against adverse currency movements.

Mr Finch commented that one manager, Genesis was performing better than expected in the current climate.

The Investment Panel **RESOLVED:**

(i) To note the information as set out in the report.

19 PANEL WORKPLAN

The Investments Manager introduced this item to the Panel. She confirmed that the Panel were due to meet with TT and Partners in November then Schroder and Man in quarter one of 2013.

The Chairman on behalf of the Panel thanked her for this update.

The meeting ended at 10.20 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 September 2012**	**AGENDA ITEM NUMBER**
TITLE:	**REVISED STATEMENT OF INVESTMENT PRINCIPLES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Statement of Investment Principles Appendices 2 - 6 – Appendices 1- 5 of the SIP: Manager Statements on their SRI Principles Appendix 7 – Appendix 6 of the SIP: Compliance with Myners Principles		

1 THE ISSUE

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

1.2 The SIP was last approved in March 2012. The main developments since then are listed in section 5.1 of this report.

2 RECOMMENDATION

That the Committee:

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

3 FINANCIAL IMPLICATIONS

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

4 BACKGROUND AND LEGAL FRAMEWORK

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

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

5 REVISIONS TO THE SIP

5.1 The SIP was last revised in March 2012. Since then the main developments have been:

(1) Amendment of the statement regarding realisation of investments (section 8)

(2) Responsible Investing Policy approved in June 2012 (section 9)

5.2 The revised SIP can be found in Appendices 1-7 to this report.

5.3 The SIP consists of the following:

(1) The Statement

(2) Appendices 1-5 of the SIP - are the Socially Responsible Investing statements from the Fund's active investment mandates. Note that Invesco now provide a Responsible Investment Policy statement.

(3) Appendix 6 of the SIP - the Fund's compliance with the Myners Principles.

5.4 The presentational structure of the SIP has been revised to set out the Fund's principles and then explain how this is implemented within the investment strategy. In addition the link between the investment strategy and the funding strategy statement has been made more explicit. The substance of the content, except for that highlighted in 5.1 above, has not changed.

5.5 The Committee is asked to approve the revised SIP.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 N/a for information only.

10 ADVICE SOUGHT

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

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

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Appendix 1

AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

This statement sets out the principles that will guide the Avon Pension Fund Committee ("the Committee") when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets and is consistent with the Fund specific funding strategy as set out in the Funding Strategy Statement (which states the actuarial assumptions underpinning the funding strategy).

The Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 ("the regulations") require the Avon Pension Fund ("the Fund") to prepare, publish and maintain a statement of the principles governing its investment of the Fund's monies. As required by the regulations, the Committee will review this statement periodically to ensure it is consistent with the Fund's funding strategy.

This statement is required to cover the following:

- Types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of voting rights (if there is any such policy)
- Stock lending
- Statement of compliance with the Myners Principles

1 Investment Objective

The investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long term as well as reflect the balance between maximising returns consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a longer term strategy.

Implementation: At the strategic investment review in 2009, the expected return of the current strategy is equivalent to 2.8% p.a. over the expected return on long dated gilts and the expected volatility of the returns relative to liabilities is 10.2% p.a. (source: JLT). This investment objective was consistent with the funding strategy used at the 2010 actuarial valuation.

2 Types of Investment Held

The Fund may invest in any type of investment permitted under the regulations. Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

Implementation: The Fund currently invests in equities (both UK and overseas), index-linked and fixed interest stocks, Fund of Hedge Funds and property funds. Some of these investments are in segregated portfolios but the majority are in pooled funds. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

3 Asset Allocation and Expected Long Term Returns on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out performance compared to the long term expectations.

For each portfolio managed on an active basis, the manager has an outperformance target which means that the Fund should outperform its strategic benchmark, everything else being equal. The outperformance target will reflect the level of risk and approach to investing taken by each active manager.

Implementation: The current strategic asset allocation along with assumptions for expected return and volatility for each asset class is set out in the table below. This strategy was reviewed in 2010.

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

The inclusion of property and hedge funds in the asset allocation strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. The reduction in volatility results from property and hedge funds having a lower correlation to both bond and equity returns over the long term.

The Fund actively hedges its US dollar, Yen and Euro equity exposure. This is managed on a segregated basis. Foreign currency exposure is unrewarded risk, thus the currency hedging is to protect the sterling value of the hedged portfolios and to reduce the volatility that arises from currency.

As the current strategy targets fixed allocations to each asset class, a dynamic re-balancing policy is triggered when the proportions invested in equities and bonds deviates by more than the permitted ranges.

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 cash held internally is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management policy which was approved by the Committee on 16 February 2012.

The strategic policy and the medium term performance of the managers are monitored at quarterly committee meetings.

4 The balance between different types of investment and the Investment Management Structure

The Fund will at all times invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing. Whilst the Fund experiences a deficit in its funding position, there will be a significant allocation to "return generating" assets such as equities. However, the equity portfolio will be diversified by manager, geography and investment style.

The Fund will invest via segregated and pooled portfolios based on the appropriateness for each portfolio (namely, cost, liquidity, impact on voting rights, flexibility and speed of implementation). The Fund will invest across a combination of passive, enhanced indexation, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Implementation: Currently 45% of the Fund is invested in passive mandates which rely solely on market returns to generate the investment return. The other 55% is invested in active mandates where manager skill is expected to enhance the market return, to a greater or lesser extent.

Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner. These are suitable for equity and bond portfolios managed on a pooled or segregated basis. Enhanced indexation equity portfolios aim to provide an incrementally higher return than the index but at a low risk. This approach utilises quantitative models to generate portfolios. Active managers seek to outperform the index through the selection of the underlying investments. Such portfolios are more concentrated and volatile than the index. Each mandate will have a portfolio specific outperformance and risk target. Absolute return portfolios seek to provide a positive return in all market environments. These managers use a wide range of investment techniques to generate returns. An active currency hedging mandate manages the currency exposure so that the Fund benefits from favourable foreign currency *movements but that adverse movements (i.e. when sterling strengthens) are hedged against.*

The investment structure is detailed in the table below:

Manager	***Mandate***	***Performance Objective***	***% of Fund***	***Inception date***
BlackRock	*Passive multi-asset*	*In line with customised benchmark*	*44%*	*01/04/03*
Jupiter Asset Management	*UK Equities (Socially Responsible Investing active)*	*FTSE All Share +2% p.a.*	*5%*	*01/04/01*
TT International	*UK Equities (unconstrained active)*	*FTSE All Share +3-4% p.a.*	*5%*	*11/07/07*
Invesco Perpetual	*Global ex-UK Equities (Enhanced Indexation)*	*MSCI Global ex-UK Index +0.5% p.a.*	*6.5%*	*19/12/06*
State Street Global Advisors	*Europe ex-UK Equities (Enhanced Indexation)*	*FTSE World Europe ex-UK Index +0.5% p.a.*	*3.5%*	*14/12/06*
State Street Global Advisors	*Pacific inc. Japan Equities (Enhanced Indexation)*	*FTSE Developed Asia Pacific Index +0.5% p.a.*		*14/12/06*
Schroders Investment Management	*Global Equities (unconstrained active)*	*MSCI All World Index +2-4%*	*6%*	*01/04/11*
Genesis Investment Management	*Emerging Market Equities (unconstrained active)*	*MSCI Emerging Markets Index*	*5%*	*13/12/06*
Royal London Asset Management (RLAM)	*UK Corporate Bond Fund (active)*	*iBoxx £ non-Gilt Index +0.8% p.a.*	*5%*	*11/07/07*
MAN Investments	*Fund of Hedge Funds*	*LIBOR +5.75% p.a.*	*3.0%*	*01/08/07*
Gottex Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*2.5%*	01/08/07
Signet Capital Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*3.0%*	01/08/07
Stenham Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*1.5%*	01/08/07
Schroders Investment Management	*UK Property (active)*	*IPD UK Pooled Property Fund Index +1% p.a.*	*5%*	*01/02/09*
Partners Group	*Overseas Property (active)*	*IPD Global Property Index +2% p.a.*	*5%*	*18/09/09*
Record Currency Management	*Currency hedge (US$, Yen and Euro equity exposure)*	*N / A*	*n/a*	*26/07/11*

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

5 Risk

Investment by its very nature is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in the section "Responsible Investment Policy".

However, the main risk for the Fund is that the investment returns are less than that required in the funding strategy which leads to a deterioration in the funding level, all else being equal. The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target.

The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. An independent custodian safe keeps the assets on behalf of the Fund.

Implementation: Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit (and counterparty) risk arises in the bond portfolios, in the management of cash balances and in the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

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

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property. Hedge funds are also not as liquid as equity and bond portfolios.

Risk and return of the overall Fund and the individual portfolios is monitored closely to ensure the managers are investing in line with their expected long term risk return parameters and that the Fund overall is achieving its investment objectives.

6 Regulatory Investment Limits

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

Implementation: Currently all the "normal" prudential investment limits apply to the Fund, except for the following:

- *Investments in Life Funds - following a Committee resolution in March 2006, this has been increased to the maximum limit of 35% to accommodate the life fund investments managed by Blackrock.*

- *Investments in single partnerships - following a Committee resolution in December 2008, this has been increased to the maximum limit of 5% to accommodate the property investments managed by Partners.*

7 Realisation of Investments

The Fund must be able to realise its investments within a reasonable period appropriate for its cash flow and maturity profile. Therefore the investment strategy must reflect the need to realise assets or use of investment income to meet projected cash flow requirements.

Implementation: The Fund's investment policy is structured so that the majority of its investments (80% in quoted equities and bonds) which it holds can, except in the most extreme market conditions, be readily realised. Property is a long term investment which the Fund will not be able to realise in a short period. However, the growth in indirect property funds has provided the Fund with the opportunity to invest in this relatively illiquid asset class and to build a well-diversified property portfolio. There are "lock-up" periods for the investments in Fund of Hedge Funds given the nature of these investments. However, the Fund has sought to minimise the length of these "lock-up" periods.

Currently the Fund is transitioning to a more mature profile as the monthly payment of pensions is no longer met by pension contributions, thus there is a need to realise assets or income on an on-going basis within the investment strategy. Based on projected cash flow, investment income from the segregated portfolios will be used to meet any shortfall in cash inflows prior to divesting of assets.

8 Responsible Investing Policy

The Avon Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee has a Responsible Investing Policy that sets out the framework for considering such issues throughout the investment decision-making process.

Implementation: The Committee approved its Responsible Investing Policy in June 2012. The full policy can be accessed via www.avon.avonpensionfund.org.uk .

The policy includes:

- *analysis of the impact of RI issues on each asset class as part of strategic reviews*
- *evaluation of an investment manager's approach for assessing RI risks within their investment process in mandate tenders*
- *monitoring of the decisions by its investment managers regarding RI issues that have a material financial impact on the Fund*
- *voting and engagement policy*
- *participation in collaborative groups to influence corporate behaviour*

Although the investment structure means that some parts of the policy are more relevant to some mandates than others, the strategic aspects will apply across the entire Fund. At the mandate level, the passive nature of Blackrock's mandate means the manager *has no discretion with regard to the stocks which are held. As the enhanced indexation managers are also required to hold a significant number of stocks for risk control purposes, similar considerations apply to these. In the case of TT International, Genesis, Schroders (global equity mandate) and RLAM these mandates allows for discretion over stock selection and each manager has provided a statement setting out the extent to which they take social, environmental and ethical considerations into account in their investment processes. In addition, Invesco has a Responsible Investment Policy relating to their Enhanced Indexation funds. These statements are included as Appendices to this Statement.*

The Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, in 2001 Jupiter was appointed to manage a UK equity portfolio in accordance with Socially Responsible Investment (SRI) criteria (within this context SRI means investing in companies which contribute to, or benefit from, more environmentally and socially sustainable economic activity), justified by the argument that superior performance could be achieved over time from a portfolio constructed on this basis. Given the mandate objective, this SRI portfolio has a bias towards smaller companies and this, together with the concentrated nature of the portfolio, means that the volatility of investment returns is high. This portfolio includes companies providing products which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

At the strategic level, a manager's approach to identifying and managing SRI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

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

Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negative impact shareholder value.

Implementation: The Fund requires its managers to vote their UK company shares in line with their internal voting policy. The Fund has appointed Manifest (an independent proxy voting agent) to monitor the voting activity of the managers which will be reported *to the Committee at least annually. The Fund will also publish an annual summary of its voting activity and trends (provided by Manifest).*

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

9 Stock Lending

The Fund allows stock held by the Fund to be lent out to market participants.

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

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

10 Myners Principles

The Myners Principles sets out a code of best practice in pension fund governance, investment decision making and disclosure. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

Implementation: The Fund fully complies with the principles. Appendix 6 sets out the Fund's compliance.

To be approved by Avon pension Fund Committee on 21 September 2012

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Genesis: Environmental, Social and Governance Policy

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

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

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

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

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

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

   There may be less clear-cut situations where strong rules do not exist but certain companies have had a history of respecting minority shareholder rights. In these situations potential investments may exist – but with a need to apply an appropriate amount of caution before investing.

   Where companies in client portfolios start behaving in a manner detrimental to minority shareholders' interests, it is often possible to enter into a constructive dialogue with them to bring about positive change. An example of this would be the frequent discussions Genesis has held with a number of Korean companies. Equally, where appropriate, Genesis has been prepared to make its views known in public.

2. ***Labour Practices:*** Ideally, countries in which we invest for our clients would have ratified the conventions of the International Labour Organization Declaration on Fundamental Principles and Rights at Work. (This Declaration allows workers the right to associate, strike, and bargain collectively, prohibits forced labour and provides standards for acceptable working pay and conditions.) That said, the absence of formal ratification of the convention does not preclude that local practice may meet the standard intended by the convention. For example, a vigorous and effective trade union movement exists in South Korea, even though the country has not ratified the conventions on freedom of association and collective bargaining.

   Child labour undeniably occurs in a number of developing economies, but in the majority of countries legal protections exist and these are more or less enforced depending on the country.

   However distinction then needs to be drawn between practices in the overall economy and the practice at the individual company level. To the extent that illegal child labour and other labour abuses take place, experience indicates to us that it does so in small-scale, labour-intensive enterprises, such as the textile industry. These companies are not of interest to Genesis nor its institutional clients. Apart from the obvious social objections, they do not feature any manufacturing economies of scale and have no discernible competitive advantage other than cheap labour.

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

How our Investment Process Identifies these Companies

A focus on company-level analysis and management visits: We are a bottom-up investor, which is to say that a portfolio is assembled on a stock-by-stock basis, and its weighting in a particular country depends on the number of attractive ideas we can find there. Accordingly, because we are making decisions about individual securities, the Genesis investment approach lends itself naturally to the assessment of socially responsible factors at each particular company.

The distinctive feature of our research process is its independence: views are formed by visiting countries and meeting companies. As an integral part of its bottom-up investment approach, Genesis does not make an investment without interviewing a company's management (often several times).

Given the extensive travel programme undertaken by our analysts a great many of these interviews take place at the company's own offices and Genesis is usually insistent (sometimes aggressively so) that such an interview involves a full plant visit – that is, not just the modern 'showcase' part of the facility: the manoeuvring necessary to get a revealing plant inspection may be neither easy nor friendly, but is often of significant importance for assessing the true quality and social credentials of the company.

As an aside, we would note that of course companies operate within the economic, political and social context of their country, and in order to properly quantify the opportunities and risks facing a company, an investor must be able to evaluate that context too. Social and ethical issues at a country level might include government transparency, a free press, political stability, democratic institutions and principles, and a strong and impartial legal system – all of which are normally difficult things for individual companies to influence. Consequently, where these problems are extreme we would simply avoid the countries in question: North Korea and Burma are two obvious current examples.

Multiple sources of information: In addition, when forming internal assessments, we use multiple information sources to complement what we ourselves see and hear (in emerging economies, information that is complete, objective, current and accurate is often difficult to obtain, and one is therefore more likely to come across matters of concern through the use of a variety of sources rather than exclusively using a single monitoring service). Among these are local and international publications, external directors, external consultants, and Genesis' legal and professional relationships. From a 'labour practices' standpoint, the most authoritative sources of information are the publications of the International Labour Organization (ILO) based in Geneva, and the Country Reports on Human Rights prepared by the US Department of State in accordance with the US Foreign Assistance Act.

Genesis Investment Management
February 2012

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Sustainable Investment

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

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

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

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

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

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

royal london asset management

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Schroders

18 February 2011

Global Equities Responsible Investment Policy

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

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

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TT International – Position Statement on ESG Issues

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

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

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

High Alpha Manager

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

Voting

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

Stewardship Code

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

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

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Policy on Responsible Investment

Invesco Global Quantitative Equity (Frankfurt)

June 2012

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1. Introduction

Invesco Global Quantitative Equity (IGQE) in Frankfurt, Germany is a division of Invesco Asset Management Deutschland GmbH, and is the investment adviser for a number of funds managed by Invesco Fund Managers Limited. IGQE has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of all investors in portfolios managed by them. As part of this policy, IGQE will take steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value in their companies and comply with local recommendations and practices, such as the UK Corporate Governance Code issued by the Financial Reporting Council and the U.S. Department of Labour Interpretive Bulletins.

As a core part of the investment process, IGQE's fund managers believe it is important to have access to company management to promote company decision making that is in the best interests of shareholders, and is in accordance with good corporate governance principles.

Given the nature of the IGQE's investment approach, which is largely quantitatively driven and benchmark index constrained, the team do not have any direct contact with company management divisions and therefore do not have a forum for pro-active engagement. Invesco Asset Management Deutschland GmbH has therefore appointed Ethical Investment Research Services Ltd. (EIRIS), to provide engagement services for IGQE. EIRIS was appointed on 24 May 2010 to monitor companies and initiate and assist with engagement practices with these companies on behalf of IGQE.

IGQE considers that shareholder activism is fundamental to good corporate governance. Although this does not entail intervening in daily management decisions, it does involve supporting general standards for corporate activity and, where necessary, taking the initiative to ensure those standards are met, with a view to protecting and enhancing value for investors in the portfolios.

2. Scope

The scope of this policy covers all portfolios that are managed by the IGQE investment team located in Frankfurt, Germany and specifically excludes portfolios that are managed by other investment teams within the wider IGQE group which have their own voting, corporate governance and stewardship policies.

3. Responsible voting

IGQE always attends to the interest of the client, especially for fund-related voting rights and corporate governance issues. IGQE has responsibility for making investment decisions that are in the best interests of its clients. As part of the investment management services it provides to clients, IGQE may be authorised by clients to vote proxies pertaining to the shares of which the clients are beneficial owners. IGQE believes that it has a duty to manage clients' assets in the best economic interests of the clients and that the ability to vote proxies is a client asset. IGQE reserves the right to amend its proxy policies and procedures from time to time without prior notice to its clients.

4. Voting procedures

Voting of proxies

IGQE will, on a fund by fund basis, decide whether it will vote proxies and if so, for which parts of the portfolio it will vote. If IGQE decides to vote proxies, it will do so in accordance with the procedures set forth below. If the client retains in writing the right to vote or, if IGQE determines that any benefit the client might gain from voting a proxy would be outweighed by the costs associated therewith, it will refrain from voting.

Best economic interests of clients
In voting proxies, IGQE will take into consideration those factors that may affect the value of the security and will vote proxies in a manner in which, in its opinion, is in the best economic interests of clients. IGQE endeavours to resolve any conflicts of interest exclusively in the best economic interests of clients.

Certain proxy votes may not be cast
In some cases, IGQE may determine that it is not in the best economic interests of clients to vote proxies. For example, proxy voting in certain countries outside the United States requires share blocking. Shareholders who wish to vote their proxies must deposit their shares 7 to 21 days before the date of the meeting with a designated depositary. During the blocked period, shares to be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to the custodian/sub-custodian bank. In addition, voting certain international securities may involve unusual costs to clients. In other cases, it may not be possible to vote certain proxies despite good faith efforts to do so, for instance when inadequate notice of the matter is provided. In the instance of securities lending, voting of proxies typically requires termination of the lending arrangement, so it is not usually in the best economic interests of clients to vote proxies on securities within a securities lending programme.

IGQE typically will not, but reserves the right to, vote where share blocking restrictions, unusual costs or other barriers to efficient voting apply. If IGQE does not vote, it would have made the determination that the cost of voting exceeds the expected benefit to the client.

Risk Metrics Group Services
On behalf of IGQE, Invesco Asset Management Deutschland GmbH has contracted with Risk Metrics Group (RMG), previously known as Institutional Shareholder Services, an independent third party service provider, to vote clients' proxies according to RMG's proxy voting recommendations. In addition, RMG will provide proxy analyses, vote recommendations, vote execution and record-keeping services for clients for which IGQE has proxy voting responsibility. On an annual basis, IGQE will review information obtained from RMG to ascertain whether RMG:

- has the capacity and competency to adequately analyse proxy issues, and
- can make such recommendations in an impartial manner and in the best economic interest of IGQE's clients.

This may include a review of RMG's policies, procedures and practices regarding potential conflicts of interest and obtaining information about the work RMG does for corporate issuers and the payments RMG receives from such issuers.

Custodians forward proxy materials for clients who rely on IGQE to vote proxies to RMG. RMG is responsible for exercising the voting rights in accordance with its proxy voting guidelines. If IGQE receives proxy materials in connection with a client's account where the client has, in writing, communicated to IGQE that the client, plan fiduciary or other third party has reserved the right to vote proxies, IGQE will forward to the party appointed by the client, any proxy materials it receives with respect to the account.

5. Non-routine resolutions and other topics

In order to avoid voting proxies in circumstances where IGQE, or any of its affiliates have or may have any conflict of interest, real or perceived, IGQE has engaged RMG to provide the proxy analyses, vote recommendations and voting of proxies.

In the event that:

- RMG recuses itself on a proxy voting matter and makes no recommendation or
- IGQE decides to override the RMG vote recommendation

IGQE team's Proxy Voting Committee (PVC), together with an Invesco Compliance Officer, will review the issue and direct RMG how to vote the proxies as described below.

RMG recusal

When RMG makes no recommendation on a proxy voting issue or is recused due to a conflict of interest, the PVC and the Compliance Officer will review the issue and, if IGQE does not have a conflict of interest, will direct RMG how to vote the proxies. In such cases where IGQE has a conflict of interest, IGQE, in its sole discretion, shall either:

- vote the proxies pursuant to RMG's general proxy voting guidelines
- engage an independent third party to provide a vote recommendation
- contact its client(s) for direction as to how to vote the proxies

Override of RMG recommendation

There may be occasions where IGQE's investment personnel or senior officers seek to override RMG's recommendations if they believe that the RMG's recommendations are not in accordance with the best economic interests of clients. In the event that an individual listed above in this section disagrees with an RMG recommendation on a particular voting issue, the individual shall document in writing the reasons that he/she believes that the RMG recommendation is not in accordance with clients' best economic interests and submit such written documentation to the PVC. Upon review of the documentation and consultation with the individual and others as the PVC deems appropriate, the PVC together with the Compliance Officer may make a determination to override the RMG voting recommendation, if they determine that it is in the best economic interests of clients.

6. Engagement with companies

Engagement enables investors to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and governance issues.

IGQE will endeavour, where practicable in accordance with its investment approach, to engage with companies based on the mutual understanding of objectives. EIRIS facilitates this engagement and provides recommendations about methods of escalation. Engagement is likely to include written letters to company representatives to explore any concerns about corporate governance where these may impact on the best interests of clients. Following on from this initial step and where responses are not satisfactory, conference calls and further dialogue may be required. During these company discussions, IGQE will endeavour to cover any matters of particular relevance to shareholder value.

Those people on the inside of a company, most obviously its executives, know their businesses much more intimately. Therefore, it is usually appropriate to leave strategic matters in their hands.

Inevitably there are times when IGQE's views diverge from those of the company's executives but, where possible, it attempts to work with the company towards a practical solution. However, IGQE believes that its status as part-owner of a company means that it has both the right and the responsibility to make its views known. The option of selling out of that business is always open, but normally IGQE prefers to push for change, even if this can be a slow process.

The engagement service that EIRIS provides may include the following:

- Identify target companies for engagement using the EIRIS Principles for Responsible Investment tool to focus on UN Global Compact issues
- Consultation with IGQE to determine the sub-set of approximately 5 companies - focus on themes or by region
- Writing letters to companies with poorest performance on behalf of IGQE, including a report on the company outlining what the company needs to do
- Analysis of responses, feedback to IGQE and recommendations as to the escalation of engagement
- Support IGQE in conference calls with the company if necessary or required
- Setting up systems to log the companies engaged with, any commitments obtained and any subsequent change in corporate activity, including detailed reports
- Review success of engagement process and recommendations to improve process

7. Evaluation of companies environmental, social and governance arrangements (ESG)

EIRIS' engagement service offers the choice of two distinct engagement approaches, as follows:

- Theme-based engagement
- Controversy-led engagement

Both approaches can be used independently or in conjunction with one another. Following discussions with EIRIS regarding IGQE's requirements, the team have decided to adopt a combination of the two approaches.

The theme-based engagement objective is to drive improvements in corporate responses to ESG themes. This approach focuses on the quality of management response to specific ESG risks, the presence and quality of policies, management systems and reporting levels.

Themes under consideration for engagement include:

- Water
- Climate change
- Bribery & corruption
- Supply chain labour
- Human rights

The controversy-led engagement objective is to encourage companies to fully address allegations of corporate breaches of global norms and conventions, to implement better policies and management systems to prevent further similar occurrences.

8. Disclosure and reporting

Although IGQE does not report specific findings of company engagements for external use, regular illustrations will be provided to demonstrate that active engagement is a part of its investment process. For clients with individual mandates, (i.e. not invested in a fund), IGQE may discuss specific issues where it can share details of a client's portfolio with that specific client.

Clients may obtain information about how IGQE voted proxies on their behalf by contacting their client services representative. Alternatively, clients may make a written request for proxy voting information.

As at 30 June 2012.

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Telephone calls may be recorded.

Where Invesco has expressed views and opinions, these may change.

Issued by Invesco Asset Management Limited. Authorised and regulated by the Financial Services Authority.

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APPENDIX 6

Myners Principles (2009): Statement of Compliance

Principle 1: Effective Decision Making

Administering Authorities should ensure that:

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

Fund Compliance - Full

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

Fund Policy

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

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

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

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

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

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

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

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

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

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

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

Principle 2: Clear Objectives

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

Fund Compliance - Full

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

Fund Policy

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

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

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

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

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

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

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

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

Principle 3: Risk and Liabilities

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

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

Fund Compliance - Full

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

Fund Policy

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

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

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

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

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

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

Principle 4: Performance Assessment

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

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

Fund Compliance - Full

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

Fund Policy

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

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

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

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

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

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

Principle 5: Responsible Ownership

Administering Authorities should:

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

Fund Compliance – Full

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

Fund Policy

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

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

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

In addition the Fund believes that in order to responsibly address long term investments concerns and opportunities, environmental, social and governance issues must be considered when appointing and monitoring investment managers. The Fund adopted a Responsible Investing Policy in June 2012 which sets out the Fund's approach to all aspects of responsible investing.

