Bath & North East
Somerset Council

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7 December 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, 14th December, 2012

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 14th December, 2012** at **2.00 pm** in the **Council Chamber - Guildhall, Bath.**

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

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author

whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

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

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

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

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

   Appendices to reports are available for inspection as follows:-

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

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

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

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

6. **Emergency Evacuation Procedure**

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

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

Avon Pension Fund Committee - Friday, 14th December, 2012

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

PRELIMINARY MATTERS

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 21ST SEPTEMBER 2012 (Pages 5 - 28)

STRATEGIC REPORTS

8. INTERIM ACTUARIAL VALUATION 2012 - PRESENTATION BY ACTUARY (Pages 29 - 74) *45 MINUTES*

9. UPDATE ON LGPS CONSULTATION - VERBAL REPORT (Pages 75 - 76) *10 MINUTES*

10. LGPS INVESTMENT LIMITS - INVESTMENTS IN PARTNERSHIPS (Pages 77 - 100) *10 MINUTES*

11. INVESTMENT PANEL MINUTES AND RECOMMENDATIONS (Pages 101 - 106) *10 MINUTES*

MONITORING REPORTS

12. REVIEW OF INVESTMENT PERFORMANCE (SEPTEMBER 2012) (Pages 107 - 176) *20 MINUTES*

13. PENSION FUND ADMINISTRATION (Pages 177 - 204) *20 MINUTES*

FOR INFORMATION

14. WORKPLANS (Pages 205 - 216) *5 MINUTES*

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 21st September, 2012, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), 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) 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)

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

Also in attendance: Tim Richens (Divisional Director, Finance), 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))

20 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the emergency evacuation procedure.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from Cllr Gabriel Batt and from Carolan Dobson.
Cllr Katie Hall had apologised that she would arrive late.

22 DECLARATIONS OF INTEREST

There were none

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

24 MINUTES OF THE MEETING ON 22ND JUNE 2012

The public and exempt minutes of the meeting of 22nd June 2012 were confirmed as correct, with one amendment: that Dr Mark Wright be amended to Cllr Mark Wright.

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

There were none.

26 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

27 2011/12 AUDITED STATEMENT OF ACCOUNTS, THE ANNUAL GOVERNANCE REPORT AND DRAFT ANNUAL REPORT & ACCOUNTS

The Divisional Director (Finance) introduced the report.

The Finance and Systems Manager (Pensions) provided some explanations and also said that three amendments were needed to the figures on page 42 showing the analysis for year ending 31st March 2011: In the AAA column, the Overseas Government Bonds figure should read 39,886; the Corporate Bonds should read 16,228; and the total should therefore read 403,233.

Chris Hackett (Audit Commission) explained that he had not yet issued the audit opinion report which was included as appendix 2 to the report. He said that his report would confirm an unqualified audit opinion. He explained that there would be some new responsibilities to disclose the accrued pension rights of key officers but that a single figure to cover all would avoid divulging personal information. He referred to Note 21, on page 41 of his report, and said that the key relationship had been disclosed and the amount was not material. Finally, he confirmed that there had been no adjustment to the audit figure.

A member asked who would sign the management letter, and it was confirmed that this would be the Bath & NE Somerset Council Section 151 Officer.

A member observed that in the Key Risk Table on page 78 of the pack, the reference to the risk of failure to achieve investment returns should mention the existence of the Investment Panel. The Investments Manger acknowledged this but said that the responsibility ultimately fell to this Committee.

After other clarifications, it was **RESOLVED** (unanimously)

(1) To APPROVE the final audited Statement of Accounts for 2011/12;

(2) To NOTE the issues raised in the Annual Governance Report;

(3) To APPROVE the draft Avon Pension Fund Annual Report 2011/12; and

(4) To NOTE the arrangements for distribution of the 2011/12 Annual Report & Accounts.

28 ANNUAL REVIEW OF VOTING ACTIVITY

The Investment Manager explained that this was the first annual report and said that the recommendations proposed areas for future focus.

The Chair welcomed Paul Hewitt (Manifest) who gave a presentation [*a copy of which is attached to the minutes as Appendix 1 and on the Council's website*] in which he analysed voting patterns of different investment managers at shareholder meetings, particularly in the matter of Director elections, remuneration, annual reports and auditor appointments. He explained that voting was not the most subtle way to influence the behaviour of companies.

Members of the Committee thanked Paul Hewitt for his presentation and he answered a number of questions. In particular, he addressed the point made by more than one member that voting was a powerful way to influence behaviour, by reminding members that voting was only one option open to investors and that other means of engaging with Boards also could be very effective.

Tony Earnshaw (Independent Advisor) agreed with Paul Hewitt and said that the report was an attempt for the Committee to find ways of influencing behaviour without doing anything which would reduce the value of the funds held in trust for the members of the scheme.

A member felt that at least fund managers should be advised that their voting patterns were being monitored.

[*Cllr Katie Hall arrived at this point]*

The Head of Business (Finance and Pensions) warned of the dangers of rethinking the entire investment strategy.

A member observed that in his presentation Paul Hewitt had said that voting patterns were monitored against local regulatory regimes; and asked whether this meant that no attempts were made to improve 2nd and 3rd world markets.

Paul Hewitt responded that some governments and investors did intervene to encourage improvement.

The Chair thanked Paul Hewitt for his report.

The Committee **RESOLVED** (with two abstentions)

(1) To NOTE the review of voting activity undertaken in 2011 on behalf of the fund;

(2) To AGREE that based on this annual review, the issues the Fund will focus on with its managers in the 2013 voting season will be:

(i) remuneration policy and its link with strategic performance and

(ii) governance structures including the independence and diversity of the Board.

29 CONSULTATION ON SCHEME CHANGES (VERBAL UPDATE)

The Pensions Manager gave a verbal update on the consultation process on the Government's proposals to change the Scheme from 2014. He explained that the proposals had received wide acceptance from all unions except that the Fire Brigades Union had not been in favour. The next step would be that government would issue a formal document, based on the informal discussions, for a 3-month formal consultation.