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

Principle 6: Transparency and Reporting

Administering Authorities should:

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

Fund Compliance – Full

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

Fund Policy

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

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

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

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

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

To be approved by APF Committee 21 September 2012

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 SEPTEMBER 2012**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 June 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 - LAPFF Quarterly Engagement Monitoring Report

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 June 2012.

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

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers.

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

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

1.3 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 10 to 20), the investment managers (pages 21 to 39) and market background (pages 4 to 6). It also puts the performance into the context of changes to the liabilities and funding level (pages 7 to 9).

1.4 Appendix 4 contains the latest Engagement Report from LAPFF (Local Authority Pension Fund Forum which will keep members aware of the engagement work LAPFF is doing on behalf of its member funds.

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 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report (see pages 7-9). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) The funding level at 31 June 2012 fell to 69% from 70% at 31 March 2012.

(2) The largest contributor was the increase in liabilities due to the reduction in the gilt yield (3.1% versus 3.4% at 31 March) which was only partially offset by the fall in inflation expectations

(3) In addition assets returns were lower than the returns assumed in the funding model.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets decreased by £56m (-1.9%) in the quarter, giving a value for the investment Fund of £2,702m at 30 June 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

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

Table 1: **Fund Investment Performance**
Periods to 30 Jun 2012

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	-1.9%		
Avon Pension Fund (excl. currency hedging)	-1.6%	0.5%	11.6%
Strategic benchmark *(Fund relative to benchmark)*	-1.7% *(+0.1%)*	0.0% ***(+0.5%)***	11.4% *(+0.2%)*
Customised benchmark *(Fund relative to benchmark)*	-1.4% *(-0.2%)*	1.1% ***(-0.6%)***	11.8% *(-0.2%)*
Local Authority Average Fund *(Fund relative to benchmark)*	-1.9% *(=)*	-0.9% ***(+1.4%)***	11.5% *(+0.1%)*

Note that because currency hedging has been in place for less than twelve 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 5.8.

5.3 **Avon Pension Fund**: Quarterly return driven by negative returns from equities and hedge funds offsetting positive returns from bonds and property.

5.4 Over three years the Fund has outperformed the return expectations underpinning the investment strategy. This is largely a result of strong three year returns from both equities and bonds. However, the strong equity returns reflect the relatively low valuations of three years ago and returns over the next three years could be significantly lower, particularly if concerns regarding the Eurozone and global growth come to pass. Also, bond yields have fallen to historic lows, and the prospects for similar high returns over the next three years from bonds are low.

5.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Annual relative outperformance was largely driven by the Fund's hedge fund, property and equity (emerging markets and UK) managers outperforming their respective benchmarks used in the strategic benchmark. The overweight to corporate bonds (which performed strongly) also added to the outperformance over the twelve month period.

5.6 **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, SSGA and Partners over the year. The other managers performed broadly in line with their benchmarks.

5.7 **Versus Local Authority Average Fund**: Annual relative outperformance driven by Fund's lower than average allocation to UK equities which performed negatively over the year, and higher than average allocation to bonds which performed well and provided protection from equity losses.

5.8 **Currency Hedging**: This quarter sterling strengthened against the euro, and weakened against the US dollar and yen, resulting in the returns from euro denominated equity assets reducing in sterling terms and returns from US dollar and yen denominated assets increasing in sterling terms. The underlying currency return on the c£630m assets in the hedging programme had a positive impact of 1.32% over the quarter, with the hedging programme detracting 1.08% from this reducing the net currency return on the assets in the programme to +0.32%. In terms of the Fund's total return, the hedging programme detracted 0.3% from the Fund's total return in the quarter.

5.9 Since the end of the quarter, global equity markets have been positive with the FTSE All Share up over 6% (to 20th August). The total return for the Over 15-year Gilt index was c. +2.2% during the same period. Sterling strengthened against both the dollar (+1%) and Euro (+2.5%) from quarter end to 20th August.

B – Investment Manager Performance

5.10 A detailed report on the performance of each investment manager has been produced by JLT – see pages 17 to 36 of Appendix 2. Other than comments on Man and Schroder (see 5.11 and 5.12 below) their report does not identify any new performance issues with the managers.

5.11 MAN remains under close review as they restructure the portfolio after a period of disappointing performance.

5.12 The Schroder global equity mandate has underperformed over 12 months. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile over the short term. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder will be invited to the Panel meeting to be held in first quarter of 2013.

5.13 As part of the 'Meet the Managers' programme, the Panel met with 2 of the Fund's Fund of Hedge Fund managers on 5 Sept 2012. The summary of the Panel's conclusions can be found in Exempt Appendix 3.

6 INVESTMENT STRATEGY

6.1 During the quarter the tactical allocation within the bond portfolio was reversed. In August the spread between gilts and corporate bonds reached the pre-determined trigger point (spread between gilt and corporate bond yields narrows to 120 basis points) for the tactical position to be reversed. Officers subsequently arranged the sale of £80m of corporate bonds to unwind the tactical allocation. Having consulted the Investment Consultant, the proceeds were not re-invested into gilts given that gilt yields were (even) lower than when the tactical position was established and the asset allocation between equities and bonds was nearing the lower band of the rebalancing range. Their advice was to invest the proceeds in global equities (to effect rebalancing policy discussed in section 7). After transaction costs, the tactical allocation benefitted the Fund by £2.4m when compared to the outcome had the monies remained invested in gilts over the period.

6.2 JLT's report did not highlight any strategy issues for consideration. The Fund will be undertaking a full investment strategy review, commencing in Q4 2012.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy agreed by the Committee on 22 June 2012 requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 5%, and allows for tactical rebalancing between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 Rebalancing was undertaken this quarter in conjunction with the reversal of the tactical switch. The Equity:Bond allocation was estimated at 72:28 which was within the tactical decision range. On advice from the Investment Consultant, Officers took the opportunity to rebalance whilst reversing the tactical allocation within the bond portfolio. Gilt values remain very high, so repurchasing gilts at this time was not preferred. JLT advised investing the proceeds from selling the corporate bonds in global equities as equities look better value on a relative basis to gilts. They preferred allocating to an active manager who is better able to take account of current market conditions. The proceeds from the sale of £80m of the RLAM corporate bond fund were allocated to Invesco, Schroder Global Equity and BlackRock with £5m being retained as cash for cashflow management purposes. As a result of the transactions and market movements, the Equity:Bond allocation was estimated at 76:24 (22 August).

Cash Management

7.3 Cash is not included in the strategic benchmark. However, cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The segregated portfolios, TT, Jupiter and Schroder Equity 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 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 and Bank of Scotland. In line with the Treasury Management Policy the Fund no longer deposits cash with NatWest following the drop in their short term rating to below the minimum required. The Fund has now started to deposit cash with the triple A rated RBS Global Treasury Fund and has another triple A rated fund with Deutsche Bank available for deposits if required. The Fund also has access to the Government's DMO (Debt Management Office); however the interest paid currently may not cover the transfer and administration costs incurred.

7.6 At the June Committee it was agreed that the cash flow position would be included in this quarterly report. During the quarter there was a cash outflow of c. £1m per month due to the level of lump sum payments. In July these payments were lower resulting in an outflow of just under £0.5m. This trend is currently slightly worse than the neutral scenario in the cash flow forecasting model used to monitor cash flow. However, due to the volatility in elements such as lump sums it is too early to determine whether the neutral scenario is too optimistic.

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:	1,105
Resolutions voted:	15,763
Votes For:	14,908
Votes Against:	959
Abstained:	98
Withheld vote:	92

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 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 activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

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	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
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	

AVON PENSION FUND VALUATION – 30 JUNE 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	262.6	14.5	125.4	106.0		14.3							522.8	19.4%
North America	134.5	9.2				64.2							207.9	7.7%
Europe	107.3	4.5				17.4		27.1					156.3	5.8%
Japan	33.7					10.8		26.6					71.1	2.6%
Pacific Rim	45.0					12.2		28.0					85.2	3.2%
Emerging Markets					133.5	12.1							145.6	5.4%
Global ex-UK							165.3						165.3	6.1%
Global inc-UK	221.8											8.3	230.1	8.5%
Total Overseas	***542.3***	***13.7***			***133.5***	***116.7***	***165.3***	***81.7***				***8.3***	***1061.5***	**39.3%**
Total Equities	**804.9**	**28.2**	**125.4**	**106.0**	**133.5**	**131.0**	**165.3**	**81.7**				**8.3**	**1584.3**	**58.7%**
BONDS														
Index Linked Gilts	192.1												192.1	7.1%
Conventional Gilts	112.0	29.5											141.5	5.2%
Sterling Corporate	13.8								232.2				246.0	9.1%
Overseas Bonds	80.4												80.4	3.0%
Total Bonds	**398.3**	**29.5**							**232.2**				**660.0**	**24.4%**
Hedge Funds										209.2			209.2	7.7%
Property											199.8		199.8	7.3%
Cash	4.7	14.6	5.8	9.4		4.4					3.3	6.1	48.3	1.8%
TOTAL	**1207.9**	**72.3**	**131.2**	**115.4**	**133.5**	**135.4**	**165.3**	**81.7**	**232.2**	**209.2**	**203.1**	**14.4**	**2701.6**	**100.0%**

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

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Review for period to 30 June 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

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.

Funding level

- There is expected to have been a minor decline in the funding level over the second quarter of 2012, when considering the impacts of financial markets only.
- The drivers of the slight decline in the funding level are:
  - a negative return from the Fund's assets; and,
  - a decrease in gilt yields, which, all else being equal, is expected to have increased the value placed on the Fund's liabilities. The expected impact of the fall in yields was partially offset by a fall in expected inflation, which, again all else being equal, is expected to decrease the value placed on the liabilities.

Fund Performance

- The value of the Fund's assets decreased in value by £56m during the second quarter of 2012 to £2,702m. The total Fund, (including the impact of currency hedging), slightly underperformed the Fund’s strategic benchmark over the quarter, producing a negative absolute return of -1.9%.

Strategy

- Equity markets posted negative returns and had a negative impact on the Fund's total return over both the 3 month and 1 year periods, although 3 year returns are ahead of the assumed strategic return. The strong 3 year returns for equities reflect the relatively low valuations 3 years ago. Returns over the next 3 years could be significantly lower, particularly if concerns over the Eurozone and slowing global growth materialise.
- Bond returns have also been very high over the 3 year period. Their yields have fallen as a result and therefore the prospects for similarly high returns over the next 3 year period are low.
- The Fund's UK corporate bond portfolio produced positive returns over the 3 month and 1 year periods, albeit underperforming gilts. The 3 year return was ahead of gilts and index-linked gilts.
- The allocation to fund of hedge funds detracted whilst the allocation to property was broadly neutral over the shorter time periods but positive over a three year period.

Managers

- In aggregate the managers underperformed the customised benchmark over the year, with outperformance by Genesis and Jupiter more than offset by underperformance by the hedge funds and Schroder Equity.
- There have been no significant concerns raised with any of the Fund's managers. Whilst we have no immediate concerns regarding the Schroder global unconstrained equity mandate, the manager slightly underperformed its benchmark this quarter, and has underperformed over 12 months. This is an unconstrained mandate and relative performance is expected to be volatile over short periods. Schroder will be invited to present to the Investment Panel in early 2013 to discuss the portfolio.

- The performance of Man also remains disappointing. The manager has recently completed the restructure of the mandate, reducing the number of underlying funds in which it invests. Again, now that the restructure is largely completed, we suggest that performance of the mandate is monitored closely.

Key points for consideration

- The performance of Man should be closely monitored as changes are made to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.
- The Fund had taken an overweight position to corporate bonds by selling government bonds in December 2011. This has generally benefited the Fund and the position should be monitored to determine if and when it is appropriate to reverse it.

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Section Two – Market Background

This update covers the three months, and 12 months to the end of June 2012.

Yields as at 30 June 2012	% p.a.
UK Equities	3.7
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.2
Non-Gilts (>15 yrs)	4.6
Mercer Gilt Yield	3.2

Absolute Change in Yields	3 Mths	1 Year
	%	%
UK Gilts (>15 yrs)	-0.3	-1.3
Index-Linked Gilts (>5 yrs)	0.0	-0.6
Corporate Bonds (>15 yrs AA)	-0.4	-1.3
Non-Gilts (>15 yrs)	-0.3	-0.9
Mercer Gilt Yield	-0.3	-1.2

Inflation Indices	3 Mths	1 Year
	%	%
Price Inflation - RPI	0.4	2.8
Price Inflation - CPI	0.1	2.4
Earnings Inflation *	1.0	1.7

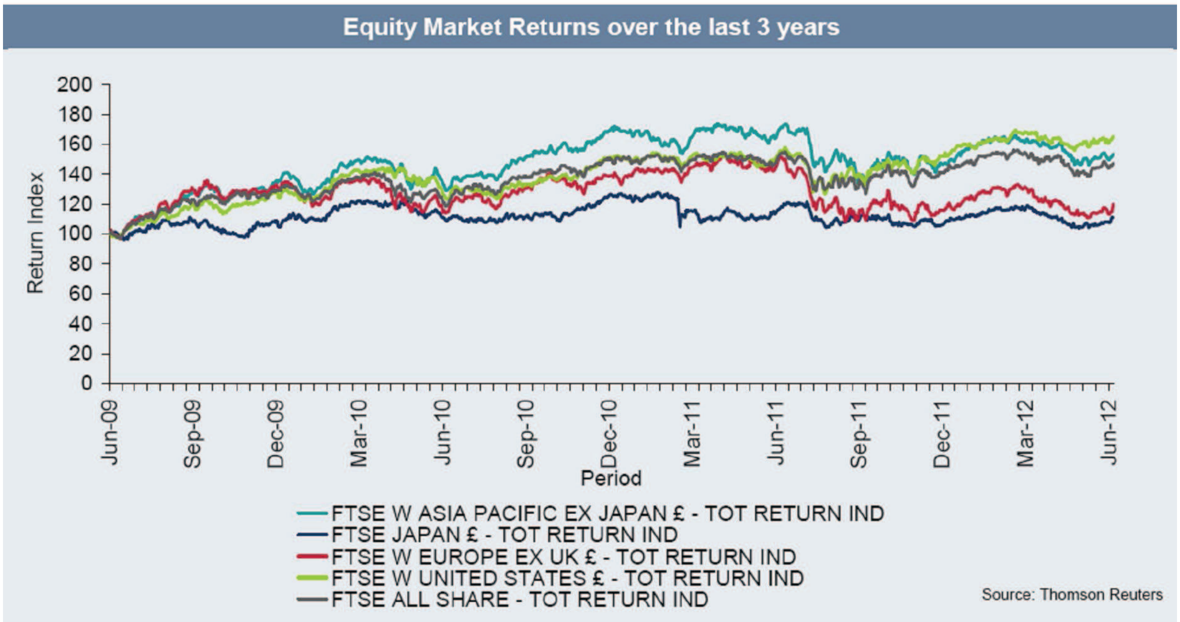
Market Returns	3 Mths	1 Year
Bond Assets	%	%
UK Gilts (>15 yrs)	6.7	27.9
Index-Linked Gilts (>5 yrs)	0.8	16.9
Corporate Bonds (>15 yrs AA)	5.3	18.3
Non-Gilts (>15 yrs)	4.2	15.5

* *Subject to 1 month lag*
Source: Thomson Reuters

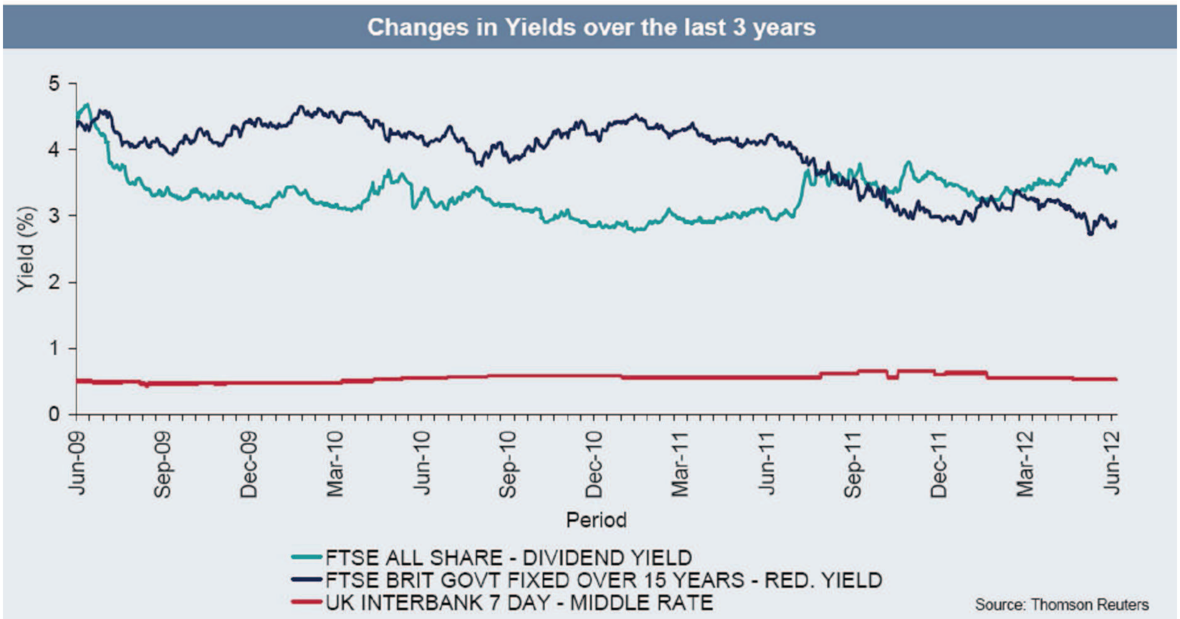
Market Returns	3 Mths	1 Year
Growth Assets	%	%
UK Equities	-2.6	-3.1
Overseas Equities	-3.7	-4.2
USA	-1.0	7.8
Europe	-7.2	-20.2
Japan	-5.5	-4.8
Asia Pacific (ex Japan)	-4.7	-10.6
Emerging Markets	-7.3	-13.6
Property	0.3	4.8
Hedge Funds	-1.6	-1.5
Commodities	-10.7	-8.6
High Yield Bonds	2.3	6.7
Cash	0.1	0.5

Change in Sterling	3 Mths	1 Year
	%	%
Against US Dollar	-1.8	-2.3
Against Euro	3.0	11.6
Against Yen	-4.8	-3.5

Market Background



The graph above shows the equity market returns for the last three years; both the medium-term trend and the short-term volatility. The graph is based on the FTSE World Index series, rebased to 100.



The graph above shows the historical yields for gilts, UK equities and UK cash over the last three years. It shows how the redemption yield on government debt has changed over the medium term, and the trend of falling yields over the last year.

The table below compares general market returns (i.e. not achieved Fund returns) with assumptions about returns made in the Investment Strategy agreed in 2009.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
UK equities	8.4	13.8	Significantly ahead of assumed strategic return, reflecting relative low point for equity markets 3 years ago. Next 3 years is less certain due to current economic uncertainty.
Global equities	8.4	13.1	
UK Gilts	4.7	12.4	Significantly ahead of assumed strategic return as gilt yields have fallen to historic lows and corporate bond yields have also fallen. Low yields limits return potential over next few years.
Index Linked Gilts	5.1	11.6	
UK Corporate Bonds	5.6	12.9	
Overseas Fixed Interest	5.6	7.6	Ahead of assumed strategic return.
Fund of Hedge Funds	6.6	2.8	Behind assumed strategic return. Low LIBOR levels could lead to continued low performance.
Property	7.4	12.3	Ahead of assumed strategic return.

Source: Statement of Investment Principles, Thomson Reuters.

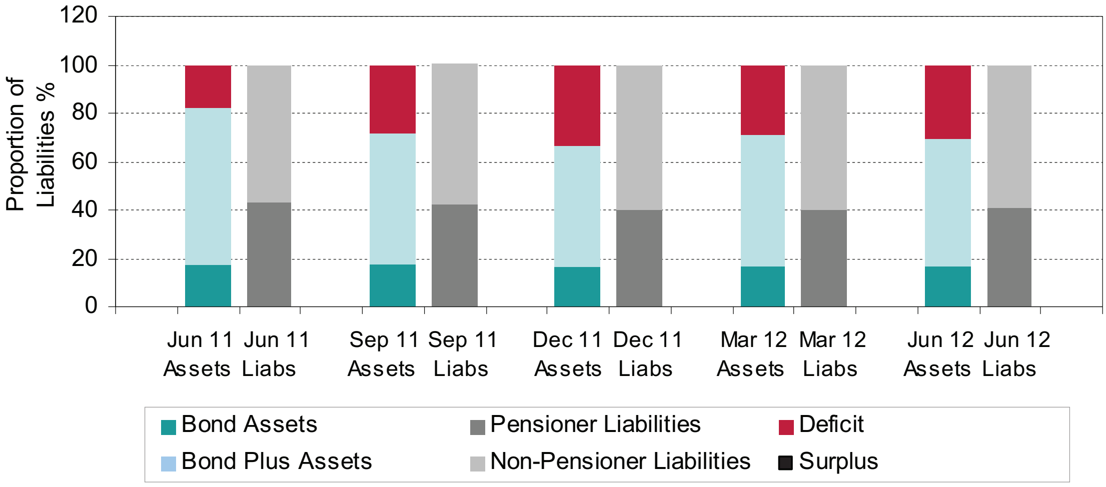
See appendix A for economic data and commentary

Section Three - Consideration of Funding Level

- This section of the report considers the estimated funding level of the Fund. Firstly, it looks at the Fund asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Asset allocation and liability split

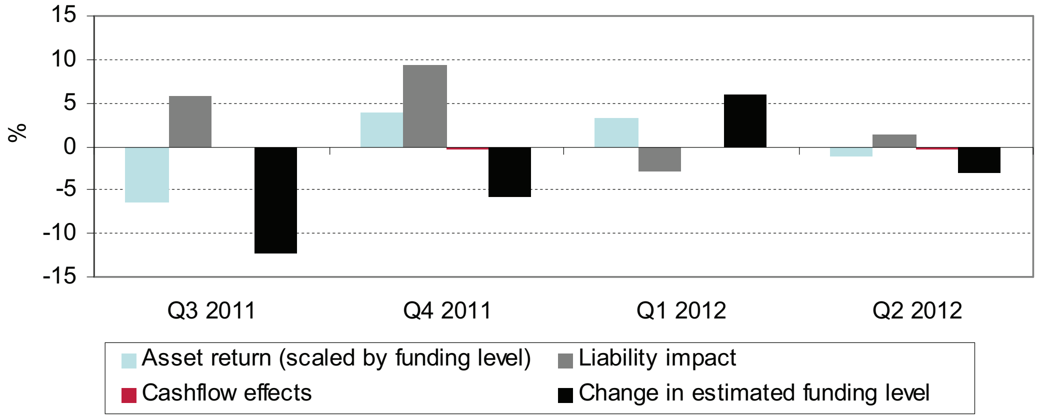
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2010.
- These calculations do not take account of any unexpected changes to the Fund membership or changes to the demographic assumptions and should not be construed as an actuarial valuation.



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level slightly decreased over the second quarter of 2012, all else being equal. This was driven by:
  - The fall in the reference yield (-0.3%) used to place a value on the liabilities, is expected, all else being equal, to have led to an increase in their value.
  - The Fund assets producing a negative absolute return.
- At the valuation date, 31 March 2010, the Scheme was 82% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have reduced the overall funding level, all else being equal.

Scheme performance relative to estimated liabilities

- The chart below shows, quarter by quarter, the return on the assets and the impact on the liabilities due to changes in financial market values and expected member movements.
- As detailed above, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

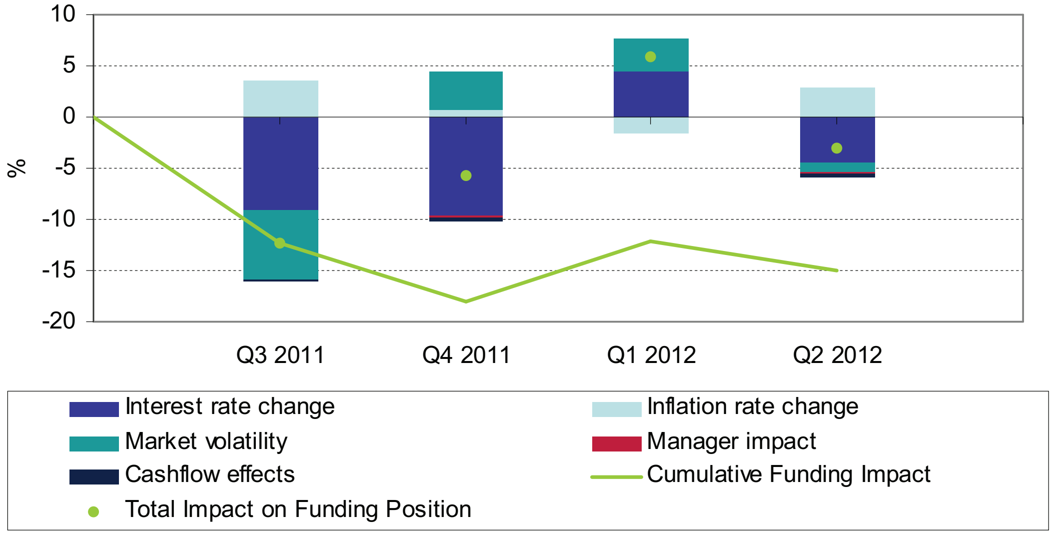


Note 1: A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of -1.1%, over the last quarter.
- Over the quarter, the value placed on the liabilities has increased by an estimated 1.5%, driven primarily by the fall in the Gilt yield.
- Overall, the combined effect is expected to have led to a slight decrease in the estimated funding level to 69% (from 70% at 31/03/2012).

Key drivers of performance against the estimated liabilities

- The chart below shows the main contributors to the change in the estimated funding level. For reference, please note that the underlying calculations are based on the Mercer gilt yield.



- The interest rate (yield) on the reference gilt yield used to place a value on the liabilities fell over the quarter by 0.3%. This fall in the reference gilt yield increases the value placed on the liabilities, all else being equal. This factor was the largest negative contributor.
- This was partially offset by a fall in the market's expectation of future inflation, as represented by the light blue bar.
- Market volatility has had a negative impact on the funding position over the quarter as the Fund's assets produced a negative return over the quarter, which was behind the expected return of the actuarial valuation.
- Manager performance was a negative contributor over the quarter, as the Fund's assets underperformed the customised benchmark overall.

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 June 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	30 June 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	522,800	19.4	18.0
Overseas Equities	1,061,827	39.3	42.0
Bonds	660,062	24.4	20.0
Fund of Hedge Funds	209,246	7.7	10.0
Cash (including currency instruments)	48,300	1.8	-
Property	199,378	7.4	10.0
TOTAL FUND VALUE	**2,701,613**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets decreased by £56m over the second quarter of 2012 to £2,702m. This was a result of negative absolute investment performance.
- In terms of asset allocation, there were minimal changes over the quarter, with most changes driven by the investment returns, which the managers have achieved.
- 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 March 2012 Value £'000	31 March 2012 Proportion of Total %	Net new money £'000	30 June 2012 Value £'000	30 June 2012 Proportion of Total %
Jupiter	UK Equities	115,581	4.2	-	115,438	4.3
TT International	UK Equities	134,334	4.9	-	131,198	4.9
Invesco	Global ex-UK Equities	173,237	6.3	-	165,283	6.1
Schroder	Global Equities	141,812	5.1	-	135,430	5.0
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	86,241	3.1	-	81,646	3.0
Genesis	Emerging Market Equities	140,617	5.1	-	133,548	4.9
MAN	Fund of Hedge Funds	63,099	2.3	-	60,928	2.3
Signet	Fund of Hedge Funds	64,379	2.3	-	63,263	2.3
Stenham	Fund of Hedge Funds	33,272	1.2	-	32,494	1.2
Gottex	Fund of Hedge Funds	52,820	1.9	-	52,560	2.0
BlackRock	Passive Multi-asset	1,224,804	44.4	-	1,207,763	44.7
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	73,308	2.7	-1,900	72,372	2.7
RLAM	Bonds	227,557	8.3	-	232,188	8.6
Schroder	UK Property	129,011	4.7	-	129,504	4.8
Partners	Property	70,394	2.6	1,900	73,553	2.7
Record Currency Mgmt	Dynamic Currency Hedging	339	0.0	+3,125	-4,864	-0.2
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	10,698	0.4	-3,125	8,343	0.3
Internal Cash	Cash	15,833	0.6	-	10,966	0.4
Rounding		1	0.0	-	-	0.0
TOTAL		**2,757,337**	**100.0**	**-**	**2,701,613**	**100.0**

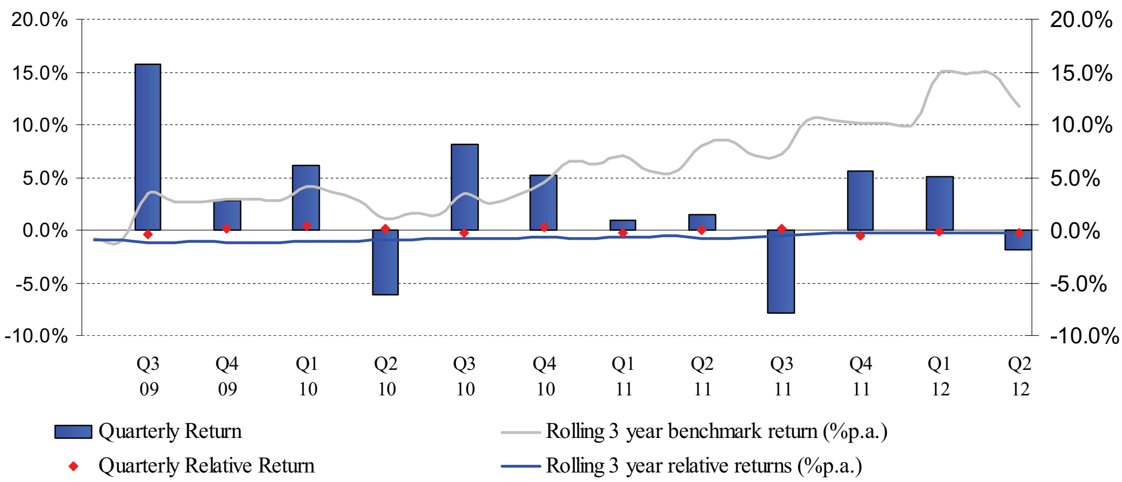
Source: Avon Pension Fund, Data provided by WM Performance Services.

Section Five – 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



Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-1.9	n/a	n/a
Total Fund (ex currency hedge)	-1.6	0.5	11.6
Strategic Benchmark	-1.7	0.0	11.4
Relative (inc currency hedge)	-0.2	n/a	n/a
Relative (ex currency hedge)	+0.1	+0.5	+0.2

Source: Data provided by WM Performance Services.

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 30 June 2012.

Asset Class	Weight in Strategic Benchmark	Index returns Q2 2012	Contribution to total benchmark (quarter)	Index returns 1 year	Contribution to total benchmark (1 year)
UK Equities	18%	-2.6%	-0.5%	-3.1%	-0.6%
Overseas Equities	42%	-3.7%	-1.5%	-4.2%	-1.8%
Index Linked Gilts	6%	0.6%	0.0%	14.3%	0.9%
Fixed Coupon Gilts	6%	3.8%	0.2%	15.9%	1.0%
UK Corporate Bonds*	5%	1.7%	0.1%	7.9%	0.4%
Overseas Fixed Interest	3%	3.2%	0.1%	5.3%	0.2%
Fund of Hedge Funds	10%	-1.6%	-0.1%	-6.6%	-0.7%
Property	10%	0.3%	0.0%	4.8%	0.5%
Total Fund	**100%**				

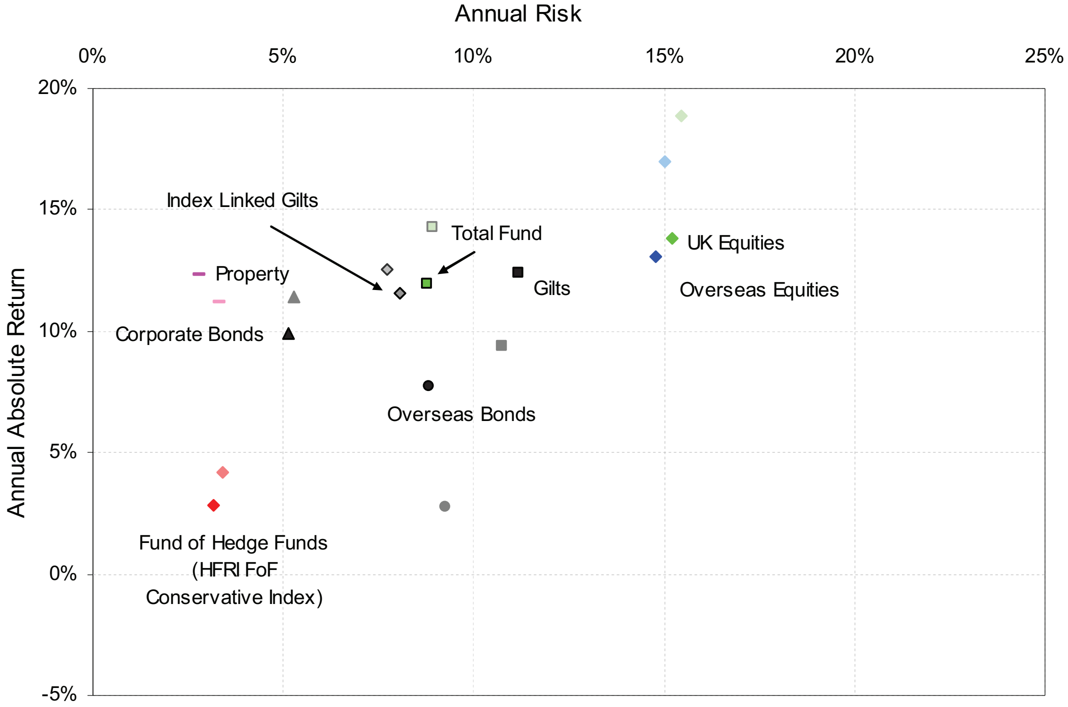
Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differs from the 'long maturities' index returns shown on the Market Background page in Section Two.

- **Market impact:** there were again ongoing concerns regarding sovereign debt in the Eurozone, markets produced negative returns as confidence suffered. Europe was the poorest performer with concerns regarding Spain's ability to pay its debt hampering performance in the region.
- UK and overseas equity markets produced returns of -2.6% and -3.7% respectively over the 3 months. Over the 1 year returns were -3.1% for UK equities and -4.2% for overseas equities.
- Sterling weakened against the US Dollar and Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Against the Euro, Sterling strengthened meaning that a lower return on Euro denominated equities in sterling terms. All the major equity markets produced negative returns for the quarter in local currency and Sterling terms.
- Yields on government and corporate bonds fell over the quarter, resulting in positive returns. Index linked gilt returns were lower as future inflation expectation fell.
- The allocations to fund of hedge funds and property posted low absolute returns, however, these were ahead of those posted by equities over the 3 month and 1 year periods.
- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, as the market returns were negative, this detracted 0.5% and 1.5% respectively to the strategic benchmark return over the 3 months and 0.6% and 1.8% respectively over the 1 year period.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both produced marginal positive contributions.

Risk Return Analysis

- 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 June 2012 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.
- This chart can be compared to the 3 year risk vs return managers' chart on page 19.

3 Year Risk v 3 Year Return to 30 June 2012



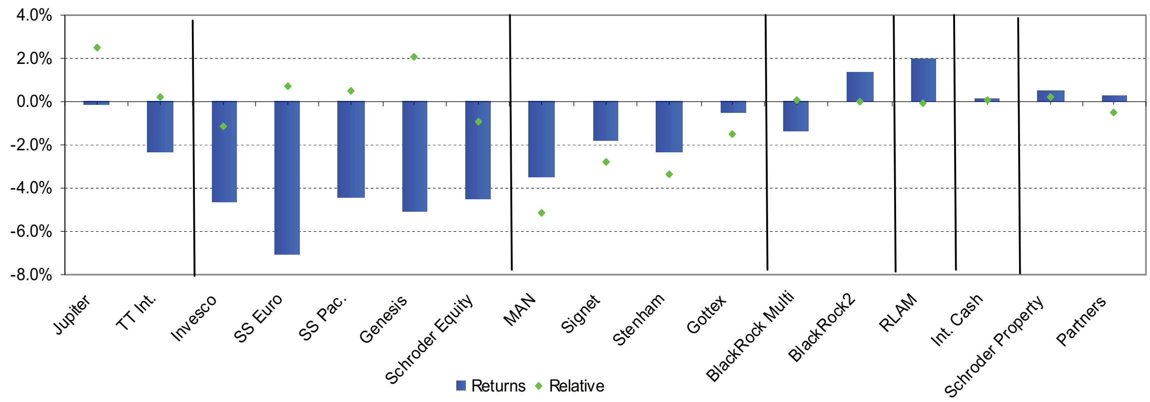
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- Compared to the 3 year period reported the previous quarter (represented by the lighter shaded marks), both UK and overseas equities have lower returns with broadly similar risk. The volatility of gilts and index linked gilts has slightly increased. The return for index linked gilts and corporate bonds has slightly decreased, whereas the return for gilts has increased. Overseas bonds have seen the largest increase in return from all the asset classes combined with a slightly lower risk.
- Fund of Hedge Funds continue to be the least volatile asset class but have seen the returns slightly decrease. Property has seen an increase in the return, with slightly less risk.
- With the exception of Fund of Hedge Funds, all asset classes over the three year period have performed above the assumed strategic return.

Aggregate manager performance

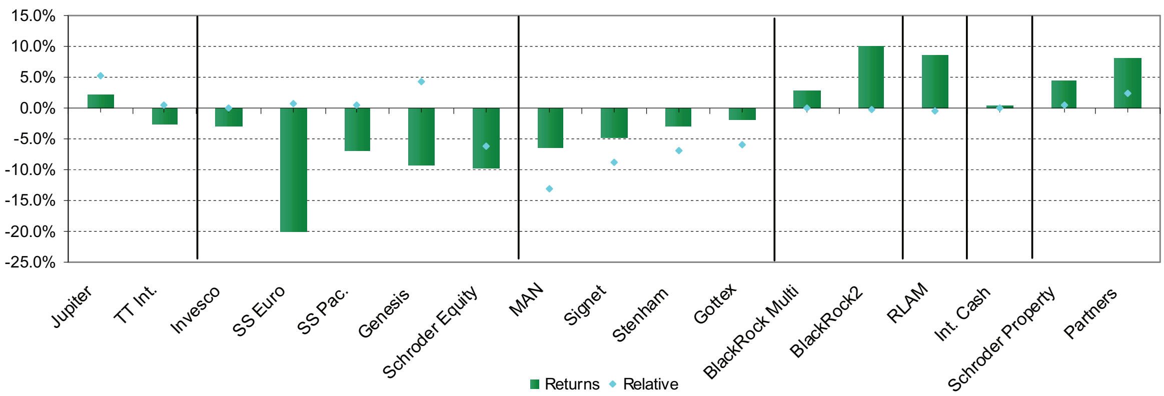
- In aggregate, the managers underperformed the customised benchmark over the quarter and year.
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of June 2012. The relative quarter, one year and three year returns are marked with green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

Absolute and relative performance - **Quarter to 30 June 2012**

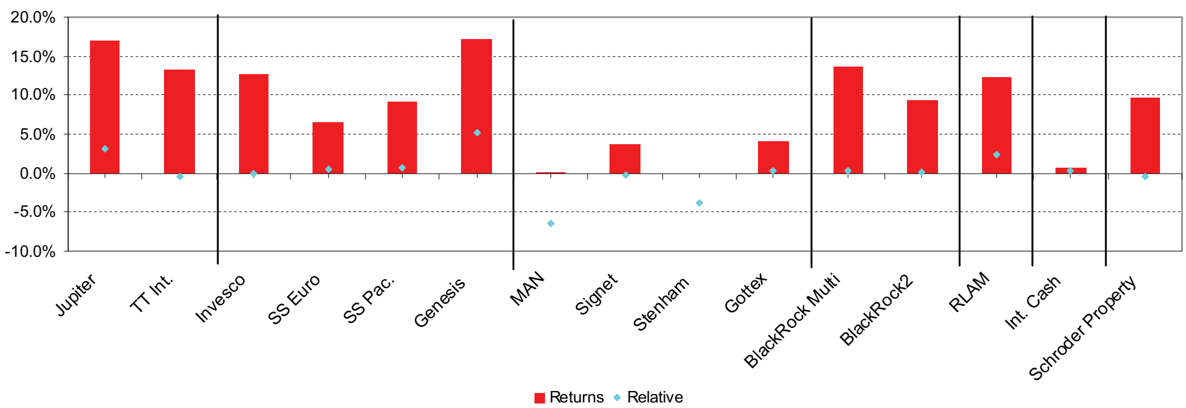


Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 30 June 2012**



Absolute and relative performance - **3 years to 30 June 2012**



Source: Data provided by WM Performance Services

- The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of June 2012. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

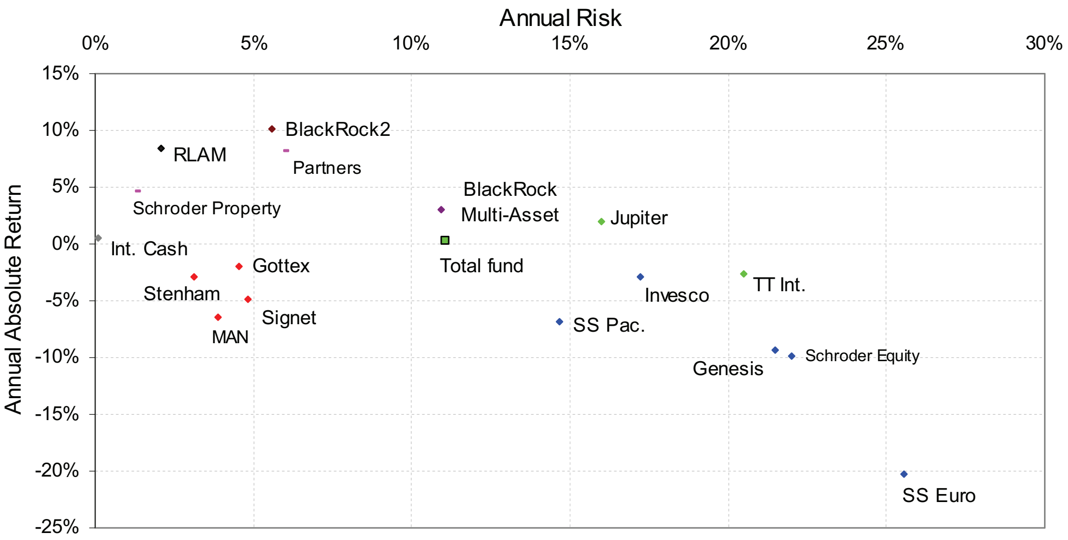
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.5	+5.1	+3.1	Target met
TT International	+0.3	+0.3	-0.5	Target not met
Invesco	-1.2	-0.1	-0.1	Target not met
SSgA Europe	+0.7	+0.9	+0.7	Target met
SSgA Pacific	+0.4	+0.5	+0.8	Target met
Genesis	+2.1	+4.3	+5.3	Target met
Schroder Equity	-0.9	-6.1	N/A	N/A
Man	-5.0	-13.2	-6.6	Target not met
Signet	-2.7	-8.8	-0.2	Target not met
Stenham	-3.3	-6.9	-3.8	Target not met
Gottex	-1.5	-5.9	+0.3	Target met
BlackRock Multi - Asset	0.0	-0.1	+0.1	Target met
BlackRock 2	0.0	-0.2	+0.1	Target met
RLAM	-0.1	-0.6	+2.3	Target met
Internal Cash	+0.1	0.0	+0.3	N/A
Schroder Property	+0.2	+0.6	-0.4	Target not met
Partners Property	-0.5	+2.4		N/A

Source: Data provided by WM Performance Services
Data for Partners is lagged by 1 quarter.

Manager and total Fund risk v return

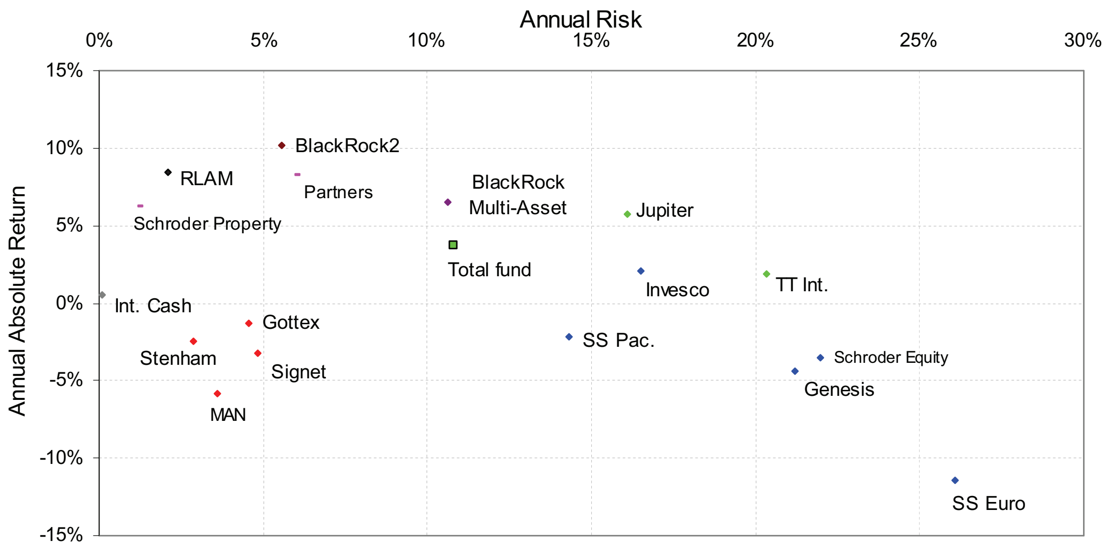
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with data to 31 March 2012 for comparison.

1 Year Risk v 1 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 March 2012



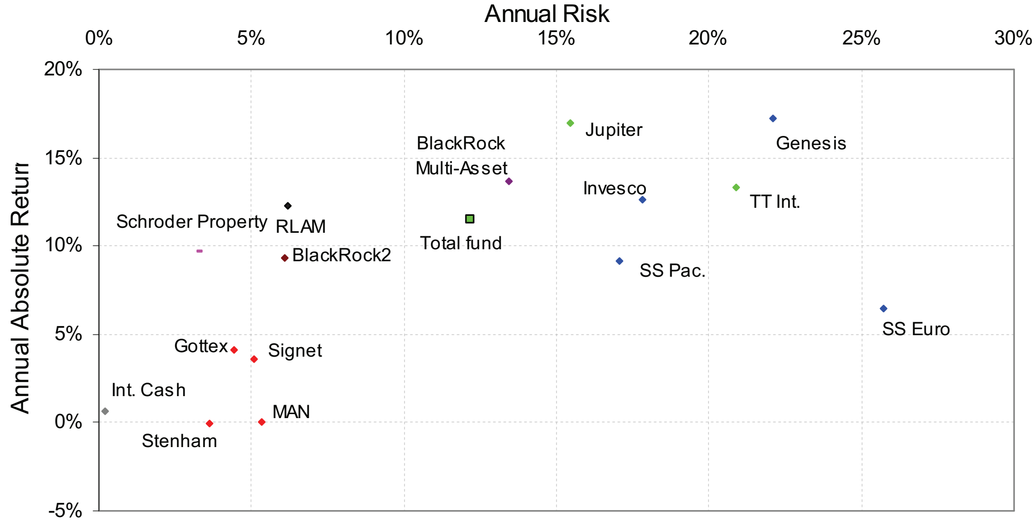
Source: Data provided by WM Performance Services

- 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 seen a decrease in the absolute return with similar levels of risk when compared to the previous quarter.
- There were minimal changes to the risk / return profile of the fund of hedge funds, RLAM and the BlackRock portfolios.

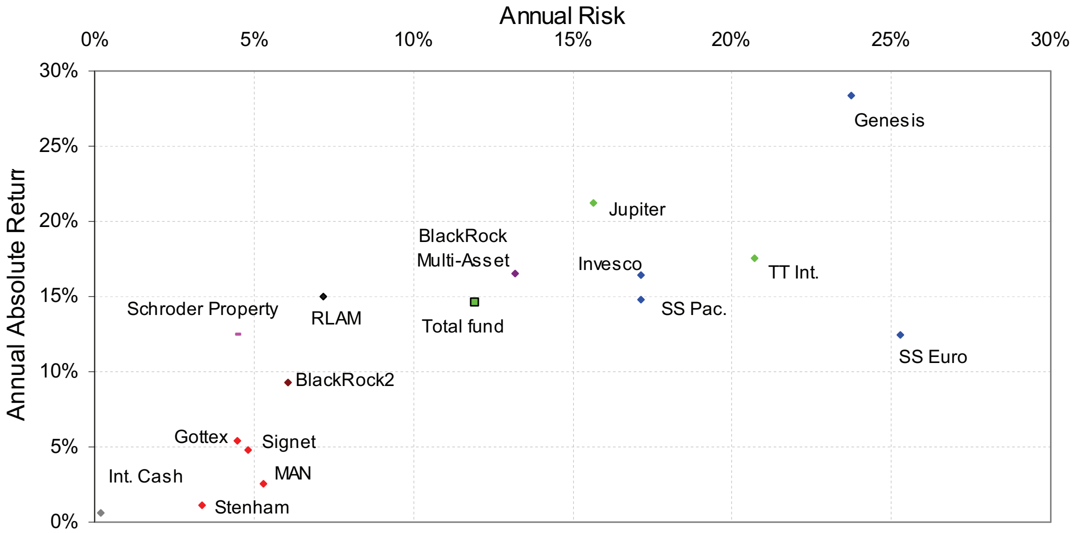
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with data to 31 March 2012 for comparison.

3 Year Risk v 3 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

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

- Overall, there has been little change to the level of risk within the portfolio, or the level of risk seen from the various funds in which the Fund invests.
- There has, however, been a decrease in the returns which each of the funds have achieved over the 3 year period when compared with the position last quarter. This is more notable for the more volatile funds such as equities.
- Compared to the 1 year chart, all of the returns are positive, with a similar level of risk.

Conclusion

- As expected, the Fund of Hedge Fund managers have provided the least volatile performance and, looking at the 1 year returns, have outperformed some of the equity funds. However, over the longer 3 year period they have generally underperformed their assumed strategic return.
- The strong 3 year returns for equities reflect the relatively low valuations 3 years ago. Returns over the next 3 years could be significantly lower, particularly if concerns over the Eurozone and slowing global growth materialise.
- Bond returns have also been very high over the 3 year period. Their yields have fallen as a result and therefore the prospects for similarly high returns over the next 3 year period are low.

Section Six – 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.

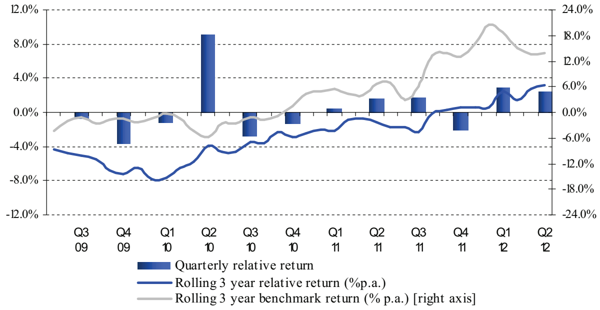
Key points for consideration

- 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.
- We continue to believe that the performance of Man within the Fund's fund of hedge fund portfolio should be kept under close scrutiny given disappointing performance and, more importantly, a restructure of the portfolio.
- We include a qualitative assessment of the Schroder global unconstrained equity manager, implemented in Q2 2011. Whilst we have no immediate concerns regarding the Schroder global unconstrained equity mandate, the manager slightly underperformed its benchmark this quarter, and has underperformed over 12 months. However this is an unconstrained mandate and relative performance is expected to be volatile over short periods. Schroders will be invited to present to the Investment Panel in early 2013 to discuss the portfolio.

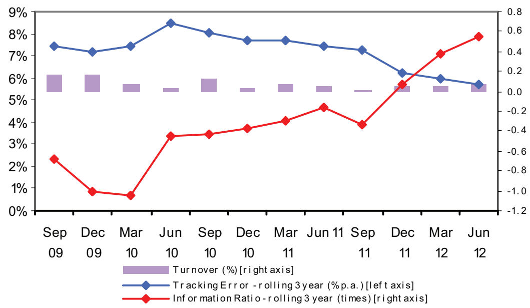
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (Socially Responsible Investing)	FTSE All Share	+2%	April 2001
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings:**
£115,438	4.3	5.7%	Not available

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.1	2.0	16.9
Benchmark	-2.6	-3.1	13.8
relative	+2.5	+5.1	+3.1

Source: Data provided by WM Performance Services, and Jupiter

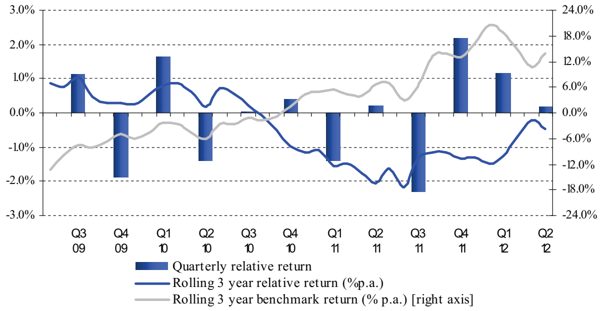
Comments

- The Fund's allocation to Cash (5.7%) decreased compared to the preceding quarter (6.9%) remaining 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 Q2 2012, Jupiter was significantly underweight Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services and Technology. This relative allocation has been consistent with previous quarters.