Union representatives expressed their concern to maximise membership of the Scheme and to minimise opt-outs. Some expressed concern that the 50/50 provisions, while allowing low-paid employees to make a staged entry to the Scheme, might also allow existing members to reduce their contributions against their own best interests. A union representative welcomed the better deal for some low-paid employees and the better accrual rate on offer.

The Pensions Manager advised the Committee that he would be arranging a series of Pensions Roadshows, probably from February 2013, to explain the proposals to employees.

The Committee **RESOLVED** (unanimously)

(1) To NOTE the Pensions Manager's verbal report.

[*Cllr Katie Hall left the meeting at this point*]

30 PENSION FUND RESTRUCTURE/MIDDLEWARE SOFTWARE PURCHASE (AUTO ENROLMENT)

The Pensions Manager introduced the report. He observed that one of the biggest challenges was updating members' details in a timely way because the Fund had a large number of employer organisations some of which did not notify changes to personal details, leavers, joiners etc until the end of the financial year. He asked the Committee to agree to an increase in the salary costs so that new staff could be employed to deal with the extra workload which resulted from the need to be prepared for the introduction of the new LGPS scheme in 2014. He also asked the Committee to agree to the purchase of new middleware software which would facilitate monthly updates of member details straight onto the pensions database.

A member asked whether, once the extra workload of implementing the new scheme had been completed, the intention was to manage down the establishment. The Pensions Manager stated that this would be achieved when appropriate, through natural wastage. He reminded the Committee however that there were now 170 employers in the scheme, and that benefits under the anticipated 2014 scheme would be calculated on a totally different basis from the previous schemes so extra work would be involved for some time to come.

The Committee **RESOLVED** (unanimously)

(1) To AGREE the proposed change in the structure of the Pension Benefits Department;

(2) To AUTHORISE:

(i) An increase in the annual staff salary costs as shown in Appendix 2A

(ii) 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.

31 MINUTES AND RECOMMENDATIONS FROM THE INVESTMENT PANEL

Cllr Charles Gerrish introduced the draft minutes of the Panel, which had been attached to the agenda.

The Investment Manager explained that one member of the Panel had attended in an observer role only, since he had not at that point signed his declaration of interest form so was not entitled to participate.

The Committee **RESOLVED** (unanimously)

(1) To NOTE the draft minutes of the Investment Panel meeting held on 5th September 2012.

32 REVISED STATEMENT OF INVESTMENT PRINCIPLES

The Investment Manager introduced the report. She reminded members that it was a legal requirement to update the Investment Principles whenever there was any material policy change. The changes incorporated the responsible investment policy and the cash management policy.

A member asked for clarity about the distinction between cash management and treasury management, particularly in the light of the third paragraph on page 3 of the amended statement. Officers were asked to respond to this.

A member drew attention to the statement in paragraph 9 (Exercise of Voting Rights) on page 7 of the statement, in which it was made clear that the Fund would actively require its fund managers to vote their shares in line with the fund manager's own internal voting policy.

The Committee **RESOLVED** (unanimously)

(1) To APPROVE the revised Statement of Investment Principles.

33 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012

The Chair moved that Appendix 3 to the report was exempt from publication. Members applied the public interest test to appendix 3 of the report and

RESOLVED (with one objection)

(1) Having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of appendix 3 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.

[*Having agreed not to refer to the exempt material, the Committee returned to open session*]

The Committee **RESOLVED** (unanimously)

(2) To NOTE the information as set out in the report.

[*Rowena Hayward, the GMB union representative left at this point*]

34 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

The Chair moved that Appendix 7 to the report was exempt from publication. Members applied the public interest test to appendix 7 of the report and

RESOLVED (with 2 objections)

(1) Having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, 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.

[*The Committee then held a debate in closed session, the details of which are exempt from publication*]

The Committee returned to open session.

A member referred to the graphs on page 315 of the pack and asked why, when the number of actives was reducing, the number of cases was increasing. An officer explained that this was partially due to late data arriving from the member employers.

The Committee discussed the need to impress upon member employers the importance of prompt data updates.

The Committee **RESOLVED** (unanimously)

(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 4 months to 31 July 2012.

35 WORKPLANS

The next meeting is scheduled for 2pm, 14th December 2012.
It was **RESOLVED** (unanimously)
(1) to NOTE the future workplan.

The meeting ended at 4.55 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council

Avon Pension Fund
Fund Manager Vote Monitoring

Paul Hewitt

Manifest Information Services Ltd

September 2012

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Agenda

Background: Manifest and Vote Monitoring

Governance Issues in 2011 Voting

Fund Managers and Voting

Q&A

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Manifest & Vote Monitoring

Analysing corporate governance and meeting business for institutional investors since 1996

Specialise in custom voting policies, therefore well equipped to assess varying voting behaviours

Vote monitoring: 3 stages

1. Manifest governance and meeting analysis of meetings voted by Avon’s fund managers
2. Post-meeting results obtained from the companies
3. Fund manager voting reports assessed in light of 1 and 2 above.

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Why monitor voting?

Voting is an important part of the investment process: Use of ownership rights to manage governance risks in the portfolio

Monitoring voting helps Avon with:

- Understanding of best practice governance issues at investee companies
- Comparison of fund managers with each other, general shareholder voting behaviour and fund expectations

Vote monitoring is about understanding investment risk management, not enforcing compliance with a policy.

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Governance & Meeting Analysis

- Collection of data from company disclosures ahead of meetings on Manifest database into hundreds of data points.
- Manifest analysts add commentary to reports and qualitative judgement selections to database fields
- Resolutions then analysed using data and judgements with purpose built, customisable governance policy systems
- Result – a report detailing each resolution where the company falls short of the governance policy

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Fund Manager Voting Report Assessment

- Resolution by resolution, Manifest adds the actual voting decisions reported by each fund manager
- Manager voting decisions then compared with the report highlighting governance shortfalls
- Exception analysis is then produced, resulting in quarterly reports and the Annual Voting Summary Report
- 2011 assessment is to be a benchmark for following years

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Corporate Governance

"The system by which corporate direction and control operates"

Actors in the process:

- Regulators
  - Laws, Codes of Best Practice, Sanction
  - Government, Trade Associations, Market Regulatory Agencies
- Boards
  - Strategic direction and running of the company
  - Independent directors, committees, remuneration, audit, reporting
- Stakeholders
  - Consultation, autonomous actions
  - Employees, unions, customers, NGOs
- Investors
  - Exercise rights of control and oversight
  - Pension Funds, Insurance Companies, Sovereign Wealth Funds, Charities, Individuals

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Governance alignment and voting

- A single governance issue may trigger concerns with multiple resolutions at a meeting
  - E.g. Director elections may be affected by the independence of the nomination committee or board diversity concerns
- Therefore the voting template identifies concerns with a large number of resolutions in its analysis, but it’s the underlying governance issues that are important
- It is not expected that managers follow the voting template. The template identifies concerns that fund managers use their discretion to decide upon
- Voting is tactical in the wider context of engagement and investment decisions

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Key Resolution Themes & Governance Issues

These are the substantial issues for investor focus; more important than over-emphasis on opposition to specific resolutions.