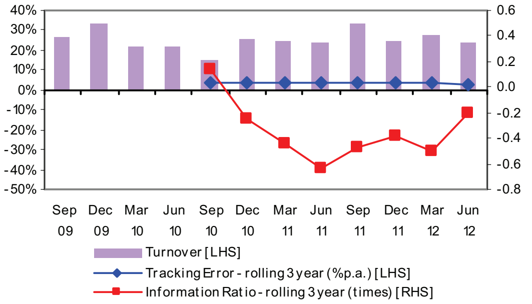
TT International – UK Equities (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (unconstrained)	**FTSE All Share**	**+3-4%**	**July 2007**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£131,198	**4.9**	**2.6%**	**48**

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.3	-2.8	13.3
Benchmark	-2.6	-3.1	13.8
relative	+0.3	+0.3	-0.5

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

Comments

- The Fund held an overweight position in Consumer Goods by 4.3% and continued to be significantly underweight to Financials, by 4.3%, at the end of the quarter.
- Turnover, over the second quarter, declined to 23.9% compared to the last quarter's number of 27.6%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters, however, there has been a consistent decrease since Q3 2010. The 3 year information ratio (risk adjusted return), improved by 0.29 after a deterioration last quarter for the first time in four quarters (from -0.38 in Q4 2011 to -0.50 in Q1 2012).
- The majority of the portfolio's risk continues to be taken in active stock selection, which contributed positively to the quarterly performance by 0.4%.

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 Q2 2012

The Fund underperformed its benchmark by 0.9%, producing an absolute return of -4.5% over the quarter. Over the 1 year period, the return of the Fund was -9.8%, which was behind the benchmark return of -3.7%. The underperformance over the 1 year period, is driven by the Fund underperforming its benchmark in 3 out of the last 4 quarters.

The underperformance of the portfolio over the quarter was driven by financial stocks, which were the largest detractor despite the portfolio being underweight financials versus the benchmark overall. JPMorgan was one of the largest sufferers, which was in part due to the disclosure of trading losses from their proprietary trading activities. Schroder have trimmed the position, however, overall they believe that there is still value within the stock so the holdings has been maintained. Stocks within materials also detracted with Atlas Iron suffering due to risk aversion within the market.

On a regional basis, the UK and Japan were positive for the relative performance of the portfolio. In the UK, Diagio was a positive contributor to the portfolio as the Public Offer to acquire an additional stake in Vietnamese company Halico was accepted. North America detracted the most on a regional basis, primarily due to an underweight position to consumer staples and telecoms hurt performance.

The most underweight country weightings in the portfolio are North America (-4.4%), Continental Europe (-1.6%) and Emerging Markets (-1.1%). The portfolio is overweight to the United Kingdom (+2.2%), and Africa and the Middle East (+1.2%).

In terms of sector weightings, the most underweight positions are to Financials (-3.0%), Energy (-1.9%) and Telecoms (-1.0%). Overweight positions are in Consumer Discretionary (+3.8), Consumer Staples (+0.4%) and Healthcare (+0.3%).

Schroder continue to pursue companies which are benefiting from longer-term global trends. The portfolio is balanced between defensive stocks (e.g. a stock which is not dependent on economic conditions such as stocks in pharmaceuticals or food) and more cyclical industries. Schroder maintain a focus on stock-specific situations where there feel there is good growth and valuation upside.

Conclusion

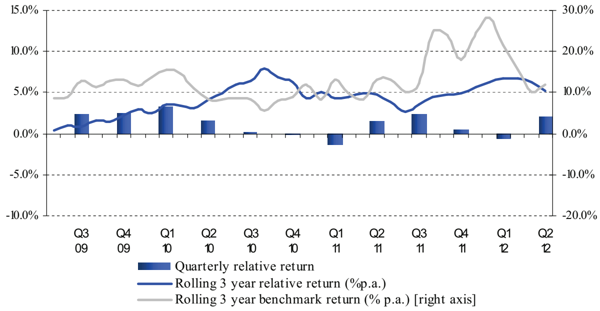
Schroder’s approach to stock selection is not constrained by the benchmark. Performance relative to the benchmark is expected to be volatile over short time periods. The underperformance since inception is therefore not of significant concern. Schroder continues to invest in stocks, diversified by sector and country, that they expect to outperform over the long term rather than trying to identify short term price anomalies to purchase stocks of companies that they do not necessarily believe will excel in the long term.

We believe the philosophy has been adhered to and have no immediate concerns with Schroder.

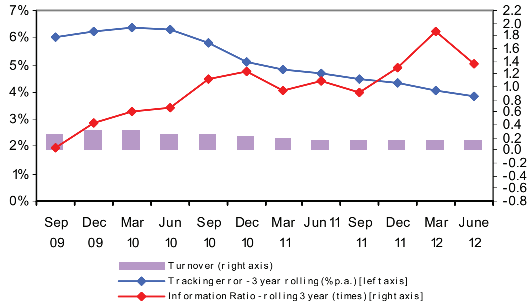
Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance target	Inception date
Emerging Market equities	**MSCI EM IMI TR**	**-**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£133,548	**4.9**	**3.9%**	**158**

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-5.0	-9.4	17.2
Benchmark	-7.1	-13.7	11.9
relative	+2.1	+4.3	+5.3

Source: Data provided by WM Performance Services, and Genesis

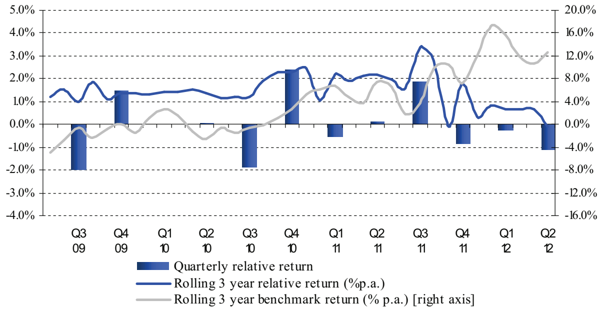
Comments:

- 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) continued to fall from 4.1% in Q1 2012 to 3.9% in Q2 2012. This is the 10th consecutive quarter of the tracking error reducing from when compared to the preceding quarter. The 3 year information ratio (risk adjusted return), fell from 1.9 to 1.4.
- The allocation to Cash (1.5%) increased slightly compared to the previous quarter (1.0%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Health Care (+2.7%) and Financials (1.5%). The Fund is underweight to Consumer Discretionary (-5.5%), Energy (-3.8%) and Telecom Services (-1.9%).
- The reduction in tracking error is perhaps expected given the uncertain economic climate and Genesis continue to show they can outperform during both negative and positive equity markets.

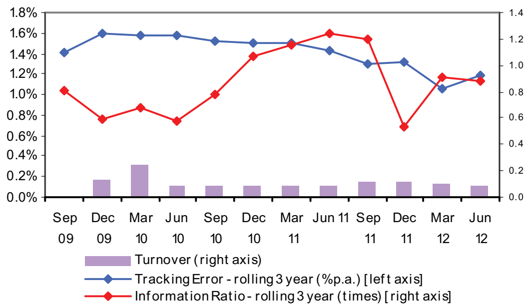
Invesco – Global ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Global ex-UK equities enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£165,283	6.1	1.2%	372

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-4.6	-2.9	12.6
Benchmark	-3.4	-2.8	12.7
relative	-1.2	-0.1	-0.1

Source: Data provided by WM Performance Services, and Invesco

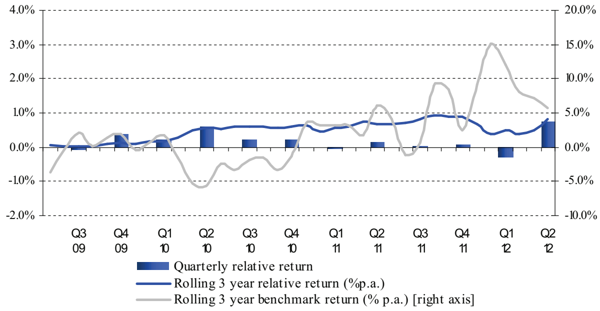
Comments:

- Over the last quarter, all strategies continued to be positive contributors except for Stock and Sector selection. The different timing of the pricing of the Fund versus the benchmark (mid day price versus end day price respectively) accounts for c.1% of the underperformance this quarter.
- The absolute volatility has increased to 13.2% at the end of the second quarter compared to 12.1% at the end of the first quarter. This is the second consecutive quarterly increase.
- The turnover for this quarter of 9.2% decreased from 10.0% in the previous quarter. This is the third consecutive quarter were the turnover reduced from when compared to the preceding quarter. The number of stocks remained almost at par compared to the previous quarter.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio remains appropriate for the enhanced indexation approach.
- Invesco's 3 year performance has fallen marginally behind benchmark but this is not currently of concern. The level of risk taken is appropriate for the outperformance objective and relative outperformance is expected to improve.

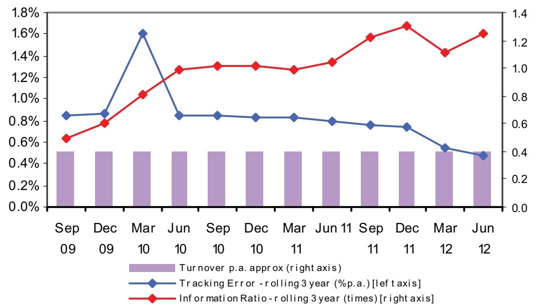
SSgA – Europe ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Europe ex-UK equities (enhanced indexation)	FTSE AW Europe ex UK	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£27,087	1.0	0.5%	116

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-7.1	-20.0	6.6
Benchmark	-7.8	-20.9	5.9
relative	+0.7	+0.9	+0.7

Source: Data provided by WM Performance Services, and SSgA

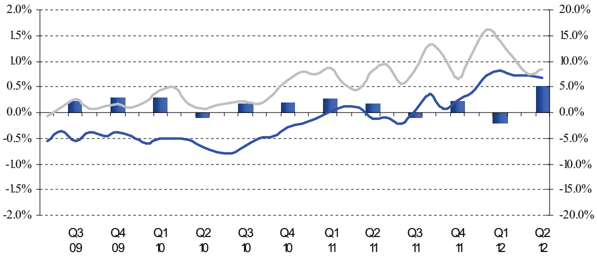
Comments:

- 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 of 2011, it fell further to £30.34million. However, over the second quarter of 2012, there has been a significant increase to the AUM by approximately £59.99 million to £94.42 million.
- Turnover has continued to remain consistent over the last 3 years. The tracking error has continued to decline over the last five quarters.
- The information ratio has improved this quarter following a decrease in the previous quarter.

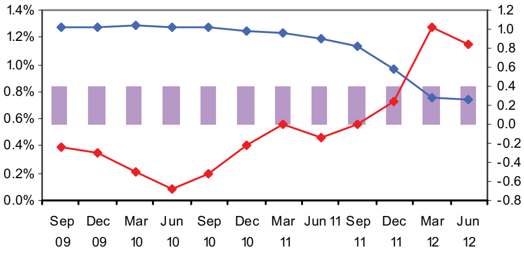
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Pacific inc. Japan equities	FTSE AW Dev Asia Pacific	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£54,559	2.0	0.7%	464

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-4.5	-6.9	9.2
Benchmark	-4.9	-7.4	8.4
relative	+0.4	+0.5	+0.8

Source: Data provided by WM Performance Services, and SSgA

Comments:

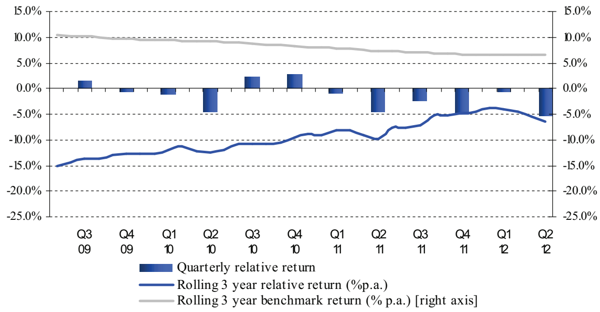
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- The information ratio (+0.85) has decreased compared to the previous quarter (+1.03).
- The tracking error of the fund has continued to decrease. This is not necessarily inappropriate 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

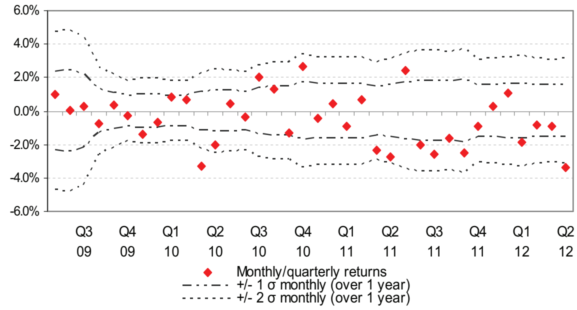
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +5.75%	5.3%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£60,928	2.3	66

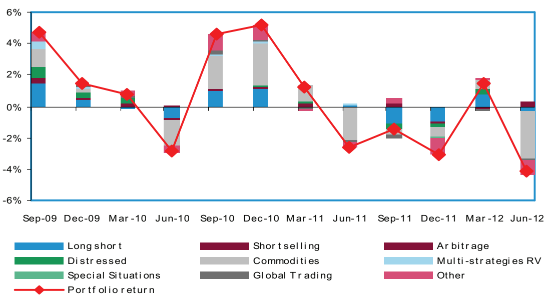
Relative returns [#1]



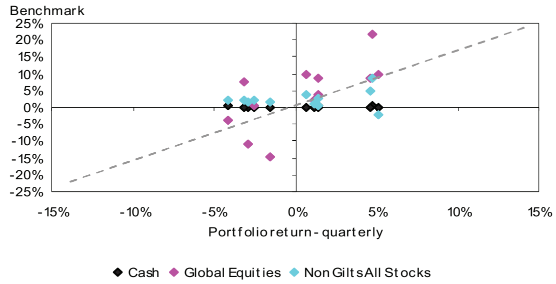
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-3.4	-6.5	0.0
Benchmark	1.6	6.5	6.6
relative	-5.0	-13.2	-6.6

Source: Data provided by WM Performance Services, and MAN

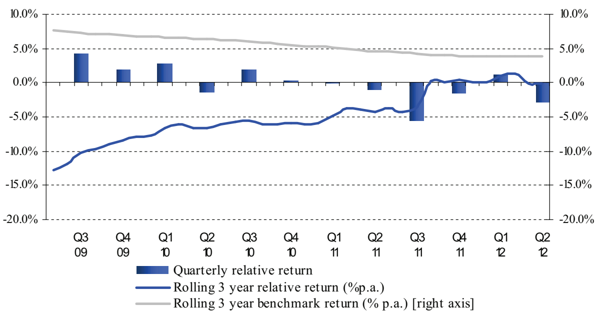
Comments:

- 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 reducing the number of managers that it holds and increasing the use of managed accounts. These changes are being introduced to better achieve risk return targets by adopting a more flexible and dynamic allocation strategy. Man must demonstrate their capability of managing assets in this manner. The number of funds reduced over the past quarter from 75 to 66.
- 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.

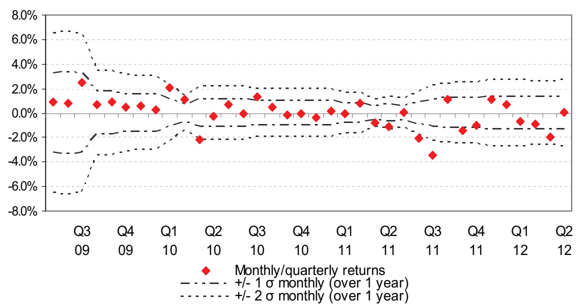
Signet – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +3.0%**	**5.1%**	**August 2007**
Value (£'000)	**% Fund Assets**	**Number of funds**	
£63,263	**2.3**	**51**	

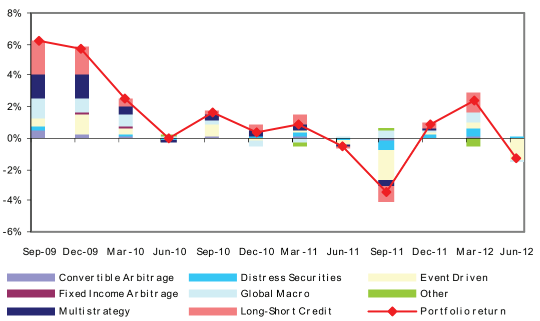
Relative returns [#1]



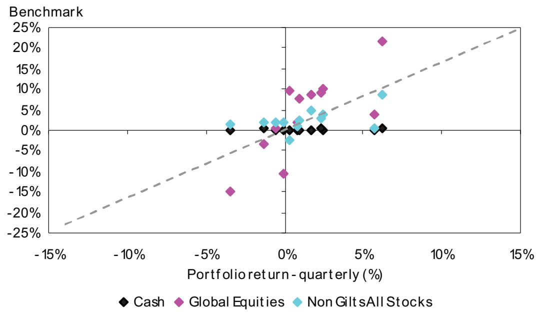
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.7	-4.8	3.6
Benchmark	1.0	4.0	3.8
relative	-2.7	-8.8	-0.2

Source: Data provided by WM Performance Services, and Signet

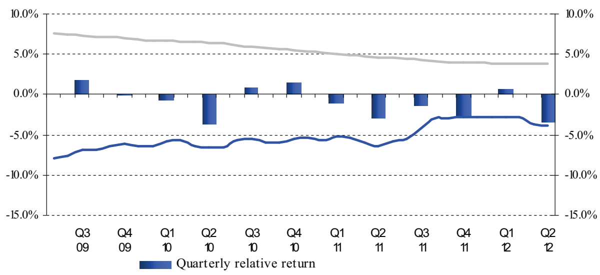
Comments:

- All strategies contributed to the positive absolute returns except for the Event Driven, Long-Short Credit, Global Macro and Convertible Arbitrage 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.

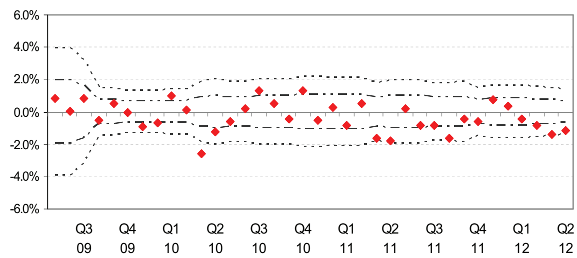
Stenham – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.2%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£32,494	1.2	38	

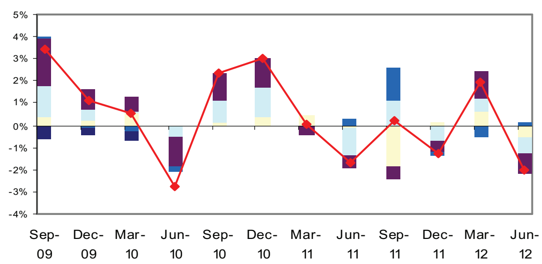
Relative returns [#1]



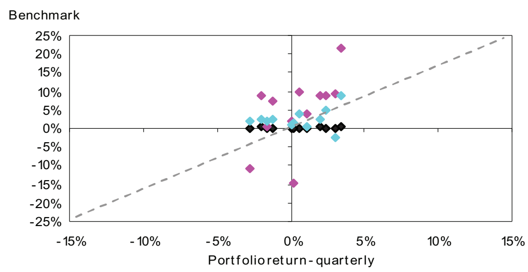
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.3	-2.9	0.0
Benchmark	1.0	4.0	3.8
relative	-3.3	-6.9	-3.8

Source: Data provided by WM Performance Services, and Stenham

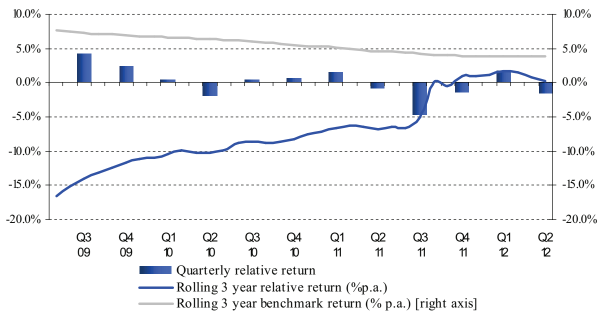
Comments:

- Event driven strategies produced the lowest return over the quarter, and detracted 0.6% from the portfolio over the quarter. Long / Short equities were the largest detractor to the portfolio. Global Macro also detracted and short selling was neutral. The only positive contribution to performance came only from Relative value strategies (+0.1%).
- The allocation to the Global Macro and Long / Short Equity strategies made up 71.0% of the total Fund allocation. The allocation to Cash continued to decrease from 2.0% to 1.0% 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.

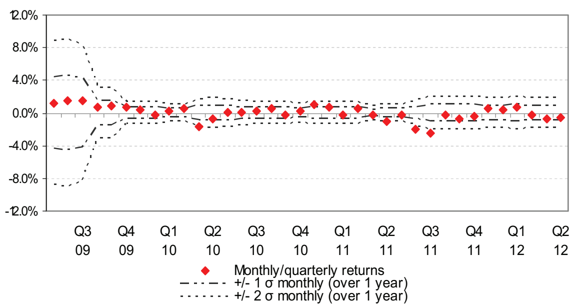
Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.1%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£52,560	2.0	Not available	

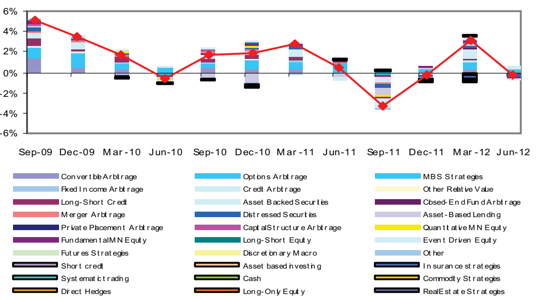
Relative returns [#1]



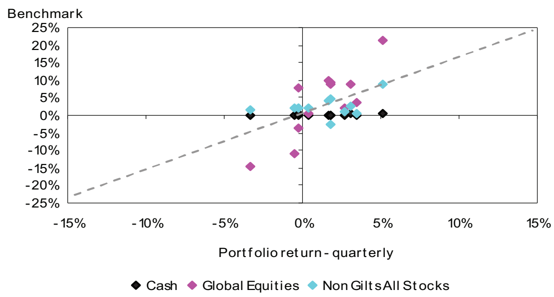
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.5	-1.9	4.1
Benchmark	1.0	4.0	3.8
relative	-1.5	-5.9	+0.3

Source: Data provided by WM Performance Services, and Gottex

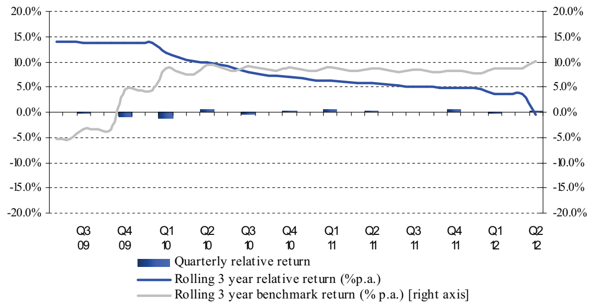
Comments:

- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Mortgage Backed Securities and Fundamental MN Equity strategies. Allocations remained broadly in line with those in the earlier 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.

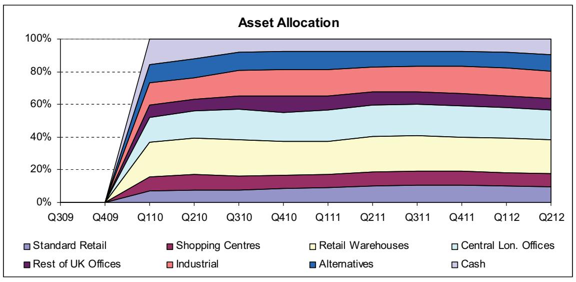
Schroder – UK Property

Mandate	Benchmark	Outperformance target	Inception date
UK property	**IPD UK pooled**	**+1.0%**	**February 2009**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of funds**
£129,504	**4.8**	**Not available**	**16**

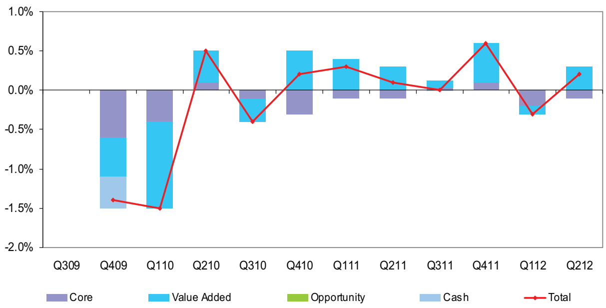
Relative returns #1



Asset Allocation #5



Contribution to relative return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.5	4.7	10.0
Benchmark	0.3	4.1	10.4
relative	+0.2	+0.6	-0.4

Source: Data provided by WM Performance Services, and Schroders

Comments:

- 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 £70 million, or approximately 53% of the Fund's intended commitment of approximately £132 million. A total of £2.51 million was drawn down over the quarter. The draw downs commenced in September 2009.

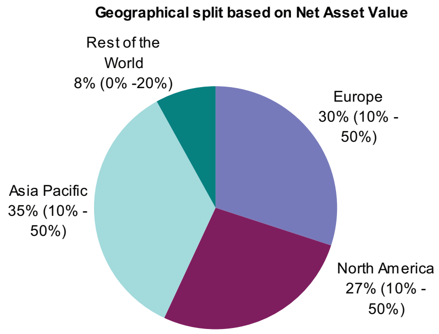
Partners have communicated that the extent of the draw downs to date are broadly as they expected, with the exception of investments in core European real estate which they are delaying due to the uncertain economic environment in Europe. They are currently reviewing the alternative opportunities to invest the funds earmarked for core European real estate. Partners note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

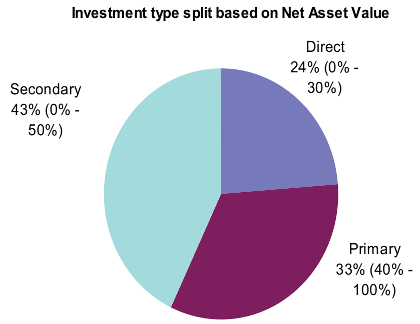
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 June 2012 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	10.14	11.21
Direct Real Estate 2011	2.64	2.58
Distressed US Real Estate 2009	12.41	12.65
Global Real Estate 2008	27.85	28.55
Global Real Estate 2011	7.54	7.67
Real Estate Secondary 2009	9.60	10.69
Total (£)	**70.18**	**73.35**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 30 June 2012.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 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 and investment type within the portfolio over the quarter were marginal.