Director Elections

- Board gender balance, committee independence or size, nominee independence, length of NED tenure, committee responsibilities, severance arrangements (exec directors)

Remuneration

- Committee independence, sustainability issues in performance target setting, upper bonus cap, LTIP award sizes, LTIP award limits

Annual Reports

- Fees to auditor for non-audit work, board independence, board size

Auditors

- Committee independence, value of non-audit work compared to audit fee, auditor tenure

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Avon's Fund Managers & Use of Votes

Overall average support for management – 96.1%

Fund Manager support for management (general support)

– BlackRock	1,560 resolutions	93.8% (94.8%)
– Jupiter	1,071 resolutions	97.5% (97.5%)
– TT International	953 resolutions	97.6% (96.7%)

BlackRock, Jupiter and TT International featured enough resolutions for some thematic analysis

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Voting & Investment Strategy

- Identification of a concern does not necessarily mean a vote against: Voting is only a part of the wider investment process of maximising returns
- Governance concerns might be addressed through stock selection (i.e. in active strategies, managers may choose not to invest and therefore don't get to vote at more contentious companies)
- Other elements of ownership rights might be used to communicate concerns, such as meetings and correspondence
- Where sale is not an option (i.e. passive investment strategy), importance of use of voting rights increases as a means of investment risk mitigation
- Active investment may not mean active voting; passive investment may not mean passive voting

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Mandates and Use of Voting

Voting activity is broadly in line with expectations from the investment mandate

BlackRock:

- A passive equity portfolio increases risk of low alignment with governance standards. The higher level of votes cast against management reflects this.

Jupiter

- High levels of alignment with governance standards to be expected in an active SRI mandate. Higher level of votes cast against than alignment suggests shows serious use of voting rights.

TT International

- Active manager with slightly higher than average governance alignment, combined with low level of votes cast against management suggests governance risk is part of selection process.

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Prominent Themes and Issues: Comments on Fund Manager Voting

Director Appointments

- TT: Board size, tenure and non-independent nominees for committee with independence concerns
- BlackRock: Committee independence, nominee not considered independent by the company, tenure, board gender balance, severance payments or bonuses on exit (execs)

Remuneration Reports

- Jupiter: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps, recruitment/retention payments, lack of shareholding requirements
- TT: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps
- BlackRock: Absence of ESG linkage, upper bonus caps, value of LTIP awards made

Incentive Pay Plans

- Jupiter: Maximum potential award values
- TT: Maximum potential award values

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Conclusions

- A sound point of comparison for future reports
- Director elections-related issues most wide-spread, because director elections are by far the most common resolution. Tenure and gender diversity are prominent considerations
- Remuneration is also noteworthy, especially relating to high levels of incentive pay and relatively low levels of voting dissent
- Sustainability considerations to become more important?
- Materiality of issues is more important than voting actions and outcomes
- Voting must be seen in the widest context of investment strategy

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Q&A

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**14 DECEMBER 2012**
TITLE:	**INTERIM ACTUARIAL VALUATION 2012**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Interim Valuation Report 2012**	

1. THE ISSUE

1.1. The LGPS regulations require the Fund to carry out an actuarial valuation every three years, the next due as at 31 March 2013. Between these mandatory valuations, the Fund requests interim valuations periodically to assess whether the funding strategy is on track. Given the volatility in the investment markets and the proposed changes to the LGPS, the Fund commissioned an interim valuation as at 30 September 2012 which provides the current context for the 2013 valuation.

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

1.3. The 2012 interim valuation evaluates the estimated impact of the LGPS 2014 scheme and auto-enrolment on the Fund.

1.4. The Actuary will be at the meeting to present the interim valuation report and answer any questions.

2. RECOMMENDATION

That the Avon Pension Fund Committee:

2.1. Notes the information set out in the report.

3. FINANCIAL IMPLICATIONS

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

3.2. It therefore provides an indication of the scale of the potential increases in contributions required at the 2013 valuation which will set the employer contributions from 1 April 2014.

4. THE REPORT

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

4.2. The interim valuation updates the 2010 valuation using the same membership data and demographic/actuarial assumptions. Actual cashflow data is used. However, the financial assumptions are updated to reflect changes in market values as at 30 September 2012.

4.3. As at 30 September 2012 the funding level is estimated to be 73%. This compares to 82% at 31 March 2010. The deficit has increased from £552m to £1,049m. This deterioration is primarily due to the fall in gilt yields which are the basis for the discount rate. A fall in yields increases the value of the liabilities.

4.4. The report also provides an analysis of the potential impact of the new 2014 LGPS on the future service rate (based on the current information about the scheme structure). However, the new scheme will not directly impact the deficit payments (relating to accrued service prior to 2014). Within the new scheme there are a number of uncertainties including the impact of the 50/50 option and the cost control mechanism. A further complication is the impact of auto-enrolment on membership.

4.5. The actuary will present the report at the meeting to discuss the basis of the current assumptions, the impact of the new scheme and whether stability of contribution rates can be achieved.

4.6. The Interim Valuation was discussed with employers at the Investments Forum held on 9 November 2012 in order to provide finance managers with a context for 3 year budget planning from April 2013. A letter has discussing the Interim Valuation outcome has been sent to all employers.

5. 2013 VALUATION TIMETABLE

5.1. The actuary has set out the indicative timetable for the 2013 valuation on slide 32 of their report (see Appendix 1). The actuary and officers will initially discuss the impact of the market derived financial assumptions in April/May. At this stage the membership data as at 31 March 2013 will not have been processed.

5.2. Following this a Committee workshop will be held in June/July to discuss the Funding Strategy, including the actuary's financial and actuarial assumptions and the deficit recovery policy. This will set the parameters for the valuation process to be included in the *draft* Funding Strategy Statement which will then be circulated to employers for consultation (as required in the regulations).

5.3. The final Funding Strategy Statement will be agreed at the September Committee meeting following which the individual employer results will be calculated by the actuary.

6. RISK MANAGEMENT

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

7. EQUALITIES

7.1. An Equalities Impact Assessment has not been completed as the report is for information only.

8. CONSULTATION

8.1. N/a

9. ISSUES TO CONSIDER IN REACHING THE DECISION

9.1. N/a

10. ADVICE SOUGHT

10.1. The Council's Monitoring Officer (Divisional Director – Legal and 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 Woodyard, Investments Manager; 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

FINANCIAL UPDATE AND PLANNING FOR THE 2013 VALUATION
AVON PENSION FUND

Paul Middleman FIA
14 December 2012
Actuary to the Avon Pension Fund

MARSH & McLENNAN COMPANIES

2012 – The Big Picture for Pensions

Agenda

- Actuarial Valuation
- Financial Matters – 2012 Update and 2013 Valuation Outcome
- LGPS Reforms
- Stabilisation of Contribution Rates
- Fund Liquidity and Auto-Enrolment
- Next Steps – Looking Forward to 2013

ACTUARIAL VALUATION

Actuarial valuation
Key issues to consider looking ahead to 2013

Affordability

- Budget pressures – Austerity for how long?
- Further reductions in workforce for employers?
- Economic outlook and contribution patterns

Assumptions

- Impact of low gilt-yields
- Expected investment returns (short & long term)
- Inflation assumptions (market distortions, RPI/CPI differential)
- Review demographic assumptions / trends
- Continuing pay restraint?

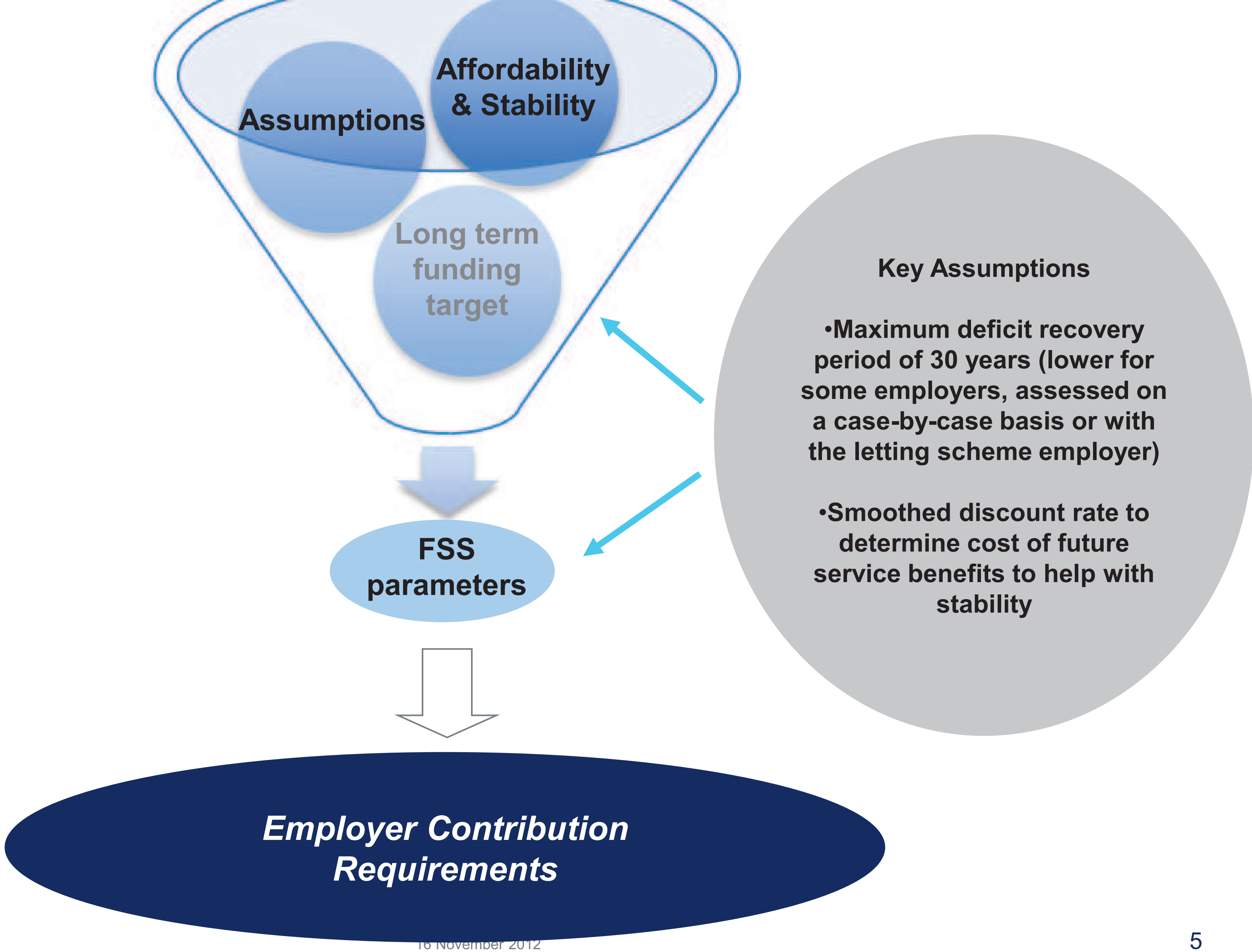
Risk Management

- Higher investment return assumption = higher reliance on investment returns
- Cost control mechanism
- Pension Fund cashflows
- Recovery Periods

Changes to the LGPS

- New scheme from 2014
- Auto-enrolment
- Public Service Pensions Bill
- Cost control mechanism