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 Q2 2012

Distributions since inception total £7.71m, with £0.46m distributions over the most recent quarter.

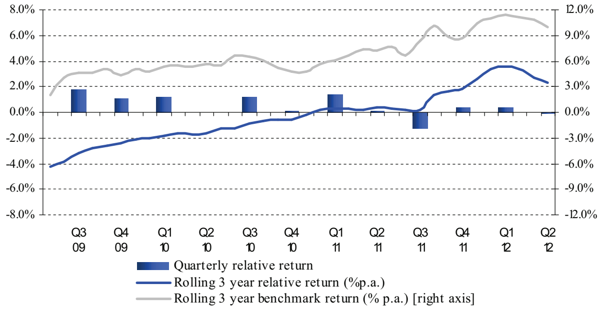
Performance of Partners is lagged by 1 quarter. Performance over Q1 2012 was positive, with the manager producing a return of 0.3%, this was however, behind that of the benchmark. Over the 1 year to 31 March 2012, the performance of Partners was 8.2%, against a benchmark return of 6.3%.

Overall, we believe that Partners has performed as we would have expected since their appointment since September 2009. The manager has been consistently drawing down monies into the portfolio and they remain within the guidelines that have been set. The allocation to primary investments remains below the target allocation of 40%-100%, however, at this early stage whereby not all the monies have been drawn (at the end of June 2012, this stands at 53%) we do not have any concerns as this is a long term target.

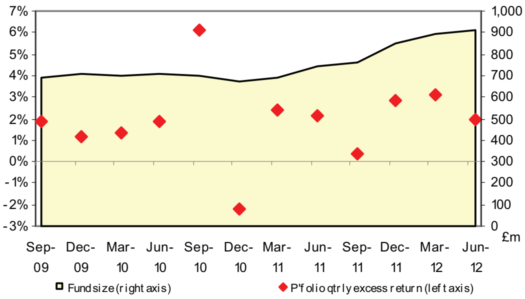
Royal London Asset Management – Fixed Interest

Mandate	Benchmark	Outperformance target	Inception date
UK Corporate Bonds	**iBoxx £ non-Gilts all maturities**	**+0.8%**	**July 2007**
Value (£'000)	**% Fund Assets**	**Number of holdings**	
£232,188	**8.6**	**276**	

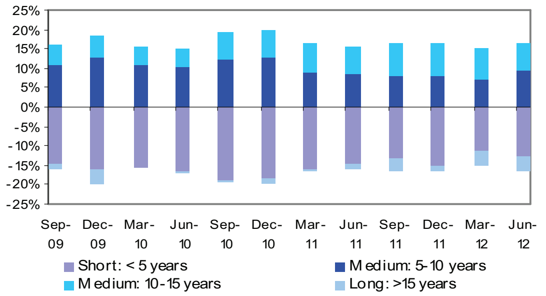
Relative returns [#1]



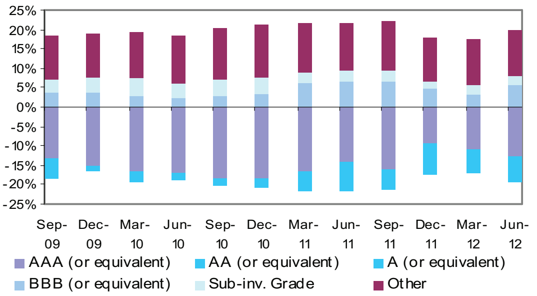
Performance v fund size [#3]



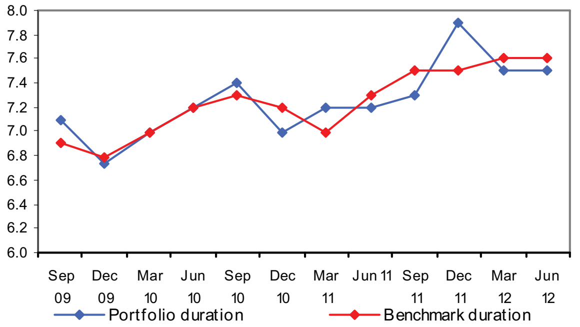
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.0	8.4	12.2
Benchmark	2.1	9.0	9.9
relative	-0.1	-0.6	+2.3

Source: Data provided by WM Performance Services, and RLAM

Comments:

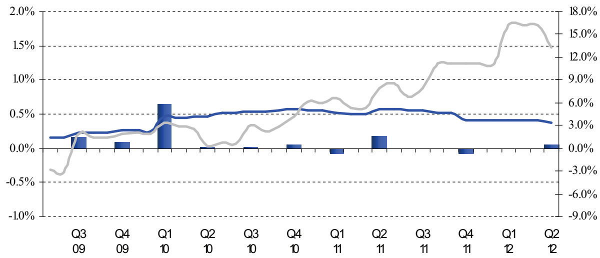
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark 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

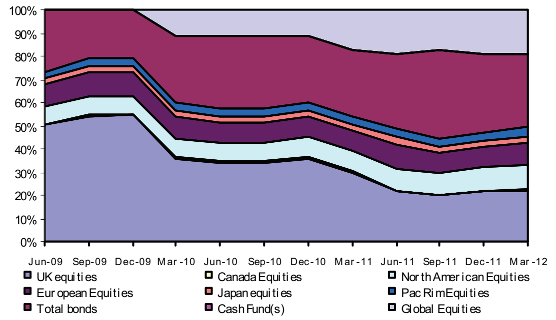
Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	In line with customised benchmarks using monthly mean fund weights	0%	April 2003

Value (£'000)	% Fund Assets
£1,207,763	44.7

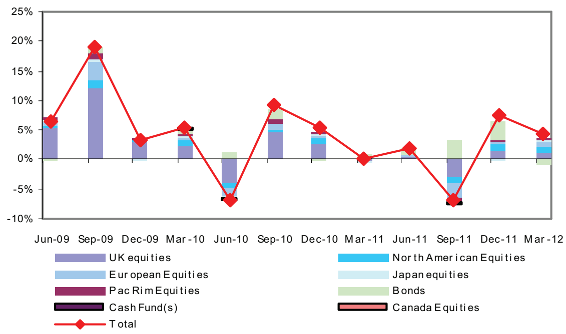
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.4	2.9	13.6
Benchmark	-1.4	3.0	13.5
relative	0.0	-0.1	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

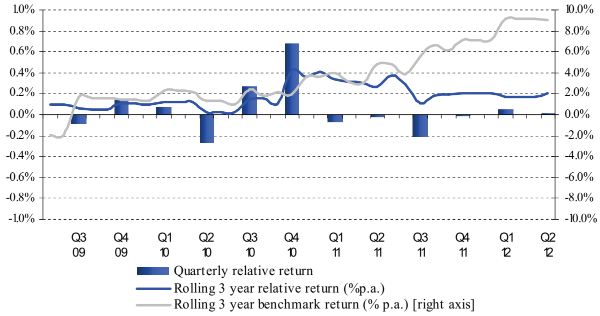
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- Asset allocations moved in line with market movements.

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

Mandate	Benchmark	Outperformance target	Inception date
Overseas property	Customised benchmarks using monthly mean fund weights	0%	September 2009

Value (£'000)	% Fund Assets
£72,372	2.7

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	10.1	9.3
Benchmark	1.3	10.3	9.2
relative	0.0	-0.2	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter the Fund's holdings UK Gilts increased, at the expense of cash, UK equity futures and European equities.
- Over the quarter, the positive absolute return contribution to the total portfolio returns UK Gilts outweighed the negative contributions from UK, US and European equities.

Appendix A – Market Events

Asset Class	What Happened? Positive Factors	Negative Factors
UK Equities	• The UK Bank Rate was held at 0.5% providing some stability in markets. • Inflation continued its downward trend falling to 2.4% over the quarter, benefiting the consumer economy. • Corporate profits held up remarkably well in large parts of the economy, driven mainly by exports, leading to many companies increasing their dividends.	• The LIBOR fixing scandal hit investor confidence in Banks as speculation increased over how many major banks were involved. • Unemployment remained high through the quarter even with the slight boost from Olympic venues. • The Purchasing Managers Index (PMI) fell to 50.2 over the quarter. This is only marginally above the 50.0 point which represents declining confidence.
Overseas Equities		
North America	• US GDP remained in positive territory over the quarter. It is currently stated at 1.9% for Q1 2012 down from the initial estimates of 2.2%. • The US Fed held interest rates and QE aided confidence in the market. The Fed also reported that US consumer credit posted the largest month-over-month gain in more than a decade in March (the most recent data available), rising by more than $21 billion.	• US unemployment rose slightly over the quarter to 8.1% (31/5/12 figures). • Election campaigning has already started to cause uncertainty in US markets. The market has concerns about both candidates.
Europe	• ECB cut interest rates over the quarter by 25bps in an attempt to encourage growth. • Increased bailout funds are providing liquidity to the market and is seen as proof of the political classes commitment to the Euro. • The second Greece election produced a governing coalition to provide support for the Eurozone plan and increase confidence in European Markets.	• Unemployment remains high - particularly in peripheral Eurozone countries as austerity measures impact on confidence. • Spanish debt broke through the 7% yield level and the cost of issuing new debt rose inline with investor confidence falling in respect of Spain's ability to repay its debt. • France voted against Eurozone austerity plans by electing Francois Hollande and reversing many of Sarkozy's social welfare reforms. This added an element of confusion about the direction of Europe.
Japan	• The Japanese economy is growing at 4% p.a. recovering from the sharp fall in activity following the earthquake and consequent disruption to industrial output. Reconstruction spending continued to lift the economy.	• Deteriorating growth in the Emerging Markets, particularly China & India had an negative effect on the Japanese export sector, although exports were strong elsewhere. This was compounded by the flight to safe haven assets such as the Yen.

Asset Class	What Happened? Positive Factors	Negative Factors
Asia Pacific	• Economies in much of Asia are performing well, especially domestically. Consumers are experiencing increasing incomes and have a rapidly rising propensity to spend. • Most central banks held their interest rate strategy, helping market confidence. The exceptions were Australia which cut rates by more than the market expected.	• Deteriorating exports caused growth to slow in Hong Kong, Indonesia and Taiwan. • Inflationary pressures have started to build with CPI rising in India, Indonesia, Korea and the Philippines, Singapore and Taiwan.
Emerging Markets	• China cut interest rates by 25bps late in the quarter and Brazil cut 50bps to promote growth. • Growth accelerated in Mexico and the Philippines as exports and domestic consumption improved.	• Several prominent IPO's were delayed this quarter due to market volatility including Formula One and Graff Diamonds. • Emerging Market currencies have suffered in Q2, particularly the Indian Rupee and the Brazilian Real as investors sought safety in the US dollar. The speed of China's slowdown also surprised markets.
Gilts	• Demand for Gilts has proved resilient over the quarter. Capital values appreciated, as the UK continued its 'safe haven' status. This, together with more QE has pushed Gilt yields to historically low levels.	• CPI has continued to trend down hitting 2.4% over the quarter. However, this is still above the Bank of England's 2% target.
Index Linked Gilts	• Demand for Index Linked Gilts remains strong as limited supply supports the price.	• Yields have turned negative in Q2. Whether this is sustainable, at these levels, over time remains a key question.
Corporate Bonds	• Sterling corporate bonds had positive returns. Markets also approved of the EU summit agreement to allow the broader use of EU rescue funds to support eurozone banks and sovereign bond markets. • Spreads on Investment Grade Corporate Bonds have experienced compression against over Gilts over the quarter reducing the premium paid for the additional risk.	• Corporate Bonds have struggled over the quarter to find buyers. This market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Prime assets, particularly those in London, have outperformed secondary and tertiary properties, as in the first quarter.	• Overall void levels continue to increase in tandem with the lowering of capital values as well as falling rental yields.

Economic statistics

	Quarter to 30 June 2012			Year to 30 June 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.7%	n/a	0.4%	-0.8%	n/a	2.2%
Unemployment rate	8.1%	11.2%	8.2%	8.1%	11.2%	8.2%
Previous	*8.2%*	*10.3%*	*8.2%*	*7.9%*	*10.0%*	*9.1%*
Inflation change[2]	0.1%	0.3%	0.0%	2.4%	2.4%	1.6%
Manufacturing Purchasing Managers' Index	48.4	45.1	49.7	48.4	45.1	49.7
Previous	*51.9*	*47.7*	*53.4*	*51.3*	*50.4*	*55.8*
Quantitative Easing / LTRO[3]	£325bn	€1,018bn	$2,654bn	£325bn	€1,018bn	$2,654bn
Previous	*£325bn*	*€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 30 June 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. The UK Monetary Policy Committee announced an additional £50bn of quantitative easing in July 2012, not reflected in the table above.

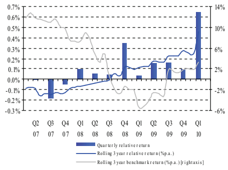
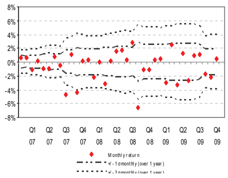
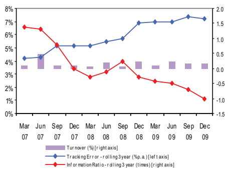
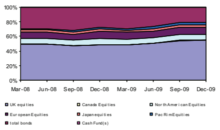
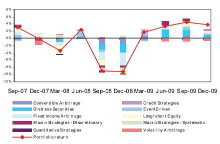
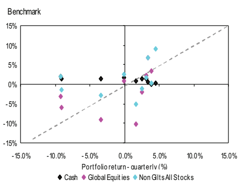
Appendix B – Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE AW All-World ex UK UK Gilts (>15 yrs or >20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index Corporate Bonds(>15 yrs AA): iBoxx £ Corp 15+ Years AA Index Non-Gilts (>15 yrs): iBoxx £ Non-Gilts 15+ Years Index Index Linked Gilts (>5yrs): FTSE Brit Govt Index Link Over 5 Years Index Hedge Funds: CS/Tremont Hedge Fund Index Commodities: S&P GSCI Commodity GBP Total Return Index High Yield: Bank Of America Merrill Lynch Global High Yield Index Property: IPD Property Index (Monthly) Cash: 7 day London Interbank Middle Rate Price Inflation: All Items Retail Price Index Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

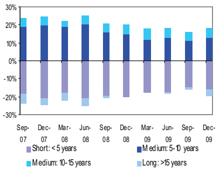
Appendix C – Glossary of Charts

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).
#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

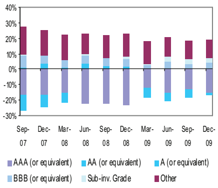
diagonal line.

#8



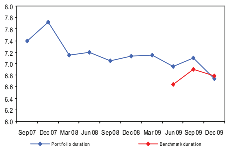
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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 D – 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%	-
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	-
Signet	Fund of Hedge Funds	3M LIBOR + 3%	-
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	-
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	-
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-12-011

Meeting / Decision: Avon Pension Fund Committee
Date: 21 September 2012

Author: Liz Woodyard
Report Title: Review Of Investment Performance For Periods Ending 30 June 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.

Document is Restricted

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QUARTERLY ENGAGEMENT REPORT

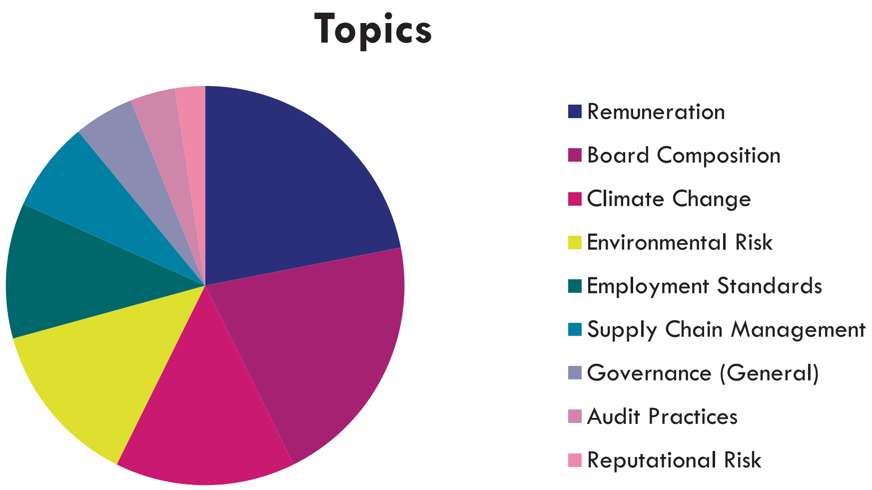
APRIL TO JUNE 2012

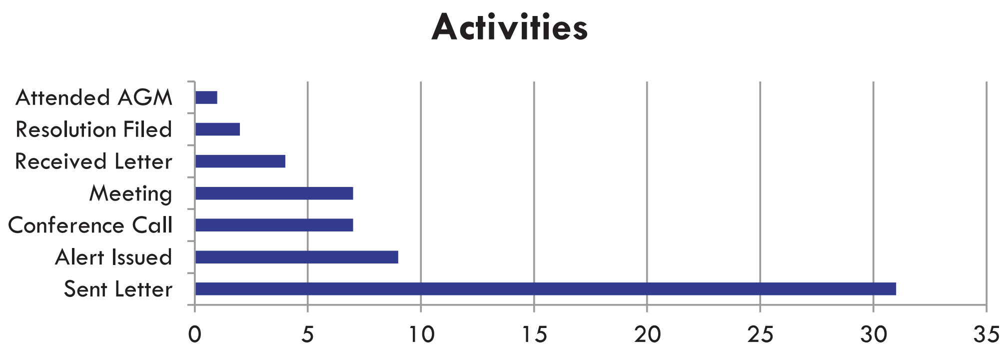
Local Authority Pension Fund Forum

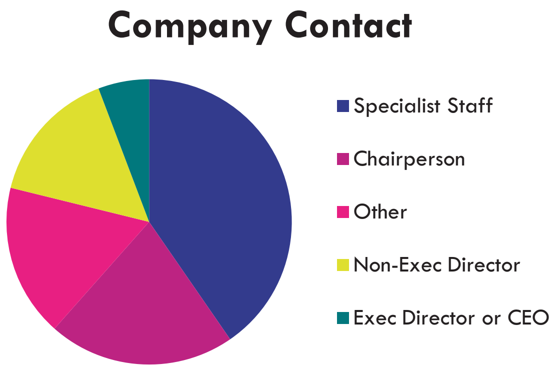
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of 55 local authority pension funds in the UK with combined assets of over £100 billion.

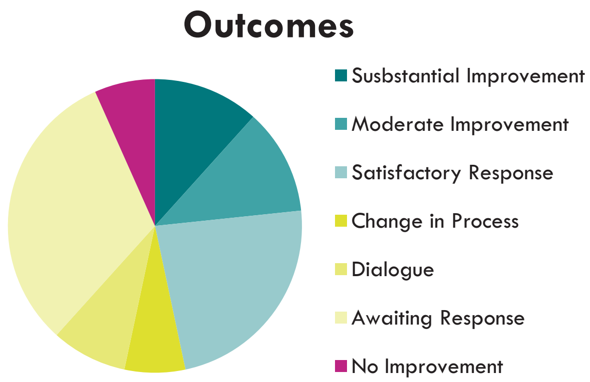
ENGAGEMENT SUMMARY

APRIL TO JUNE 2012









ACHIEVEMENTS

- Issued statement calling for **Barclays** to claw-back bonuses in response to the record fines levied against by US and UK regulators for manipulating the London Interbank Offered Rate (LIBOR).
- Met with **News Corp's** Senior Independent Director, Sir Rod Eddington and Andrew Knight to discuss opportunities for governance reform following the company's decision to split the company into separate publishing and media businesses.
- Issued voting alerts on executive pay at **Barclays, Intesa Sanpaolo,** and **Cookson Group**; alerts were also issued on audit and accounting concerns at **HSBC** and **RBS**.
- LAPFF members co-filed a proposal at **News Corporation** calling for an independent Chair. West Yorkshire Pension Fund co-filed a proposal at **Société Généralé** on the separation of management functions into Supervisory and Management Boards.
- Received response from **Goldman Sachs** regarding share buybacks and distribution of profits. The company will increase its dividend in response to feedback from LAPFF.
- Met with the Chair of **BP plc** to receive an update on the company's health and safety culture and risk management following the Gulf of Mexico spill. Discussed ongoing environmental remediation and the response to the recent UNEP report with the managing director of **Shell Petroleum Development Company** in Nigeria.
- Met with **Renault**, **Diamler**, **Fiat** and **Stobart Group** regarding climate change, vehicle efficiency and greenhouse gas emissions reductions.
- Expressed support for a binding vote on executive remuneration in consultation held by **BIS**. Advocated for a 'comply or explain' approach to board diversity at the **European Commission**. Argued that effective financial governance is dependent on properly audited accounting information to the **Treasury Select Committee.**

THE FORUM IN THE NEWS

Barclays LIBOR fixing – FT, 29 June and ITV News, 29 June

Voting Alert at HSBC - Professional Pensions, 25th May

Board independence at News Corp - The Telegraph, 1st May

UK Parliamentary Committee report on Murdoch – MSNBC, 1st May

Barclays' pay The Guardian, 22nd April and Sky News, 27th April

View more press coverage: http://www.lapfforum.org/press_coverage

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

CEO pay and the ongoing controversies at the banks have been the hot topics as this years' proxy season kicked off. **Barclays** in particular has been in the eye of the storm, first with a row over Bob Diamond's pay, which included a controversial "tax equalisation" payment, and most recently the fines levied by regulators for manipulating the London Interbank Offered Rate (LIBOR). LAPFF raised serious concerns about remuneration at Barclays in a voting alert to members issued in advance of the annual meeting. Coverage of the LAPFF stance at the Barclays AGM was picked up by ITV News at Ten as well as BBC and Sky News. The Forum also issued a statement calling for Barclays to claw-back bonuses to 2005, when the interest rate fixing first started.

THE SHAREHOLDER SPRING

Votes against remuneration

Central Rand Gold – 75%
Cairn Energy – 67%
Pendragon – 67%
Centamin – 63%
WPP – 60%
Aviva – 54%
Barclays – 32%
Cookson Group – 32%

Debate about the future of **News Corp** was reignited this quarter with announcement of the intention to split the company into separate media and publishing arms, as well as a result of the publication of the Parliamentary Select Committee report. The Forum stepped up its engagement as LAPFF members co-filed a shareholder resolution at News Corp asking for the appointment of an independent Chair. The Forum subsequently met with Sir Rod Eddington, the company's Senior Independent Director, and non-executive director Andrew Knight, to discuss governance issues and press for significant governance reforms at the new companies. News Corp faces ongoing and increasingly severe reputational, legal and regulatory risks.

Finally, Forum member West Yorkshire Pension Fund expressed concern regarding the concentration of power at the head of **Société Géneralé**, opting to co-file a shareholder proposal with PhiTrust Active Investors requesting that the board split the roles and functions of the Supervisory and Management Boards. This governance concern is one the Forum continues to highlight, with voting alerts issued to members on the Soc Gen shareholder resolution, and in advance of the **Flir Systems** AGM.

PROMOTING GOOD GOVERNANCE

Global Focus List

Goldman Sachs increased the dividend **31%** from $0.35 to $0.46, returning **$233m** in capital to shareholders each year.

In just a few short months, the Forum has made significant progress in reaching out to the fifteen companies on the Global Focus List this year. We were very pleased to receive a response from **Goldman Sachs**, outlining the company's strategy for distributing profits amongst its employees and shareholders. LAPFF had questioned the company on its strategy of buybacks and raised concerns regarding dilution. In response to the feedback of LAPFF and other investors, Goldman Sachs has agreed to significantly increase the dividend, providing for improved distribution of profits to shareholders.

LAPFF also had a productive discussion with **Meggitt**, a UK specialist in aerospace, defence and energy engineering. The conversation centred on the company's succession planning processes, its ongoing business strategy, and the steps it is taking to improve the number of women on the board. The company is moving in a positive direction and has entered into a robust succession planning and director recruitment process.

Danone, the French manufacturer of dairy products, also showed significant improvement in corporate governance practices. LAPFF wrote to the company asking for better alignment of pay and long-term value, consideration of separating the Chair and CEO roles, and improvement in the balance of independent directors. In a conference call with company representatives, each of our concerns were largely addressed: recent changes to executive pay provide for longer-term performance measurement; the company will implement the 12 year independence rule set out by French corporate governance standards; and the role of Chair/CEO will be reviewed in 2013.

A conference call with the **Berkeley Group** also led to a satisfactory outcome. The company's unusual remuneration target for executives of returning a £13 per share dividend to shareholders over ten years was a point of focus for the discussion. Despite not having the usual comparative measures and vesting scales, LAPFF was impressed with the company's remuneration strategy, which appears to focus attention on returning cash to shareholders while focusing executives' attention on building a long-term business. The Forum also pressed the company on boardroom independence, and stressed the importance of ensuring non-audit fees do not compromise the independence of the external auditor.

Finally, our engagement with **Afren** produced some notable results. The company has made changes to its board as well as its remuneration practices – two issues we raised with the company when LAPFF met representatives in January.

Financial Reporting & Audit

Raising concerns about the distortive effects of international accounting standards remains one of LAPFF's core projects. Following on the publication of "UK and Irish Bank Capital Losses – Post Mortem," LAPFF has been lobbying both companies and regulators to address deficiencies in the standards.

US $ 16 billion

Estimate of shareholder funds at HSBC that have not been accurately accounted for under IFRS.

This quarter LAPFF issued two voting alerts on the issue – one at **Royal Bank of Scotland**, and the other at **HSBC**. The concern centres on LAPFF's view that IFRS standards allow banks to register future expected income as profits on their books, despite the fact that such assets (such as mortgages) may not fully pay off for 20 or 30 years. The Forum considers that the accounts of HSBC and RBS have been negatively affected by the application of IFRS, which may significantly impact on audit quality and the reliability of accounts, and is material to calculations of net assets and profits. Most concerning is that this accounting method can make it look like a bank is running a profit, allowing it to pay out bonuses to staff, when in fact it is running a loss.