2010 valuation recap
Results and outcomes



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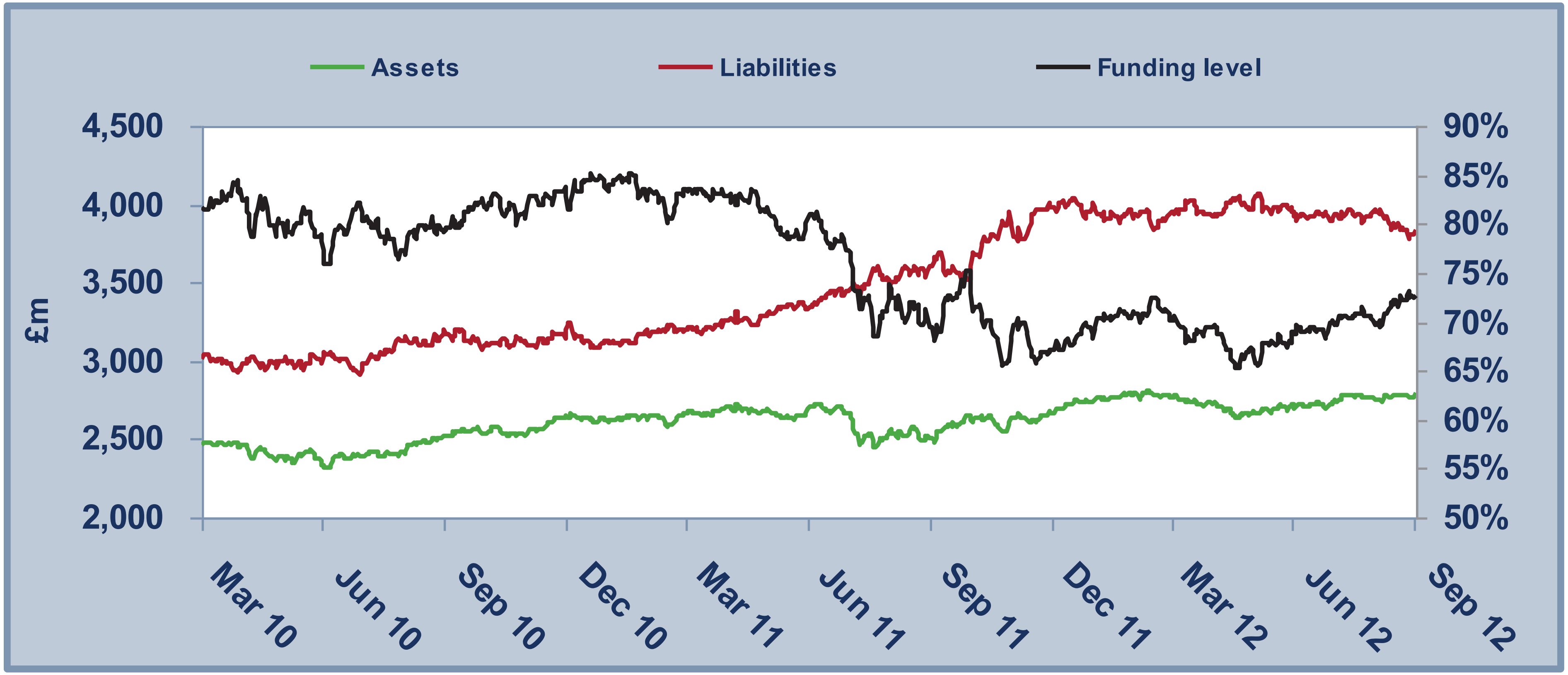
2010 valuation recap
Whole Fund Results

	31 March 2010
Assets	£2,459m
Liabilities	£3,011m
Deficit	£552m
Funding level	82%
Future service contribution rate	11.8% p.a.
Required Deficit Lump Sum (2012/13 terms) (increasing at 4.5% p.a.)	£31m

FINANCIAL MATTERS – 2012 UPDATE AND 2013 VALUATION OUTCOME

Funding Review results
Progress of funding position



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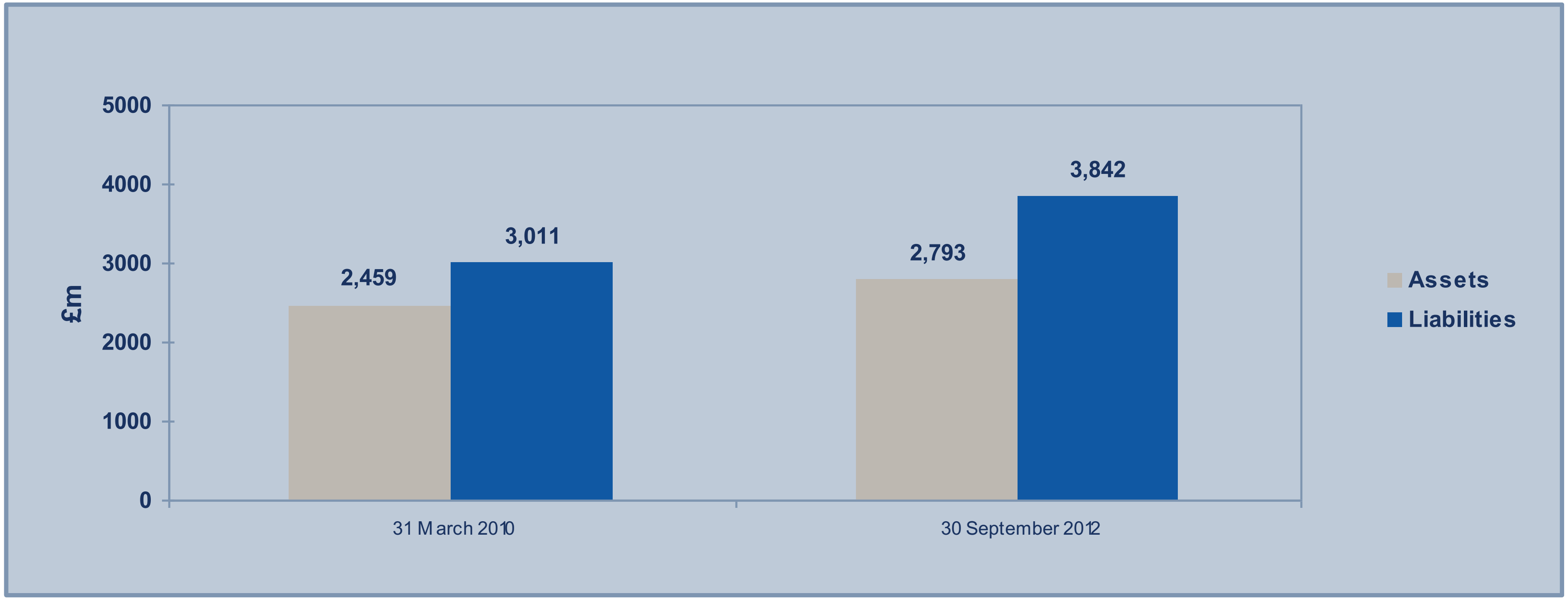
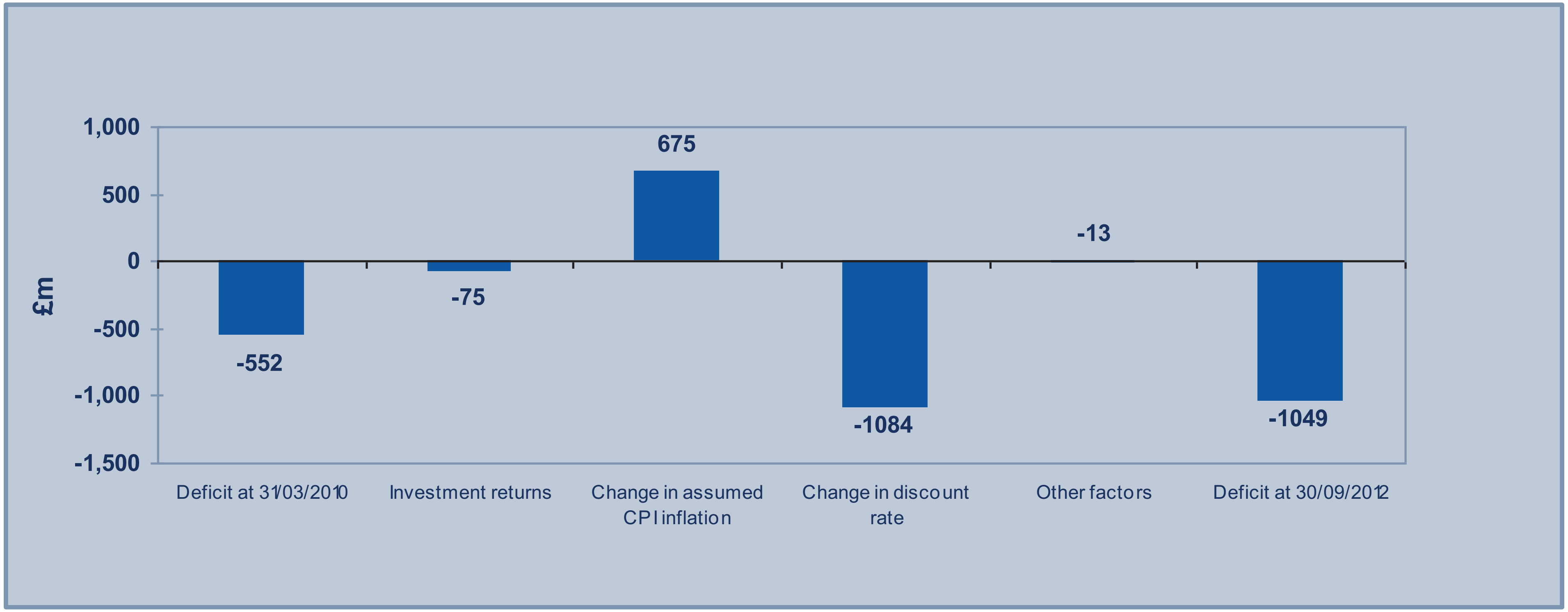
Funding Review Results
Estimated "like for like" past service position