MANAGING ENVIRONMENTAL ISSUES

Climate Change

The Forum held a series of meetings with car manufacturers and transport firms, including Daimler, Renault, Stobart and Fiat. In each meeting, we discussed how each company approaches climate change risk. The series of meetings provided LAPFF an opportunity to compare and contrast each company's strategy for reducing greenhouse gas emissions. **Renault** is taking a focused approach by placing a large investment in plug-in electric vehicle technology, whereas **Daimler** is engaging with a number of different strategies in an effort to reduce its average per vehicle fleet emissions in line with EU directives. As market leader, it was instructive that **Fiat's** focus was on energy efficiency and improving existing engine technology to reduce emissions. The company's view was that most alternative technologies were not immediately applicable and a realistic time-frame for their adoption would be nearer 25-30 years.

UK transport and logistics firm **Stobart** is reducing emissions by initiating a shift of goods transport from road to rail, and by reducing the number of 'empty miles' that are driven by its fleet. Pricing mechanisms for off-peak transport and long-established relationships with supermarket chains is helping the company achieve its goals. Interestingly, Stobart uses in-truck computer technology to track driver performance for fuel use and efficiency, and then uses this to remunerate staff for demonstrating efficient and safe driving.

As a final step in its participation in the **Carbon Disclosure Leadership Index** (CDLI), LAPFF co-signed 24 acknowledgement letters to companies in the 2011 engagement that improved companies' CDLI scores. This joint investor initiative was seeking to encourage companies in carbon intensive sectors (energy, industrials, materials and utilities) to improve their responses to the Carbon Disclosure Project. Letters had originally been sent to the 98 companies with scores in the lowest quartile of the CDLI seeking improved disclosure on greenhouse gas emissions.

Environmental Risk Management

The Forum met with the Chair of **BP**, Carl-Henric Svanberg, to discuss the board's oversight of risk management after the Gulf of Mexico spill, as well as health and safety reforms for offshore drilling rigs. In the eighteen months since the previous meeting, it is evident that Svanberg has overseen a significant reorganisation of BP to address safety concerns and strengthen the cross-functional risk management team. BP is now using fewer contractors, conducting deeper due diligence and establishing longer relationships with suppliers, which LAPFF believes is a step in the right direction.

In April, **Shell** hosted a meeting at its London offices to discuss the recent UN Environment Program report on environmental liabilities in Nigeria. LAPFF has been engaging with Shell on the issue of Nigeria for many years. In 1997, LAPFF filed the first ever shareholder proposal on a social issue in the UK to address concerns about Shell's operations in Nigeria. Forum representatives met with the company's Managing Director for Nigeria. The meeting emphasized the challenges facing Shell, particularly regarding illegal refineries, pipeline sabotage and establishing a safety culture. The company has made significant progress in reducing flaring, and is implementing a robust process with the goal of eliminating operational oil spills. However questions still remain as to how Shell can best address ongoing environmental liabilities in the Niger Delta.

30% reduction in the volume of onshore operational spills in 2011 from Shell's Nigeria facilities

- Shell 2011 Sustainability Report

Hydraulic fracturing ('fracking') has been in the spotlight as of late. Fracking is a process whereby formerly inaccessible reserves of natural gas can be accessed by injecting water and chemicals at high pressure into underground deposits. The use of this technology in the Eastern US, Canada and the North West of England has raised questions about the potential environmental impacts of the technology, and in particular, the effect on the drinking water in local communities. The issue is a challenging one, as unconventional gas has the potential to unlock large energy reserves at a time when energy prices and consumer demand are high and growing. Appropriate management of this resource by companies will be crucial as the technology develops.

In response to member interest in this issue, LAPFF co-signed a series of letters to 21 oil and gas companies involved in hydraulic fracturing (or 'fracking') regarding the use of flaring by the industry.

LAPFF is a member of the Investor Network on Climate Risk (INCR) which, together with UK and Australia/New Zealand investor groups, issued a joint statement on calling on companies and governments to minimise methane emissions from rapidly growing unconventional oil.

200 investor members with total assets of over $20 trillion signed the joint Investor Statement on methane emissions

TARGETING SOCIAL ISSUES

Employment Standards & Sustainable Supply Chains

This quarter, LAPFF wrote to four companies seeking information on their sustainable supply chain management strategies: **Walgreen**, **Reckitt Benckiser**, **Kingfisher** and **Diageo**. To date, the Forum has met with **Diageo** where the discussion covered a range of topics including governance of sustainability at the board level, management of agricultural supply chains to ensure high labour standards, and the company's progress in meeting its water efficiency goals. The issue of alcohol in society was also discussed, particularly in relation to the UK's consideration of minimum unit pricing of alcohol.

Representatives of LAPFF also participated in an investor briefing on **National Express** and ongoing labour rights concerns in the US. LAPFF has been engaging with National Express about its anti-freedom of association strategy since 2009 and remains concerned over worker rights at the company's US subsidiary, Durham and the potential reputational damage to the company. LAPFF continues to support the need for a robust and transparent freedom of association policy from National Express.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS AND CONSULTATION RESPONSES

The Department of **Business Innovation and Skills** (BIS) issued a consultation this quarter seeking investor feedback on shareholder voting rights. One of the questions up for discussion was whether the government should establish a binding shareholder vote on executive remuneration. In its response, the Forum expressed support for the proposal of a binding vote, suggesting it would be a more effective mechanism for providing feedback to companies on

> "A binding vote may strengthen public confidence in shareholders' ability to restrain executive pay where this is required."
>
> *- LAPFF Response to BIS Consultation*

pay. It would also make companies more willing to engage with shareholders in advance of establishing pay packages, and would allow shareholders to more effectively restrain pay when appropriate. LAPFF also expressed its general agreement for the government to increase the level of shareholder support required for the remuneration vote to pass.

Some of these issues also fed into the Forum's response to the publication of the **Treasury Select Committee**'s terms of reference for a new inquiry into corporate governance in systemically important financial institutions. In its response LAPFF reiterated that effective financial governance, on which the rest of governance depends, is dependent on properly audited accounting information. The Forum observed that the original governance Code from the Cadbury Committee was actually entitled "The Financial Aspects of Corporate Governance" and focussed on accounting and auditing practice. LAPFF continues to argue that a good deal of effort has been expended in deflecting attention from defective accounting standards and audits. The Forum's 'Post-mortem on the Banks' was submitted as additional evidence to support the argument that IFRS is not always able to provide the 'true and fair' accounting required by law.

> "Voluntary action by companies, investors and executive search firms is the best and most appropriate way to initiate sustainable long-term improvement in boardroom diversity."
>
> *- LAPFF response to EU diversity consultation*

In keeping with its support for the 30% Club, an initiative seeking to improve gender diversity on corporate boards through voluntary mechanisms, LAPFF submitted a response to the **European Commission** consultation on gender imbalance on corporate boards in the EU. Support for voluntary measures was expressed in LAPFF's cover letter, which encouraged the Commission to take a 'comply or explain' approach and to request that companies disclose their gender diversity targets. It is the view of the Forum and of the 30% Club that greater transparency by companies will provide for greater opportunities for investors and other stakeholders to hold companies accountable for making specific and measurable improvements in board diversity.

LAPFF's consultation responses can be viewed online at:
http://www.lapfforum.org/consultations

NETWORKS & EVENTS

- **Marks & Spencer** Corporate Governance investor meeting
- **BP plc** Conference Call for Analysts
- **Aldersgate Group and Department of Energy and Climate Change** Raising the Bar on EU Climate Targets
- **30% Club** Launch of Cranfield Report on Executive Search Firms and Board Diversity
- **UNPRI** Webinar on 2012 Annual Assessment
- **HSBC** Sustainability call for Analysts

In March, **BP plc** hosted a roundtable conference call for analysts to discuss its sustainability report. The company discussed how non-financial incentives fit in with its overall strategy and the environmental and economical initiatives in the Gulf of Mexico. BP also highlighted how it has improved risk management and greater transparency within the sector. **Marks & Spencer** also hosted a meeting for analysts focusing on its governance and sustainability strategy in June.

At an event organised jointly by the **Aldersgate Group and the Department of Energy and Climate Change** in May, Bloomberg presented analysis on the costs for the EU to move from a 20% to a 30% carbon reduction target. Under the simplest scenario presented, this move could result in an additional cost of €3.5bn per year to 2020. In general, the wealthiest fifteen Member States would carry the larger burden, especially those with established and carbon-intensive power sectors. This macro-level analysis provides useful context to consider policy strategy at a national level.

At the end of May, the **30% Club** hosted a launch event for new research produced by Cranfield School of Management for the UK's Equality and Human Rights Commission. The focus of the report was on the role of executive search firms in increasing the number of women on boards. Opening remarks were made by the founder of the 30% Club, Helena Morrissey, with comments by the report's authors and one of the founding Chairmen of the 30% Club (and Chair of M&S), Robert Swannell. Swannell invited investors to ask companies to disclose, not only their targets for diversity on the board, but also to disclose diversity at all employee levels throughout the company. He further stated that investors may want to consider asking companies to tie their diversity initiatives to executive remuneration.

Meetings were also held with **UNPRI** and the **Church of England Ethical Investment Advisory Group** to explore avenues for future collaborative engagement.

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Afren	Board Composition, Remuneration	Moderate Improvement
Barclays	Remuneration	Moderate Improvement
Berkeley Group	Board Composition, Remuneration	Satisfactory Response
Boeing Company	Climate Change	Awaiting Response
BP plc	Employment Standards, Environmental Risk	Change in Process
British Sky Broadcasting	Board Composition	Dialogue
Cable & Wireless Worldwide	Remuneration, Board Composition	Change in Process
Colt Group SA	Remuneration, Board Composition	Satisfactory Response
ConocoPhillips	Environmental Risk	Change in Process
Cookson	Remuneration	Awaiting Response
Daimler	Climate Change	Satisfactory Response
Danone	Remuneration, Board Composition	Substantial Improvement
Diageo	Employment Standards, Environmental Risk	Satisfactory Response
EOG Resources	Environmental Risk	Awaiting Response
ExxonMobil	Climate Change	No Improvement
Fiat Spa	Climate Change	Substantial Improvement
Flir Systems	Governance (General)	No Improvement
Goldman Sachs	Remuneration	Moderate Improvement
Heineken NV	Board Composition, Remuneration	Moderate Improvement
Hewlett Packard	Governance (General)	Satisfactory Response
HSBC Holdings plc	Audit Practices	Awaiting Response
Intesa Sanpaolo	Remuneration	No Improvement
Kingfisher	Supply Chain, Employment Standards	Awaiting Response
Marathon Oil	Environmental Risk	Awaiting Response
Marks & Spencer	Employment Standards	Awaiting Response
McDonalds Corp	Environmental Risk	Awaiting Response
Meggitt	Board Composition	Substantial Improvement
News Corp	Board Composition, Reputational Risk	Dialogue
Reckitt Benckiser	Supply Chain, Employment Standards	Dialogue
Renault	Climate Change	Satisfactory Response
Rolls-Royce	Climate Change	Awaiting Response
Royal Bank of Scotland	Audit Practices	Awaiting Response
Shell	Environmental Risk	Moderate Improvement
Société Generalé	Board Composition	Awaiting Response
Stobart Group	Climate Change	Change in Process
Walgreen	Supply Chain, Employment Standards	Awaiting Response
Wal-Mart	Environmental Risk	Awaiting Response
Whitbread	Remuneration, Audit Practices	Satisfactory Response

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of 55 local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £100 billion.

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Bedfordshire Pension Fund
Brent LB
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
Enfield
Falkirk CC
Greater Gwent Fund
Greater Manchester Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hillingdon LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lewisham LB
Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **21 SEPTEMBER 2012**	**AGENDA ITEM NUMBER**	
TITLE: **PENSION FUND ADMINISTRATION: (1) EXPENDITURE and (2) PERFORMANCE INDICATORS FOR 4 MONTHS TO 31 JULY 2012; (3) STEWARDSHIP REPORT FOR THE 4 QUARTERS TO 31 JULY 2012**		
WARD ' **ALL'**		
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Summary Financial Account: 4 months to 31 July 2012
Appendix 2 Summary Budget Variances: financial year to 31 July 2012
Appendix 3A Balanced Scorecard : 4 months to 31 July 2012 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 2 months to 31 July 2012 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 2 months to 31 July 2012 *(Retirements from DEFERRED status)*
Appendix 5 Active membership statistics over 24 months to 31 July 2012
Appendix 6 Joiners & Leavers
Exempt Appendix 7 Summary Performance Report on Scheme Employers performance for the 1st quarter 2012/13 and 5 quarters to 30 June 2012 (including late payers) – Annex 1 Retirements & Annex 2 Deferreds
Appendix 8 Extract from CIPFA Benchmarking Comparators Report 2012

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2012. This information is set out in Appendices1 and 2.

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 4 months to 31 July 2012 and Stewardship Reports on Employer and APF performance in the 5 Quarters to 31 July 2012.

2 RECOMMENDATION

That the Committee notes:

2.1 **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 4 months to 31 July 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 4 months to 31st July 2012 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2013 is for net expenditure to be £20,000 below budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £20,000 mainly due to the decision to produce the LGPS 2014 booklet in the next financial year. In that part of the budget that is not directly controlled expenditure is forecast to remain on budget as additional compliance costs are recharged.

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 4 MONTHS TO 31 JULY 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 3A and 3B**) in the 4 month period was 6,837 tasks created and 6,523 cleared (95.41%), leaving an outstanding workload from the period of 314 tasks or 4.9% 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:

- High level use of the Avon Pension Website at around 6,000 hits on average each month continues as pensions remain high profile in the media *(Chart 2)*
- A continuing low level in short-term sickness (1.22%) and no long-term sickness; the use of temporary staff is within target *(Chart 3)*

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 of those employers who at 31st July 2012 have yet to send in their information is included in the Stewardship Report (*Item 9 below*).

6 CUSTOMER SATISFACTION FEEDBACK IN 4 MONTHS TO 31 JULY 2012

6.1 *Retirement Questionnaires*

Appendix 4A reports on the customer satisfaction based on 88 questionnaires returned from ***active*** members retiring. On average 62% received their lump sum and 80% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on 43 questionnaires returned from *former* active members retiring from ***deferred*** status. 78% received their lump sum and 81% 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 98.5% (See chart item 5 on both graphs).

6.2 **C*linics:*** None due in 2012

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 24 members with more than 3 months service opted out over the 4 month period to 31 July 2012. When expressed as percentage of the total membership of 34,501 this is only 0.7% and is a very encouraging sign that significant numbers of members are not leaving the Scheme in advance of knowing definitely what the change to benefits will be in 2014. The fact that member contributions for LGPS did not increase in April 2012 whilst other public sector schemes did would have had a beneficial effect.

7.3 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 (to assist monitoring of Opt Out trends)

8.1 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) potential opt outs by members concerned about future scheme changes.

8.2 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 39 months period from 1 May 2009 to 31 July 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 July 2012 is slightly lower at 32,988 compared to 33,515 in May 2009 but there has been a 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 quarterly to the four unitary authorities to report on both their and Avon Pension Fund's administration performance against targets in the SLAs. Stewardship Reports for the remainder of the 160 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 the 4 Quarters to 31st July 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 1ST Quarter 2012 and cumulative 4 quarters to 31 July 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 July 2012.**
- **Year-End Status Report listing employers who have still not sent their full year-end information**

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 **Employer Self Service:** Employers have been advised that Employer Self Service has been enhanced to allow online updating of member changes and that from next year this will be the only acceptable way to send the Fund changes; for those continuing to send in paper format additional costs may result.

10.1.1 Following this announcement and a concerted campaign to encourage employers to sign up 139 employers have returned forms confirming that they wish to register for ESS and the number of employers who have completed registration is now 52; however the remainder but have not yet completed registration. The Fund's Support & Development staff will continue to encourage these employers to complete registration to enable electronic online updating. Continuing encouragement will also be given to the remaining 30 or so employers who are yet to respond.

10.2 **Auto enrolment ("AE")**

10.2.1 **Special Employer Seminar**

Free to all employers in the Fund, Avon Pension Fund held two special half-day educational sessions at UWE's premises in Bristol in June run by Mercers the Fund actuaries and advisers to inform employers of their responsibilities under Auto Enrolment.("AE"). These sessions were well appreciated by the 60 employes' staff who attended.

10.2.2 **Middleware Software:**

The Fund has been researching the use of *middleware software* which will assist employers meet their legal obligations under Auto Enrolment. From a set Staging Date (determined by staff numbers) all employers have to assess their workloads every month and identify which staff a have to be enrolled into a qualifying pension scheme under the government's new initiative Auto Enrolment. A standard approach by employers on AE is important to the Fund so that its receipt of data is in one format and not fragmented. A suitable middleware software solution has been identified and the Fund is working with its five largest Fund employers who have agreed in principle to purchase this product which will ensure a smooth and simultaneous take up. These employers all have staging dates in 2013. Avon Pension Fund also needs to purchase software in connection with this and this is the subject of an earlier report to this Committee Meeting seeking its approval to proceed. The intention is therefore to purchase, test and commission the software by the early 2013 subject to contract clearance and Committee approval.

An additional facility included within this software which will significantly benefit the Fund and improve processing efficiency is the *monthly* automatic electronic updating of member records on the Fund's existing pension software.

10.3 **CIPFA Benchmarking 2012 Report:**

Each year the Avon Pension Fund (in the name of Bath & North East Somerset Council ("B&NES") as administering authority) participates in the **CIPFA Benchmarking Pensions Club** which compares the Fund with other local authority pension schemes who are members. 62 Funds took part in the benchmarking. The Fund chooses up to 18 Comparator Funds for its final report excluding local authority funds who are significantly different in size, location or constitution. An extract from the Report against chosen Comparators is attached as Appendix 8.

Page 4 of the Report shows the cost per member for B&NES against its comparators (whose names are shown on Page 5). These are also shown in graphic form on page 4. The heavy black line indicated the club average. In addition average costs per member and staff costs are shown over the previous 5 year period and in both cases it is encouraging to see that B&NES costs are consistently below the club average.

On page 5 of the Report it will be seen that for 2011/12 the total cost for B&NES is £17.71 compared to the group average of £21.54 which is 22% lower. This is despite its costs for communication being £2.05 against £0.81and for accommodation £1.15 per member against £0.83. It should be noted that a conscious decision was made by the Committee some time ago to provide a top quality communication service to members including Newsletters and a first-class interactive web site which it is felt has contributed the number of direct member enquiries falling.

B&NES staff costs at £6.52 are much cheaper than the average of £9.58; its payroll cost per pensioner member at £1.07 is one of the cheapest at nearly a third of the average cost of £3.04. Use of the Heywood integrated payments facility and sending only a limited number of payslips each year has accounted for much of this.

An important measure of efficiency is the number of members looked after by each staff member - the higher the better. B&NES is 4,617, 26% higher than the club average of 3,660.

In summary therefore, B&NES as the administering authority of the Avon Pension Fund is shown to be operating more efficiently in terms of cost and use of staff resource than the Benchmarking Club average.

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11. RISK MANAGEMENT

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

12. EQUALITIES

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

13. CONSULTATION

13.1 None appropriate.

14. ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 This report is for noting only.

15. ADVICE SOUGHT

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

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

AVON PENSION FUND **APPENDIX 1**

SUMMARY FINANCIAL ACCOUNT : PERIOD ENDING 31 JULY 2012

	FOUR MONTHS TO JULY 2012			FULL YEAR 2012/13		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	ACTUAL £	VARIANCE £
Investment Expenses	30,963	22,655	- 8,309	75,273	75,273	0
Administration Costs	27,183	24,656	- 2,527	75,511	75,511	0
Communication Costs	38,750	27,162	- 11,588	80,998	61,998	(19,000)
Payroll Communication Costs	28,673	23,355	- 5,318	79,499	79,499	0
Information Systems	122,341	119,994	- 2,347	216,346	218,346	2,000
Salaries	457,431	419,945	- 37,485	1,372,293	1,369,293	(3,000)
Central Allocated Costs	131,729	124,091	- 7,637	395,186	403,186	8,000
Miscellaneous Recoveries/Income	- 55,333	- 34,855	20,479	- 166,000	- 174,000	(8,000)
Total Administration	**781,737**	**727,003**	**(54,734)**	**2,129,106**	**2,109,105**	**(20,000)**
Governance & Compliance						
Investment Governance & Member Training	102,643	40,973	- 61,670	307,929	307,929	0
Members' Allowances	13,500	9,945	- 3,555	40,500	40,500	0
Independent Members' Costs	16,253	- 3,900	- 20,153	48,760	48,760	0
Compliance Costs	113,183	112,280	- 904	340,550	370,550	30,000
Compliance Costs recharged	- 50,000	- 61,960	- 11,960	- 150,000	- 180,000	(30,000)
Total Governance & Compliance	**195,580**	**97,339**	(98,241)	**587,739**	**587,739**	**0**
Investment Fees						
Global Custodian Fees	40,000	27,560	- 12,440	120,000	120,000	0
Investment Manager Fees	3,350,985	3,286,293	- 64,692	10,052,955	10,052,955	0
Total Investment Fees	**3,390,985**	**3,313,852**	**(77,133)**	**10,172,955**	**10,172,955**	**0**
NET TOTAL COSTS	**4,368,302**	**4,138,194**	**(230,107)**	**12,889,800**	**12,869,799**	**(20,000)**

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

Variances Analysis of the full year forecast expenditure or income against budget to the year end.

Expenditure Heading	**Amount of Variance ***	**Most Significant Reasons for Variance**
General Communication Costs	(19,000)	Reduced expenditure in 2012/13 as a result of the rescheduling of the production of the LGPS 2014 booklet to 2013/14.
Information Systems	2,000	Additional expenditure on Disaster Recovery programme.
Salaries	(3,000)	Reduced expenditure as a result of new staff being recruited later than assumed in the preparation of the budget.
Central Allocated Costs	8,000	Additional legal charges relating to new admission agreements. See below.
Miscellaneous recoveries / income	(8000)	Additional recharge of legal fees relating to new admission agreements. See above.
Compliance Costs	30,000	The forecast increase of £30,000 in expenditure against budget is due to an increase in the number of new bodies requiring admission agreements and an increase in the number of bodies requiring IAS 19 reports. Increased expenditure on actuarial fees is offset by increased recharging of fees to employing bodies (see below).
Compliance Costs Recharged	(30,000)	Increased recharges of actuarial fees as per above.
Total Underspend	**(20,000)**	

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

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2011/12 Actual	Target for 2012/13	Actual - 4 months to 31/07/2012	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	99%	95%	0.00%	0 clinics held during period.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	97%	95%	97.50%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%			Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
3	Level of Equalities Standard for Local Government	G		100%	100%	100%		
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	64%	90%	65.79%	25 of 38 Tasks were completed within target	
	Retirements [15 days]	G	Admin	75%	90%	88.61%	599 of 676 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	A	Admin	52%	75%	74.67%	1014 of 1358 Tasks were completed within target	
	Refunds [5 days]	G	Admin	75%	75%	85.71%	42 of 49 Tasks were completed within target	
	Transfer Ins [20 days]	G	Admin	40%	75%	49.28%	103 of 209 Tasks were completed within target	
	Transfer Outs [15 days]	G	Admin	57%	75%	65.43%	106 of 162 Tasks were completed within target	
	Estimates [10 days]	G	Admin	89%	90%	89.42%	964 of 1078 Tasks were completed within target	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
5	Number of complaints	G	Admin	0	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%	sent on time	
8	Number of hits per period on APF website	G	Admin	66,847	60000p/a 5000p/q	17884	5961 per calendar month for reporting period	Graph 2
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	n/a	none this quarter	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%		Newsletter sent to Actives in July giving details of expected new LGPS 2014 Scheme	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	N/A	due next quarter	

B People Perspective

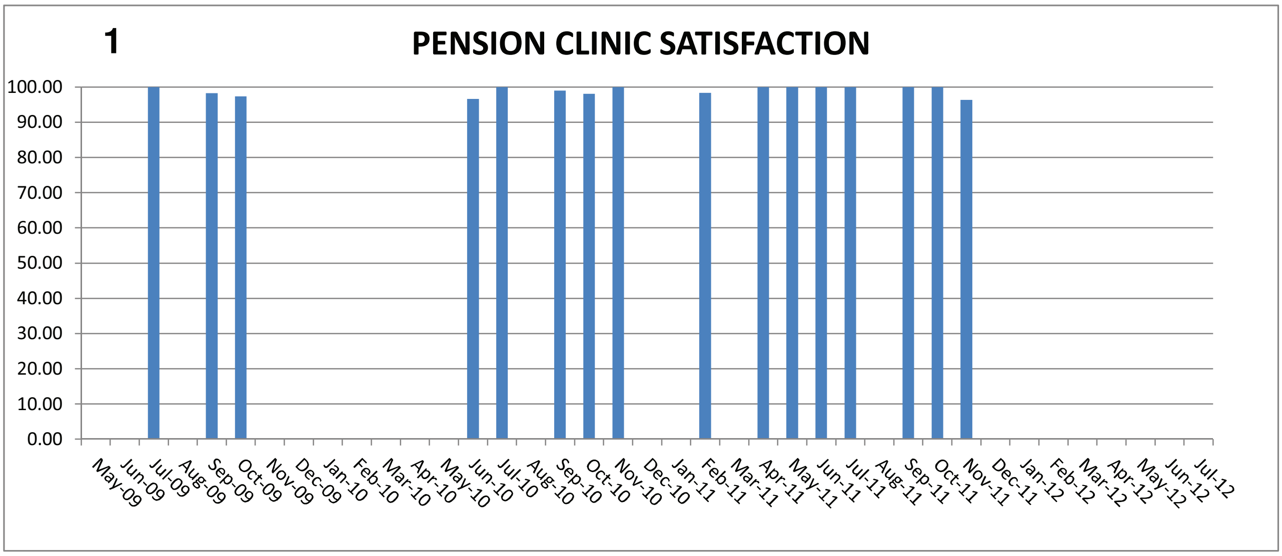
1	Health & Safety Compliance	G	All	100%	100%	100%	Regular reviews held	
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%	No leavers	
4	% of staff with up to date Performance Reviews	G	All	97%	100%	100%	All completed	
5	% Sickness Absence a) Short Term b) Long Term	G	All	2.21%	a) 3% b) 3%	a)1.22 b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
6	% of staff with an up to date training plan	G	All	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

C Process Perspective

1	a) Services actually delivered electronically b) Services *capable* of delivery to members	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%	97.8%	8874 calls, 8675 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	3.73%	10%	4.59%	6837 Created, 6523 cleared (95.41.% leaving 4.59% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions	G	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 2.5% b) 0.03%	3 out of 106 employers sent their contributions in late. **No persistent late-payers. Average delay of late payers 3 days.** Employers are reminded regularly of their legal obligations to pay on time and the possibility (under the 2007 Admin Regs) of billing them for extra charges if unnecessary additional work is created for APF.	
7	Year End update procedures (conts & salaries received by 31/08/2012)	G	Admin	81%	100%	99.5%	99.95% of Pen Conts and Pen Rems now received - 7 small employers still awaited	
8	No. of customer errors (due to incomplete data)	G	Admin	2%	3%	2%	Acceptable error level	

D Resource Perspective

1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	98.00%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	G	All	3.67%	3%	0.83%	Below target
3	% of IT plan achieved against target	R	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm. New Empoyer Access module to be rolled out in 2011 will allow employers to key information electronically into the pensions database.
4	% of Training Plan achieved against target	G	Supp & Dev	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.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PENSION CLINIC SATISFACTION
100.00
90.00
80.00
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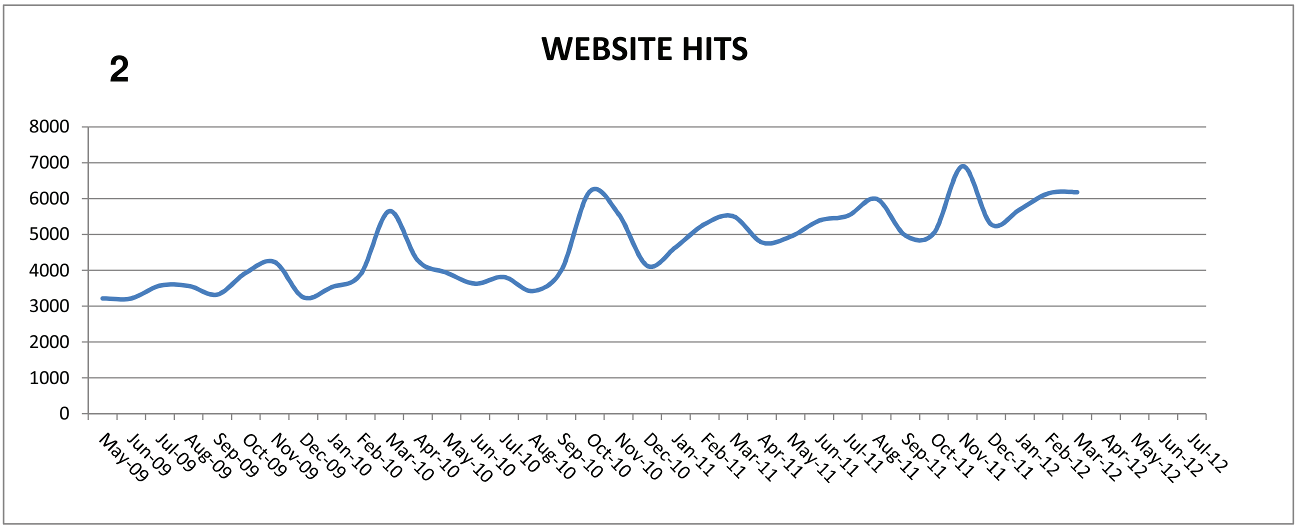
0.00
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12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WEBSITE HITS
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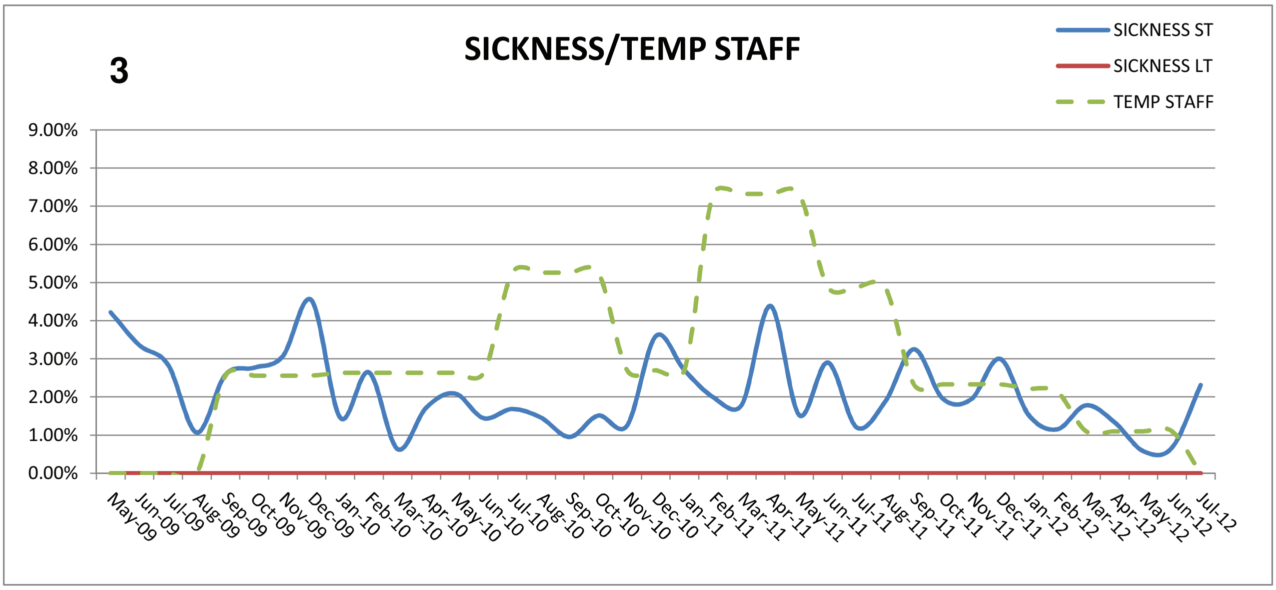
7000
6000
5000
4000
3000
2000
1000
0
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-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%
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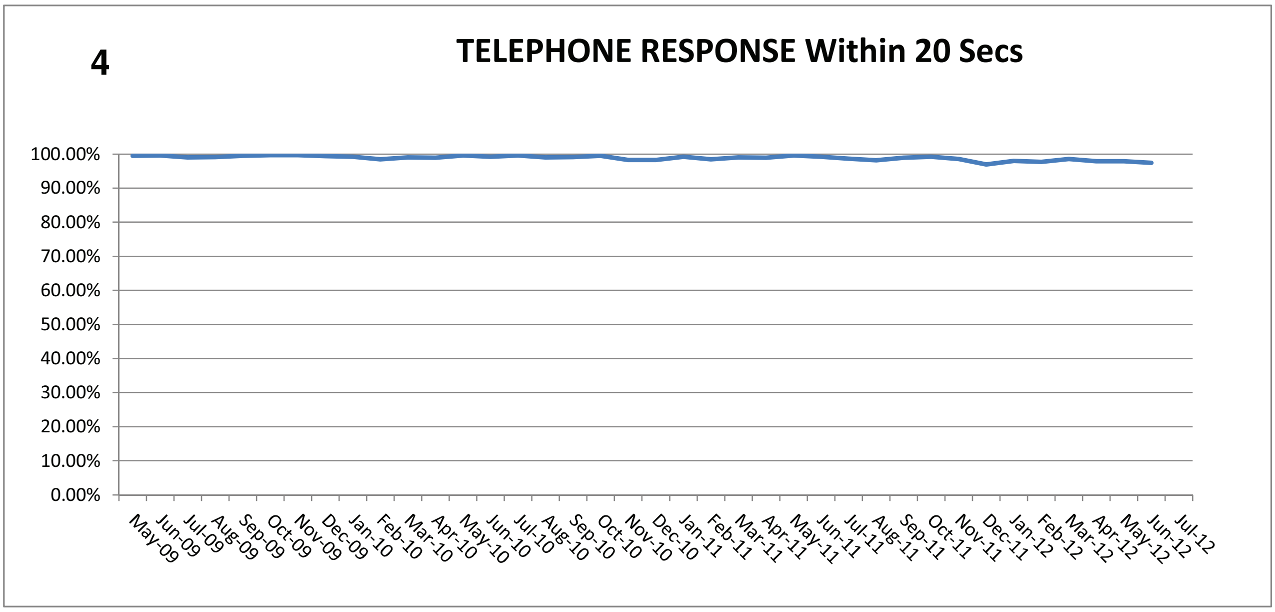
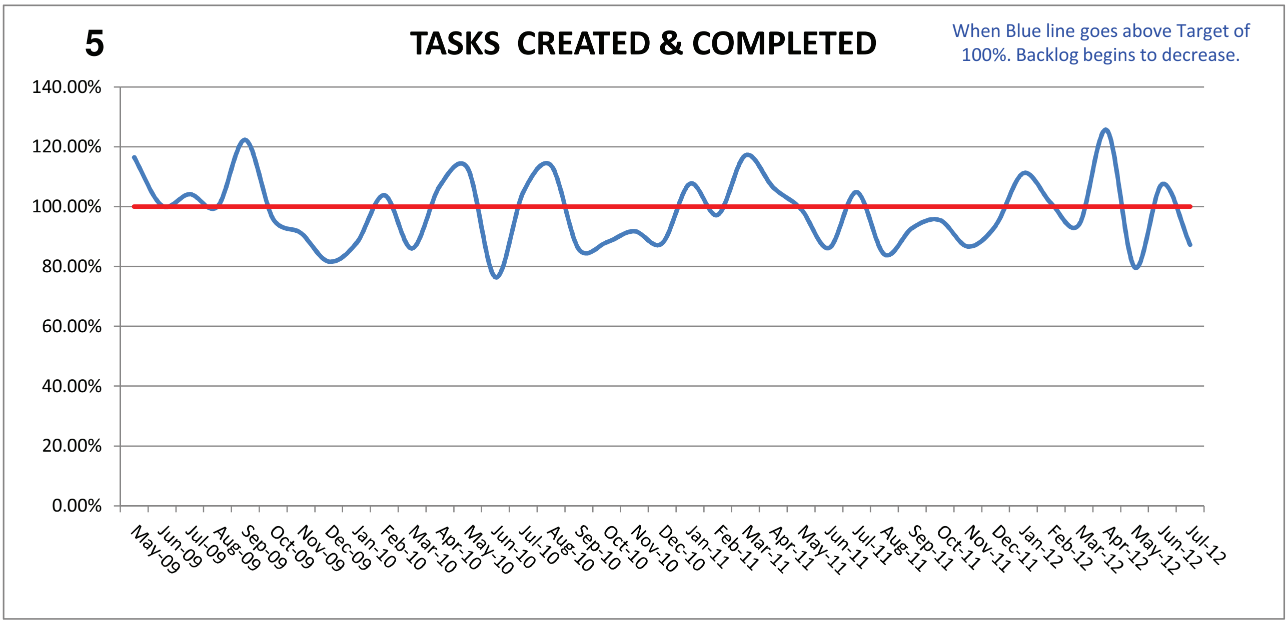
1.00%
0.00%
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12


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 May-12 Jun-12 Jul-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%
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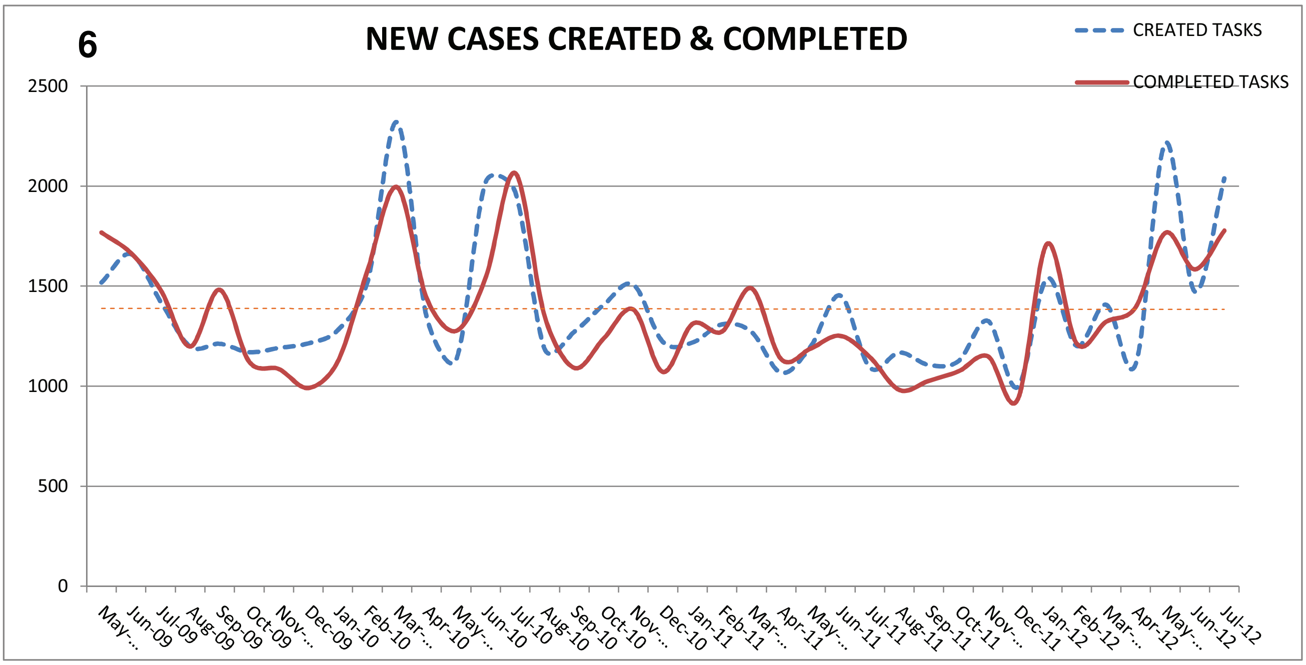
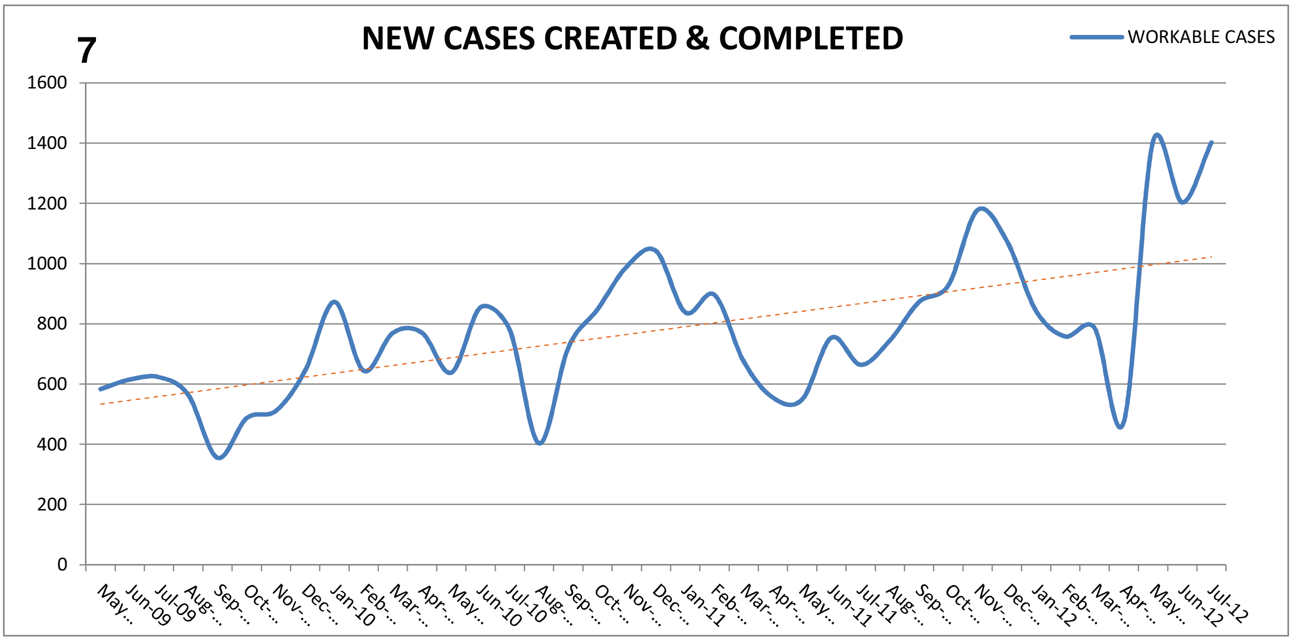
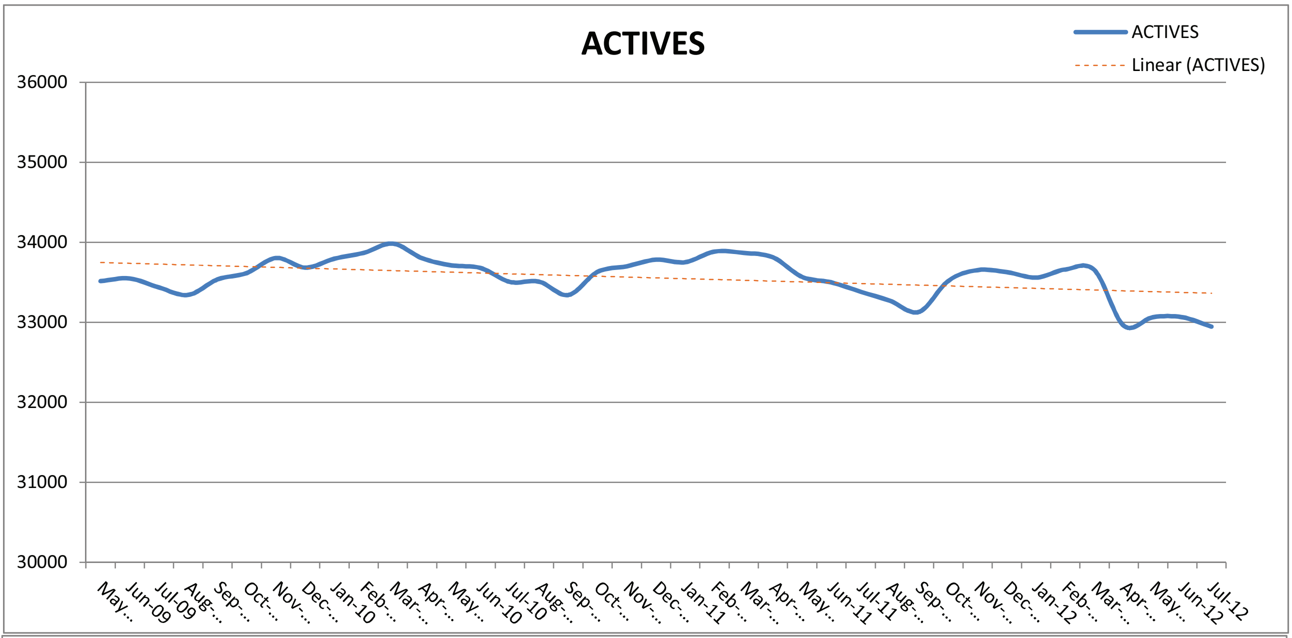
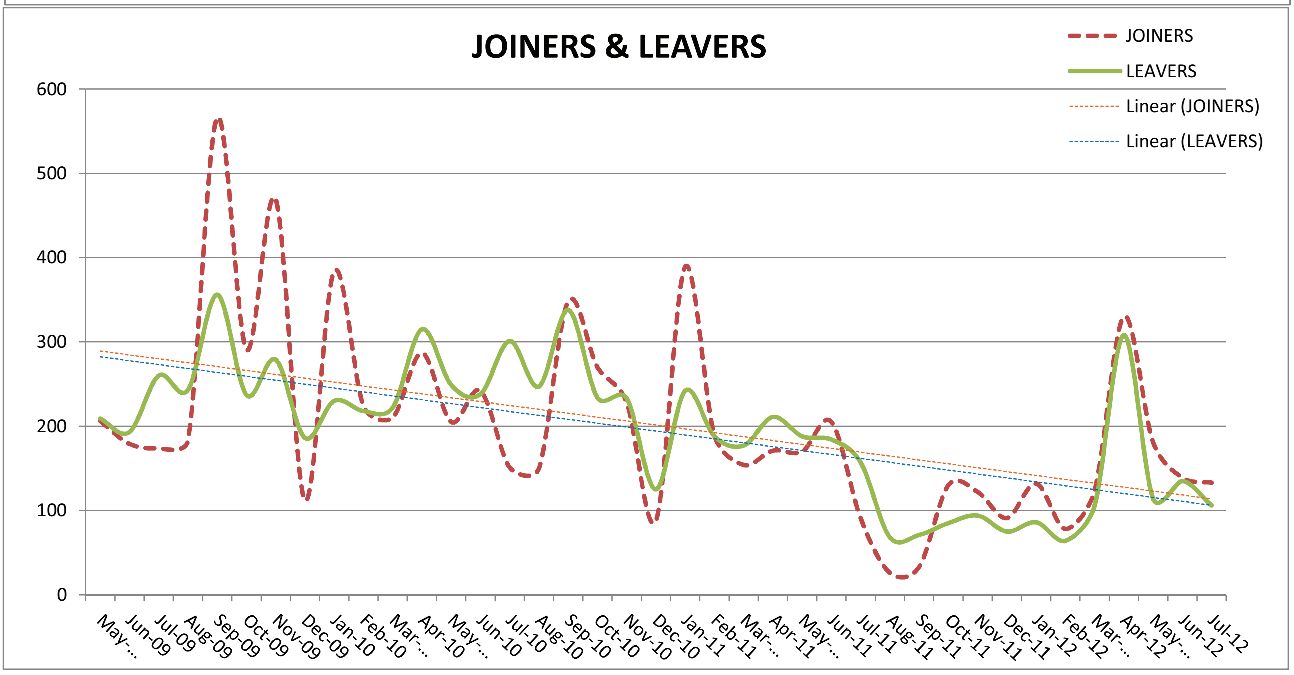
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12


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-... Dec-09 Jan-10 Feb-10 Mar-... Apr-10 May-... Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-... Dec-10 Jan-11 Feb-11 Mar-... Apr-11 May-... Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-... Dec-11 Jan-12 Feb-12 Mar-... Apr-12 May-... Jun-12 Jul-12

7


NEW CASES CREATED & COMPLETED
WORKABLE CASES
1600
1400
1200
1000
800
600
400
200
0
May-… Jun-09 Jul-09 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-10 Feb-… Mar-… Apr-… May-… Jun-10 Jul-10 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-11 Feb-… Mar-… Apr-… May-… Jun-11 Jul-11 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-12 Feb-… Mar-… Apr-… May-… Jun-12 Jul-12


ACTIVES
ACTIVES
Linear (ACTIVES)
36000
35000
34000
33000
32000
31000
30000
May-… Jun-09 Jul-09 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-10 Feb-… Mar-… Apr-… May-… Jun-10 Jul-10 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-11 Feb-… Mar-… Apr-… May-… Jun-11 Jul-11 Aug-… Sep-… Oct-… Nov-… Dec-… Jan-12 Feb-… Mar-… Apr-… May-… Jun-12 Jul-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-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 May-… Jun-12 Jul-12

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Responses to Retirement Questionnaire

	Number of Questionnaires in this period		88		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	86	98%
			NO	2	2%
2	Did you receive your LGPS Retirement Benefits Option Form.......	A	Before R'ment date	46	52%
		B	Within 10 working days after R'ment date	17	19%
		C	Later than 10 days after R'ment date	25	28%
3A	Did you receive your Lump Sum Payment.....		Within 10 days after R'ment date	36	78%
			Later than 10 days after R'ment date	10	22%
3B	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	12	71%
			Later than 10 days after returning Opt Form	5	29%
3C	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	14	56%
			Later than 10 days after returning Opt Form	11	44%
4	Did you receive your first Pension Payment....		Within 1 month after R'ment date	64	73%
			Later than 1 month after R'ment date	24	27%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	49	56%
			Good	33	38%
			Average	4	5%
			Poor	2	2%
6	Is there anything we could have done to improve the service we provided?		Yes	11	13%
			No	77	88%
7	Were you treated with sensitivity & fairness?		Yes	85	97%
			No	3	3%

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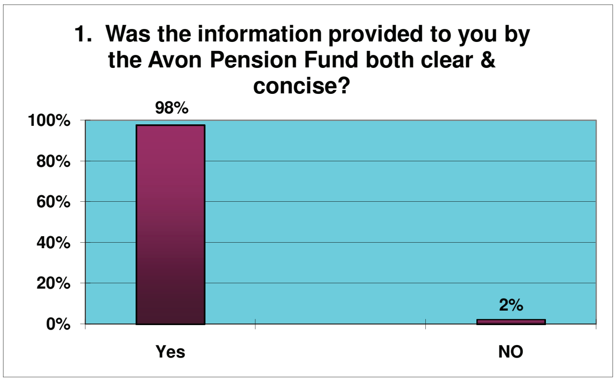
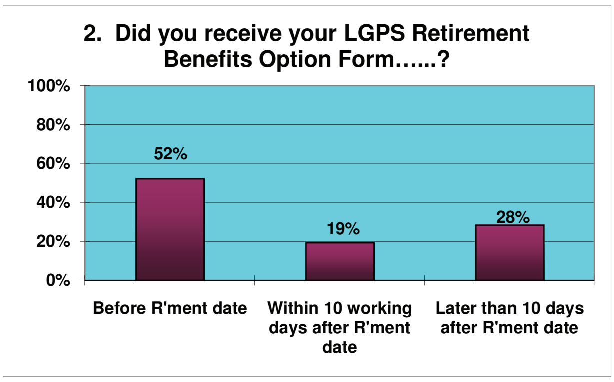
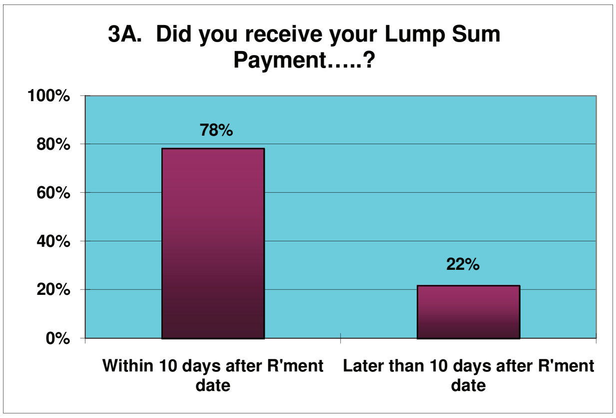
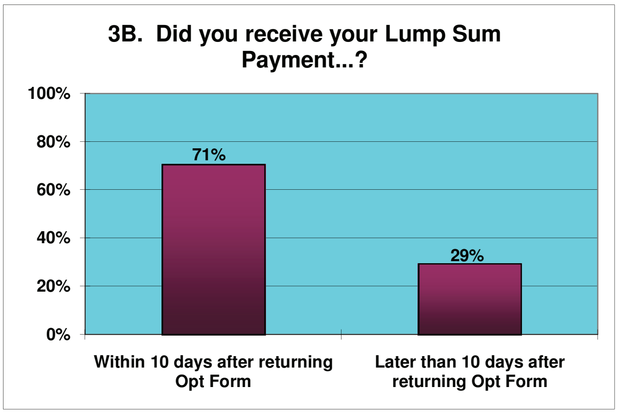
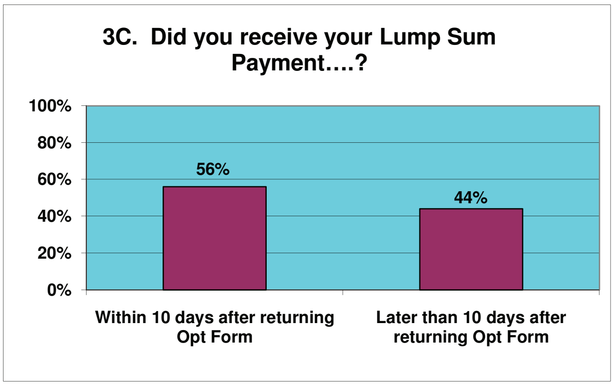