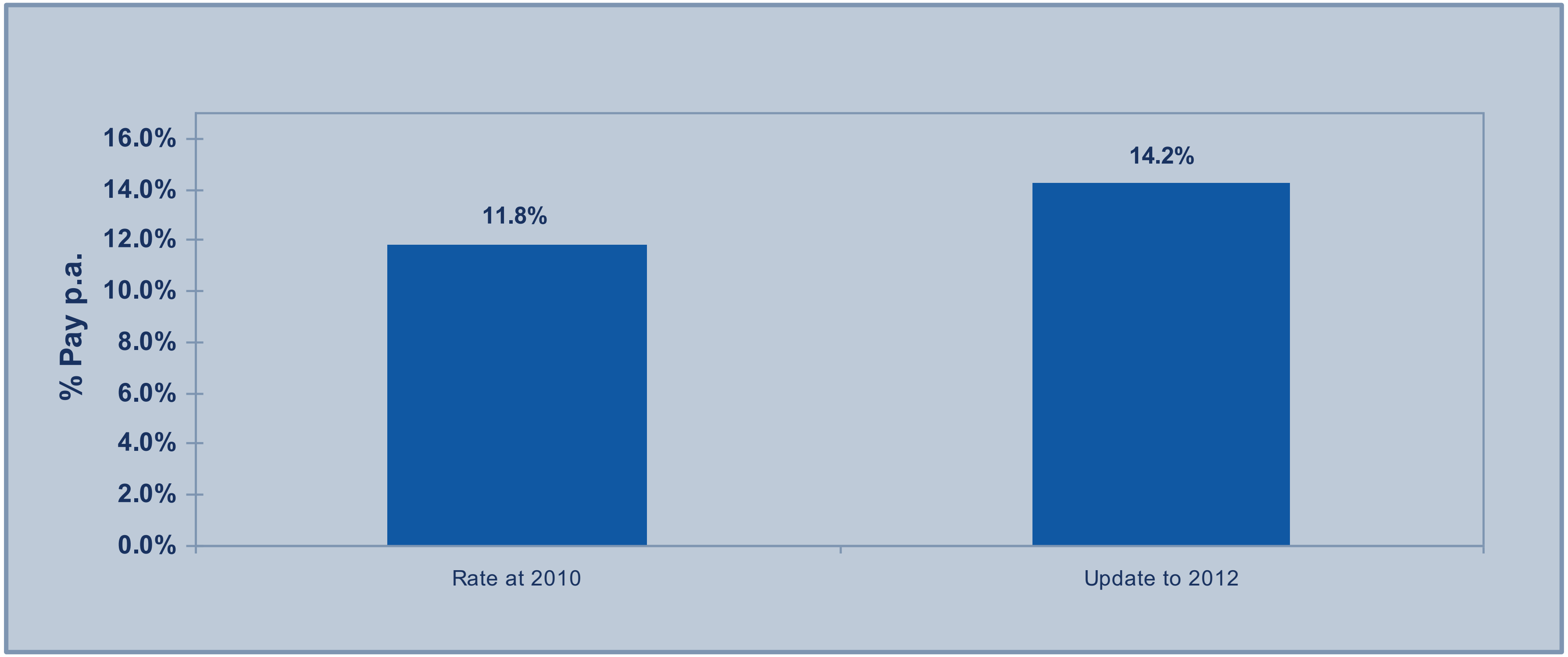


Funding level	**82%**	**73%**
Shortfall(£m)	**552**	**1,049**

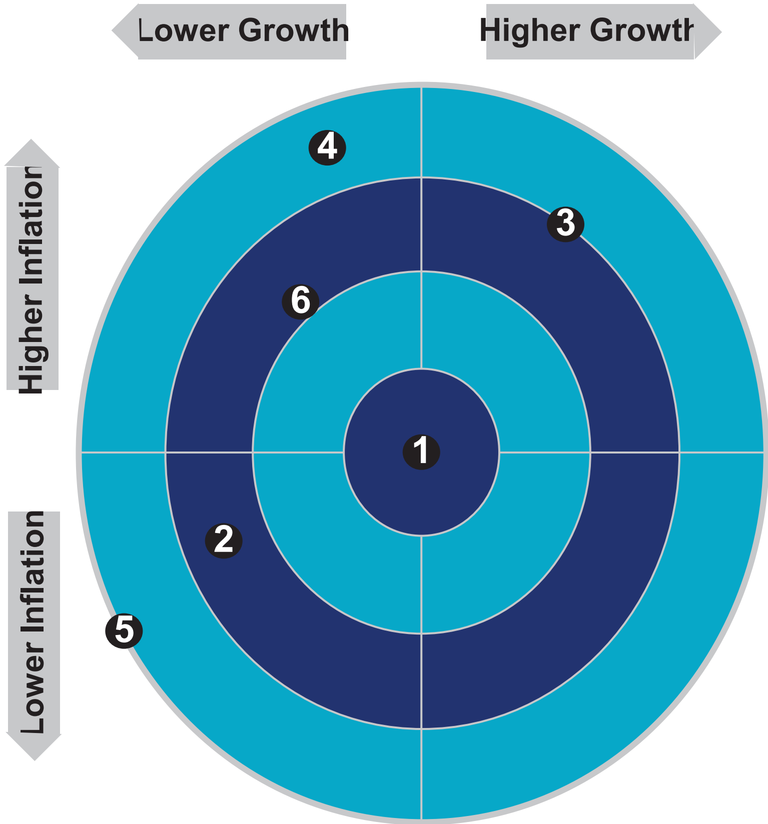
Approximate analysis of change in past service position



Funding Review Results
Illustrative average employer future service contribution rate – Current LGPS scheme

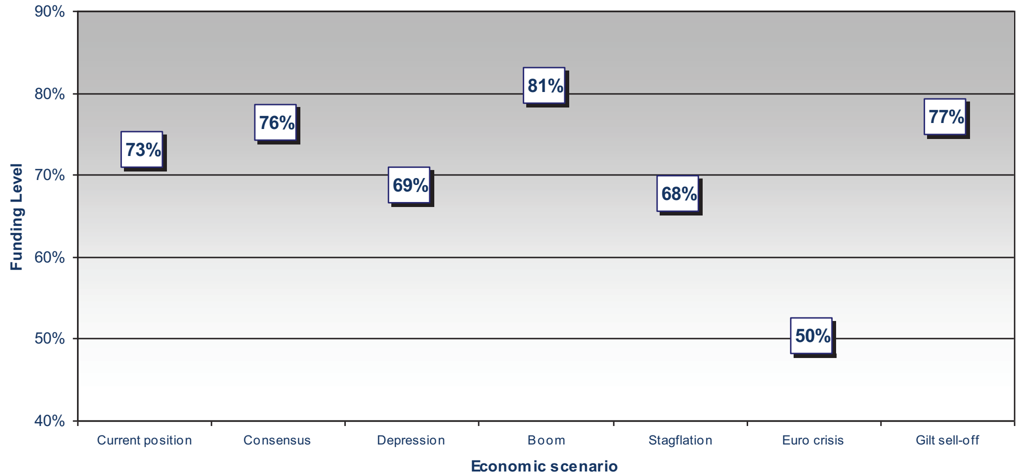


Projected Past Service Funding Position for 2013



1. Consensus - Balance between cuts and growth.
2. Depression - Austerity measures stifle growth.
3. Boom - Europe reaches agreement and single currency is protected.
4. Stagflation - Continuing loss of confidence coupled with rising commodity & oil prices.
5. Euro-crisis – Euro fails with banks taking significant losses.
6. Gilt sell-off – UK loses 'safe haven' status or is downgraded.

Projected Funding Level at 30 September 2013



The chart to the right shows the expected funding levels at 30 September 2013 alongside the current position as at 30 September 2012. Under the consensus scenario the deficit as at 30 September 2013 is £956m.

LGPS REFORMS

Public Service Pensions Bill - Summary

- Replaces current enabling legislation for public sector schemes and sets out basis for which benefits to be provided by each scheme,
- Reshapes governance arrangements and introduces wide ranging Treasury control i.e. cost control mechanism.
- Sets out protections for current scheme members.
- Features particularly relevant for LGPS include:
  - The Pensions Regulator (TPR) will play a more significant role in overseeing operation of LGPS
  - The formal appointment of “Scheme Managers” and “Pension Boards” by each LGPS Fund
  - Additional administrative requirements e.g. establishing internal controls
  - Emphasis on “long-term cost efficiency” of the Scheme, alongside “solvency”
  - Independent review of valuations/contribution rates?
- Government believes it will cut the cost to taxpayers of public sector pensions by nearly one-half allowing for the CPI indexation change also.