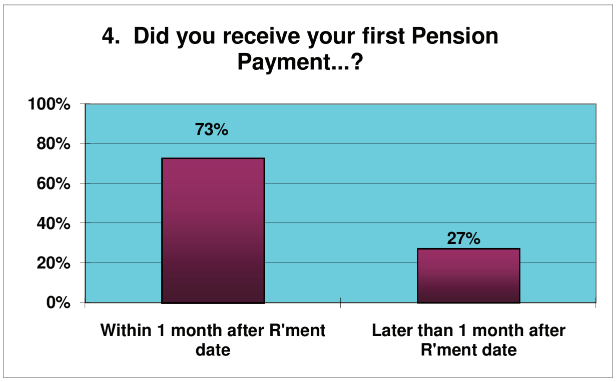


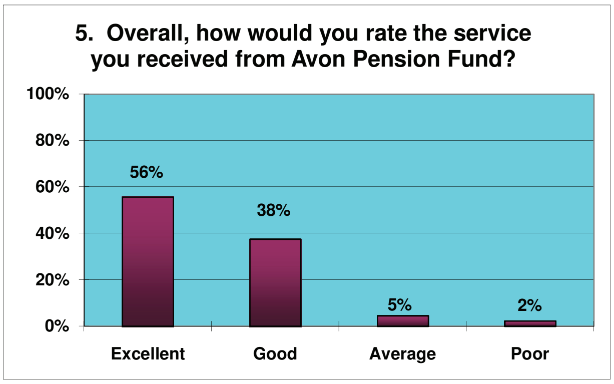
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

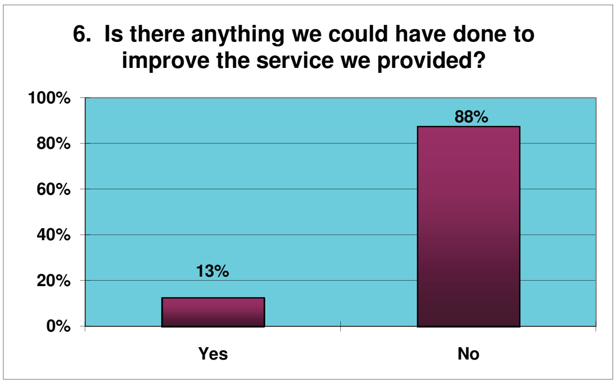


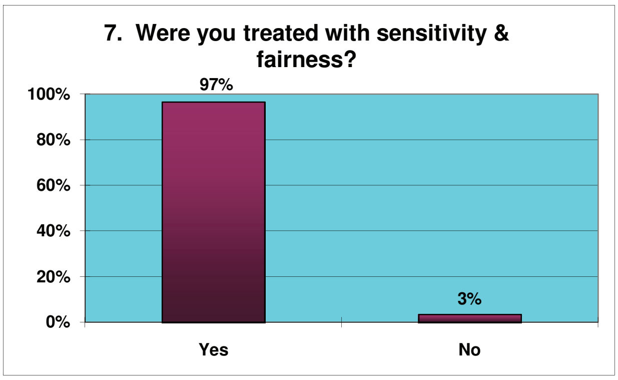












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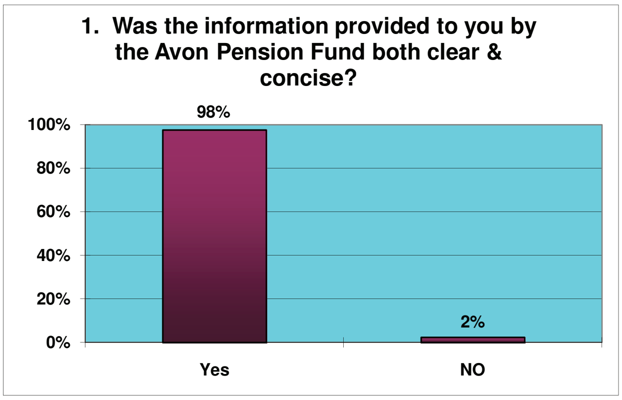
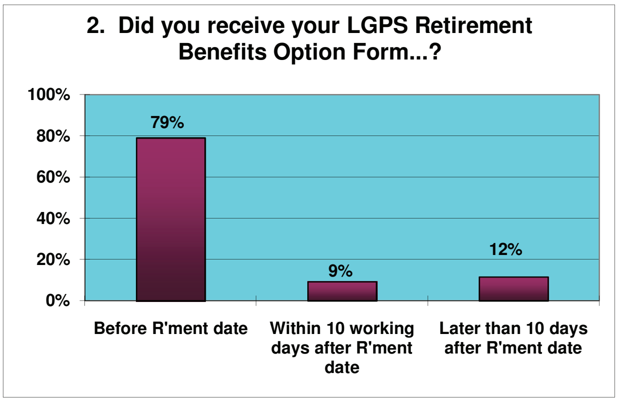
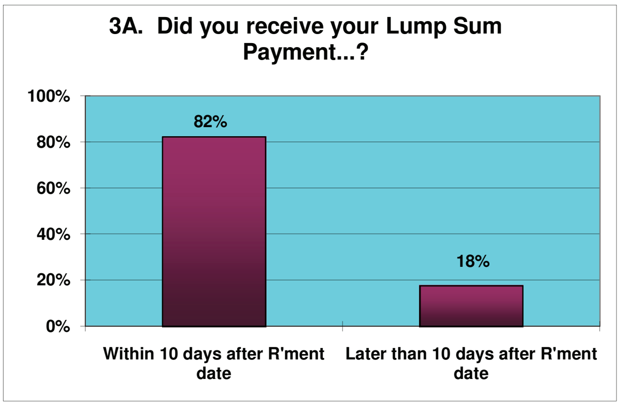
Responses to Retirement Questionnaire

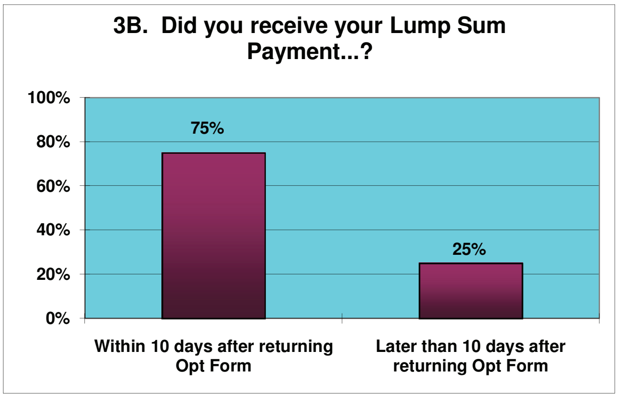
	Number of Questionnaires in this period		43		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	42	98%
			NO	1	2%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	34	79%
		B	Within 10 working days after R'ment date	4	9%
		C	Later than 10 days after R'ment date	5	12%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	28	82%
			Later than 10 days after R'ment date	6	18%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	3	75%
			Later than 10 days after returning Opt Form	1	25%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	2	40%
			Later than 10 days after returning Opt Form	3	60%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	35	81%
			Later than 1 month after R'ment date	8	19%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	32	74%
			Good	9	21%
			Average	2	5%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	7	16%
			No	36	84%
7	Were you treated with sensitivity & fairness?		Yes	43	100%
			No	0	0%

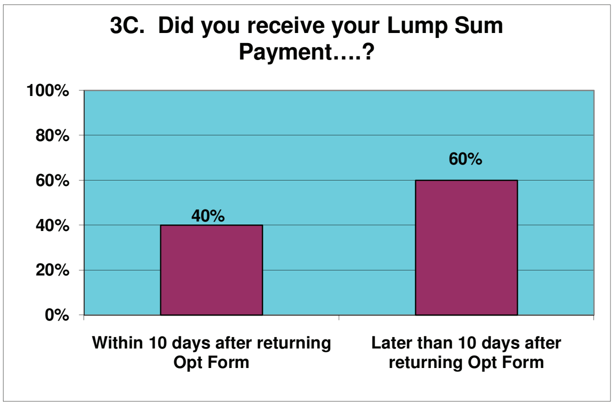


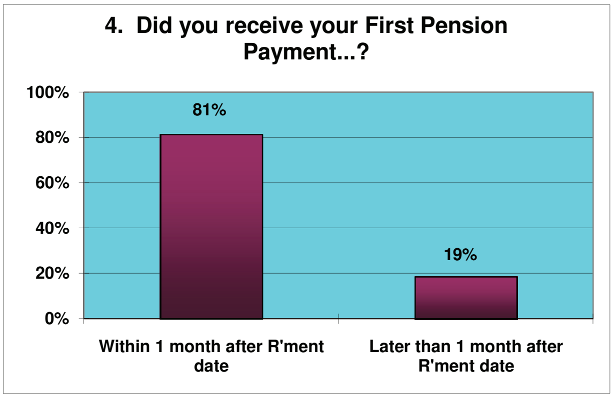


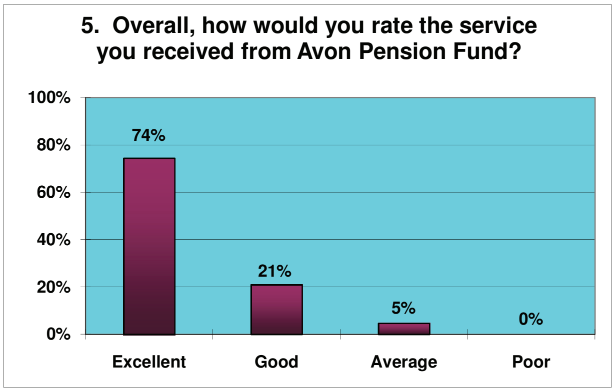
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

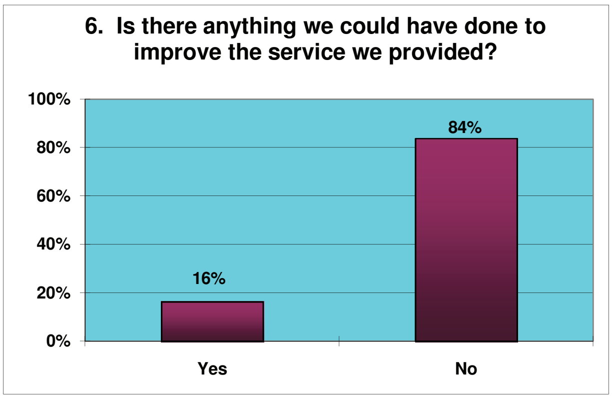


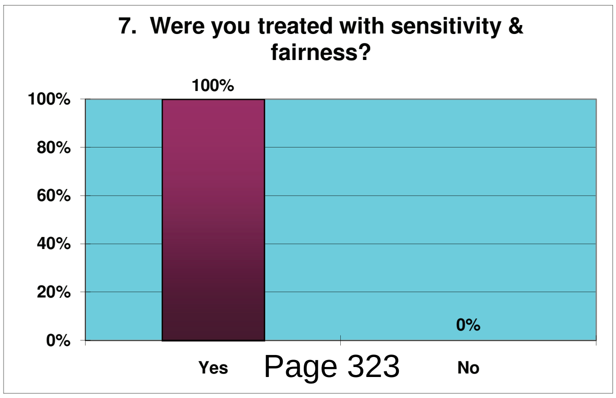












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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-12-012

Meeting / Decision: Avon Pension Fund Committee
Date: 21 September 2012

Author: Steve McMillan
Report Title: Pension Fund Administration Exempt Appendix Title: Exempt Appendix 7 - Summary Performance Report on Scheme Employers performance for the 1st quarter 2012/13 and 5 quarters to 30 June 2012 (including late payers) - Annex 1 Retirements - Annex 2 Deferreds

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

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

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

PUBLIC INTEREST TEST

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

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

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

Weighed against this is the fact that exempt appendix 7 and the annexes contain details of individual employers and their performances in a league table. The appendix shows any poor performing employers which need to improve. It is important that the Committee are aware of these issues and can freely discuss them.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed, if disclosed could prejudice the commercial interests of the employers.

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

The Council considers that the public interest has been served by the fact that information relating to the performance of the fund has been made available by way of the main report and additional appendices.

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

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

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of the Local Government Act 1972.

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CIPFA performance in public services

Pensions Administration Benchmarking Club 2012

Bath & North East Somerset Council

COMPARATOR REPORT

Bath	Cambridgeshire
Cheshire West and Chester	Cornwall
Cumbria	Devon
Dorset	East Riding
East Sussex	Edinburgh
Gloucestershire	Northamptonshire
Oxfordshire	Rhondda
Somerset	Staffordshire
Surrey	Warwickshire
Wiltshire	

Computed and printed by:
CIPFA Business Limited
3 Robert Street, London, WC2N 6RL
Tel: 0203 117 1840

PREFACE

This report compares your data with the group of authorities specified on the title page.

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages: Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

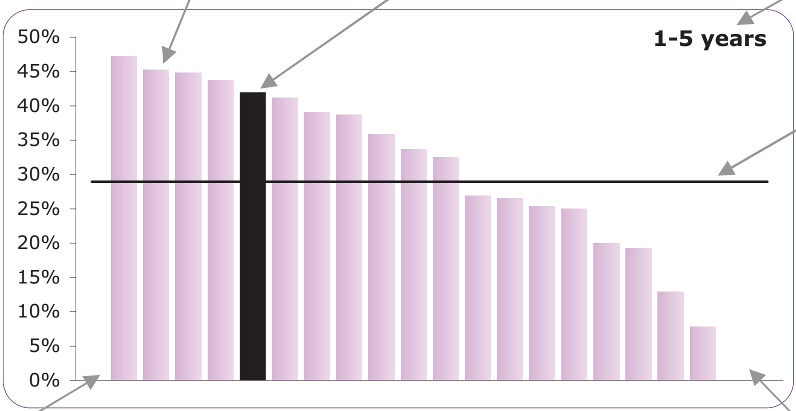
Charts: We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc…). Below we have annotated an example chart to help explain what they are showing.

<u>Bar Charts:</u> <u>These are our standard method of displaying a full set of data</u>

Each bar represents an authority's value

Your authority's bar highlights in black

Title



The group average is shown by a horizontal line

'Missing bars' on the left represent missing data or excluded data and are not included in calculating the average

'Missing bars' on the right represent zero values and are included in the average

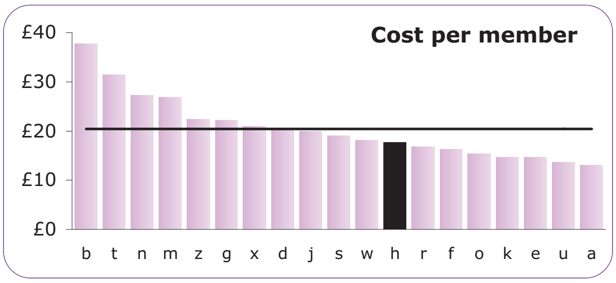
Staff experience	FTE	%	*Avg*
< 1 year	1.5	10%	*9%*
1-5 years	6.5	42%	*29%*
5-10 years	3.5	23%	*21%*
> 10 yrs	4.0	26%	*41%*
Total	**15.5**		

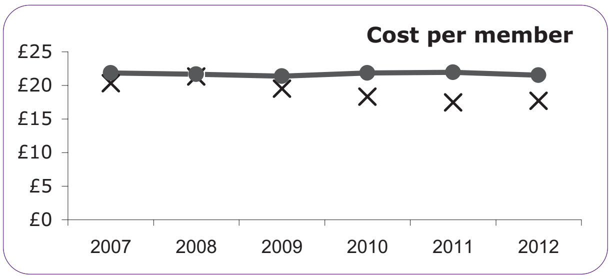
SECTION 1 - SUMMARY 2012

NET COST / MEMBER 2011-12

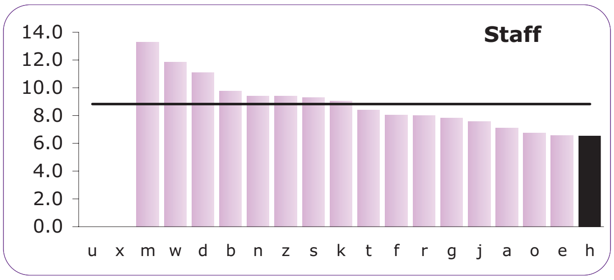
Club average

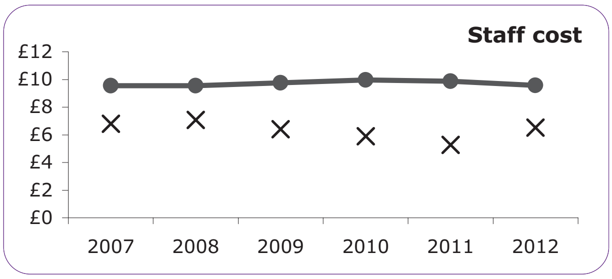
X Bath



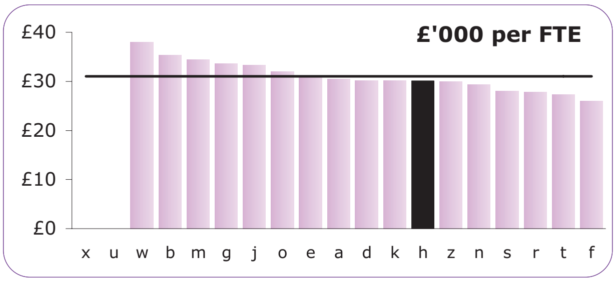


STAFF COST / MEMBER 2011-12

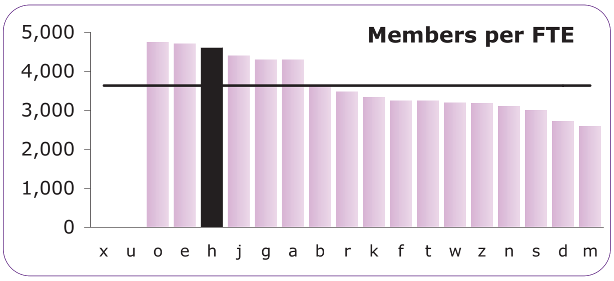




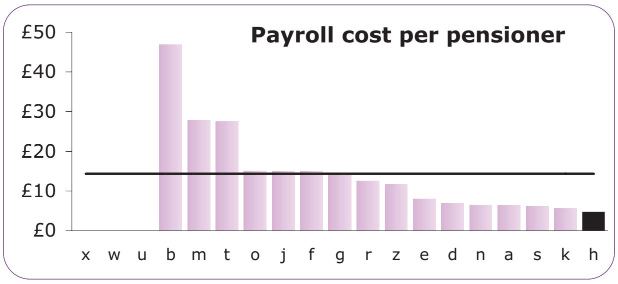
COST £'000 / FTE



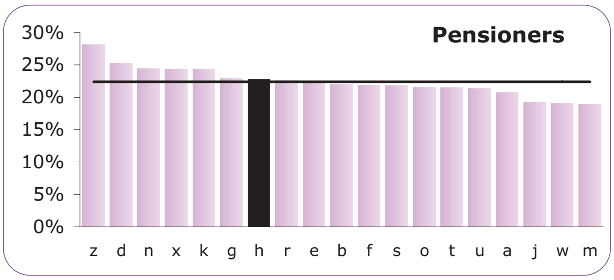
MEMBERS LGPS / ADMIN FTE



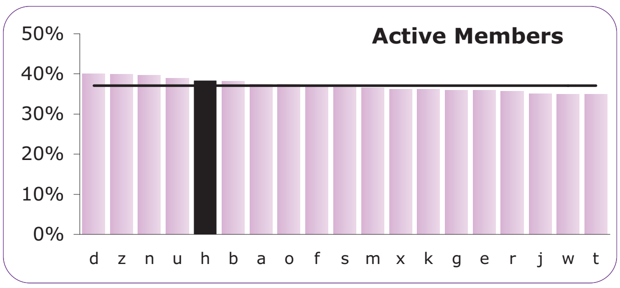
PAYROLL COST / PENSIONER



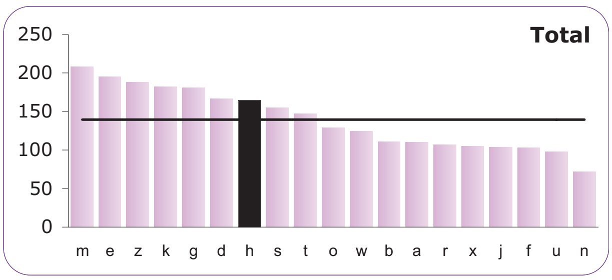
PENSIONERS AS A % MEMBERS



ACTIVES AS A % MEMBERS



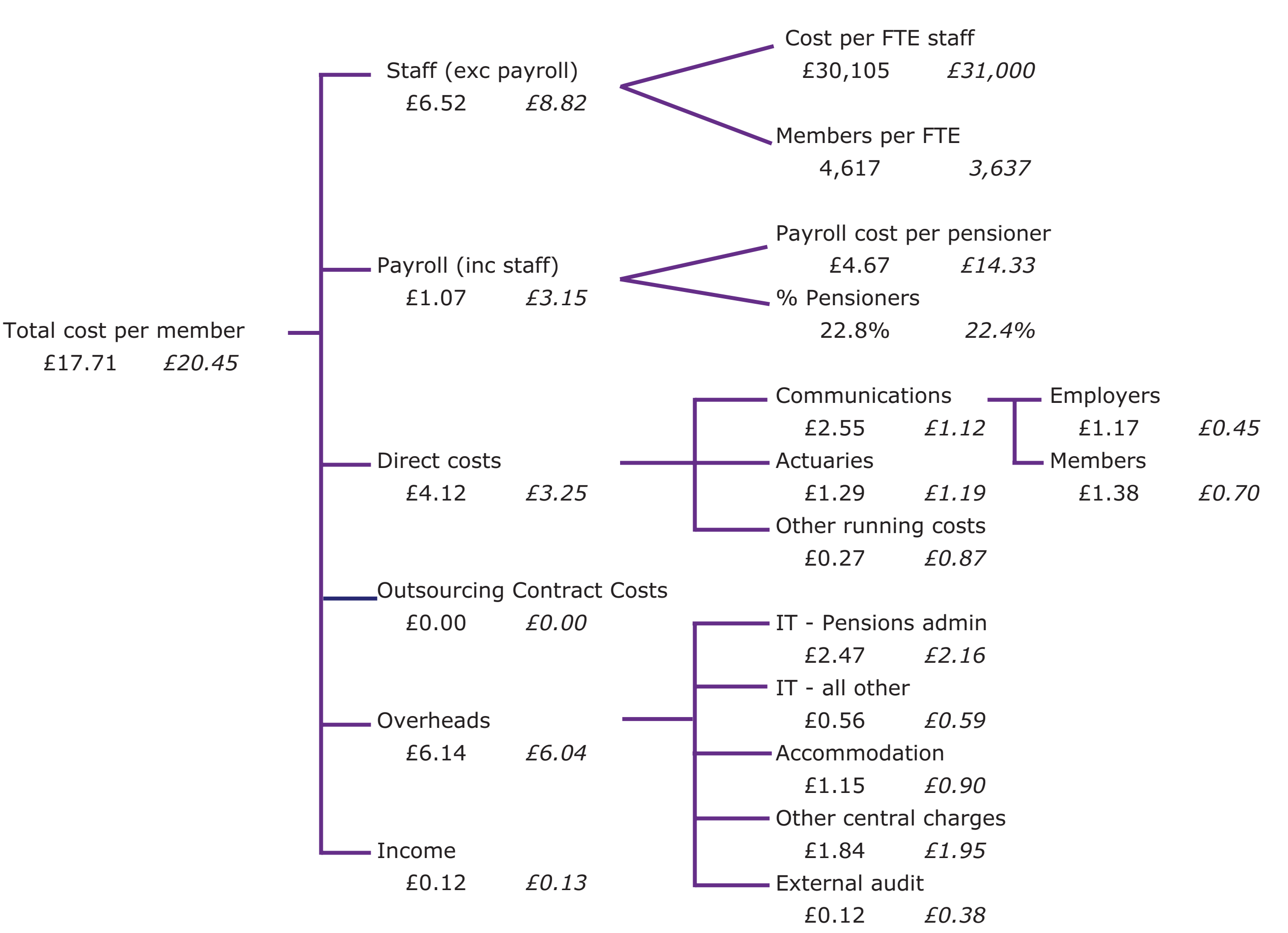
NUMBER OF LGPS EMPLOYERS



SECTION 2 - COST MEASURES

COST/MEMBER TREE 2011-12

This tree diagram analyses the cost per member. For each benchmark two figures are given the first being the authority's cost and the second (in italics) is the group average.



FTE staff	
Pension Section total	38.5
less	
IT staff	3.0
Payroll staff	3.5
Communications staff	3.0
Employing authority work	-
Work for other schemes	1.5
Other work	8.4
Admin of LGPS	**19.1**

Scheme membership	**No.**
Active full-time	12,735
Active part-time	20,911
Active Elected members	91
Active total	33,737
Deferred	28,657
Pensioners	20,134
Dependants	3,497
Frozen refunds	2,002
Leavers unprocessed	155
Total	**88,182**

Costs £'000	**£'000**
Pension Section total	11,576
less	
Work for other schemes	167
Employing authority work	-
Other work	9,847
Admin of LGPS	**1,562**

Admin of LGPS costs	**£'000**
Staff - administration	575
Staff - payroll	58
Payroll	36
Communications (Total)	225
Actuaries	114
External audit	11
Outsourcing contract costs	-
Other running costs	24
IT - Pensions admin	218
IT - All other	49
Accommodation	101
Other central charges	162
Income	11
Total	**1,562**

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 SEPTEMBER 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 dates for the Strategic Investment Review workshops – 18 October and 123 November 2012.

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 on-going 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 Workshop 2 – 23 November 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 Interim Valuation Review with actuary to present to Committee for information	1Q2013 4Q12
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 to be held 9 November - Interim valuation	9 November
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	As required
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

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
Investment Panel Minutes & Recommendations
Review of Interim Valuation
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** - 23 November, venue tbc

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
14 Nov 2012 Meeting and workshop	• Review mangers performance to Sept 2012 • Meet the managers workshop (TT Int'l, Partners)	• Agree any recommendations to Committee
1Q13 tba	• Review mangers performance to Sept 2012 • Meet the managers workshop (Schroder Global Equity, MAN)	• 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 o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - Freedom of Information 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	4Q12 review Interim valuation 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