LGPS 2014 – Key Parameters

Basis of pension	Career Average Revalued Earnings (CARE)
Accrual rate	1/49th
Revaluation rate	Consumer Price Index (CPI)
Normal Pension Age	State Pension Age (min 65) - Transitional Protection
Member contributions	Average expected to stay at 6.5%
Contribution/Benefit flexibility	50/50 Option
Vesting Period	Increases from 3 months to 2 years
Definition of pensionable pay	Pay (including Overtime + Additional Hours)

Do you think that the new LGPS will be cheaper for all employers?

A. Yes

B. No

C. It depends….

D. Fingers crossed

LGPS 2014 – Points to Note

No impact on accrued benefits prior to 2014 – past service deficits and required recovery contributions remain an issue

Pensionable pay includes non-contractual overtime – even if % of pay "cost" is lower actual £ cost could be higher for certain employers

50/50 option could encourage take-up rates which could increase cash requirements for employers

NPA link to SPA and longevity will be crucial change to help with sustainability

Certain groups of members are highly likely to benefit from the change – for instance older members with low pay growth. This will impact on savings emerging for employers

Cost control mechanism – total cost envelope of 19.5% of pay, cap/collar approach etc before benefits or member contributions changed (further comments later)

LGPS 2014 – Employer future service contribution rate

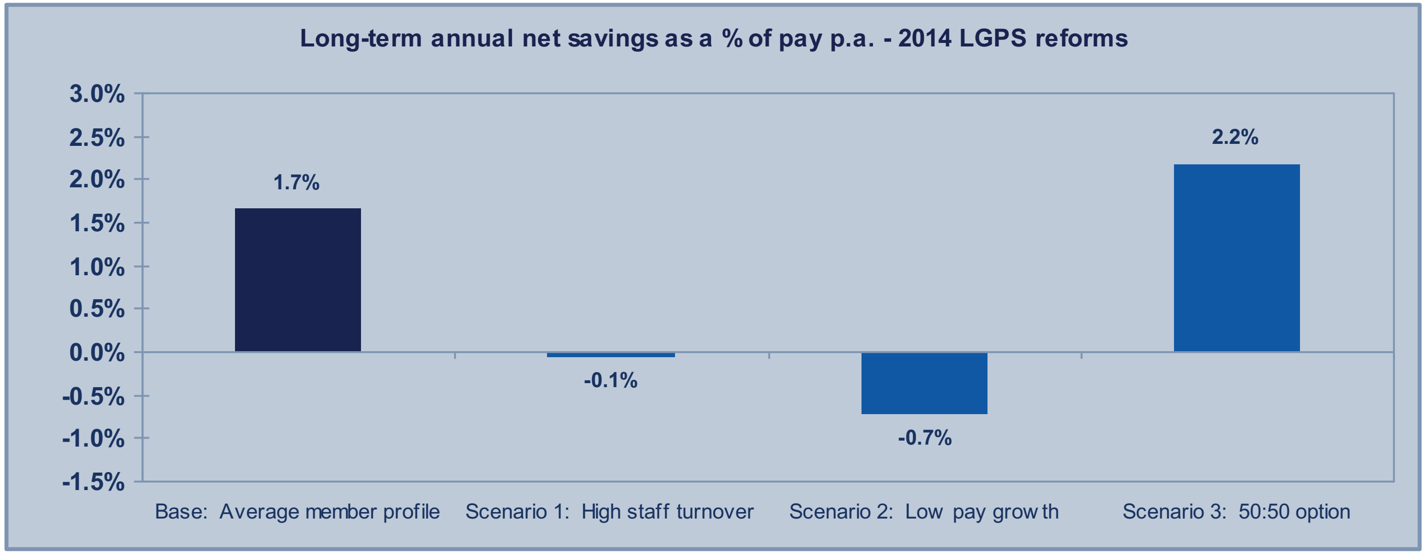
The table below shows an approximate analysis from the existing future service rate to the new rate under LGPS 2014 based on broad costs assuming the same average member rate. The figures ignore the 50:50 option which would reduce costs to employers (see next slide) :

	Average employer profile	Young profile	Old profile
Current future service rate	14.2%	10.8%	15.1%
60ths FS going to 49ths CARE	-0.2%	-2.9%	1.9%
NPA linked to SPA	-1.6%	-1.7%	-3.6%
Transitional protection	0.2%	0.0%	3.6%
Vesting increased to 2 years	-0.1%	-0.1%	-0.1%
Future service rate	12.5%	6.1%	16.9%
Post 2014 “saving”**	1.7%	4.7%	-1.8%

A negative figure is a **cost to the employer

LGPS 2014 – Relative cost analysis under different scenarios

The last slide showed how contribution rate changes can vary depending on employer age profile. However other member behaviours/characteristics can also impact on cost savings emerging from the reforms (even if the short-term valuation contribution rate would be unaffected):



- **High staff turnover** – a **cost** of 0.1% of pay from the move from final salary to CARE as members leave earlier. (E.g.: Members work 7 years on average in the LGPS)
- **Low pay growth** – actual pay increases are lower than assumed, so employer does not get the full benefit of the move to CARE linked to CPI. (E.g.: pay increases 1% p.a. less than valuation assumptions). This would result in a **cost** of 0.7% of pay.
- **50:50 option** – If 10% of members opted to take the 50:50 option, savings would increase further, by an additional 0.5% pa, i.e. a total **saving** of 2.2% pa instead of 1.7% pa.

LGPS 2014 – Good or Bad Outcome?

Higher accrual rate provides a significant benefit “guarantee” to members i.e. “locks in” benefit amount and is not linked to economic outlook.

Certain members have the potential benefit significantly in the short term vs current scheme

No certainty therefore that new scheme will deliver full anticipated savings to employers, especially in the current economic environment.

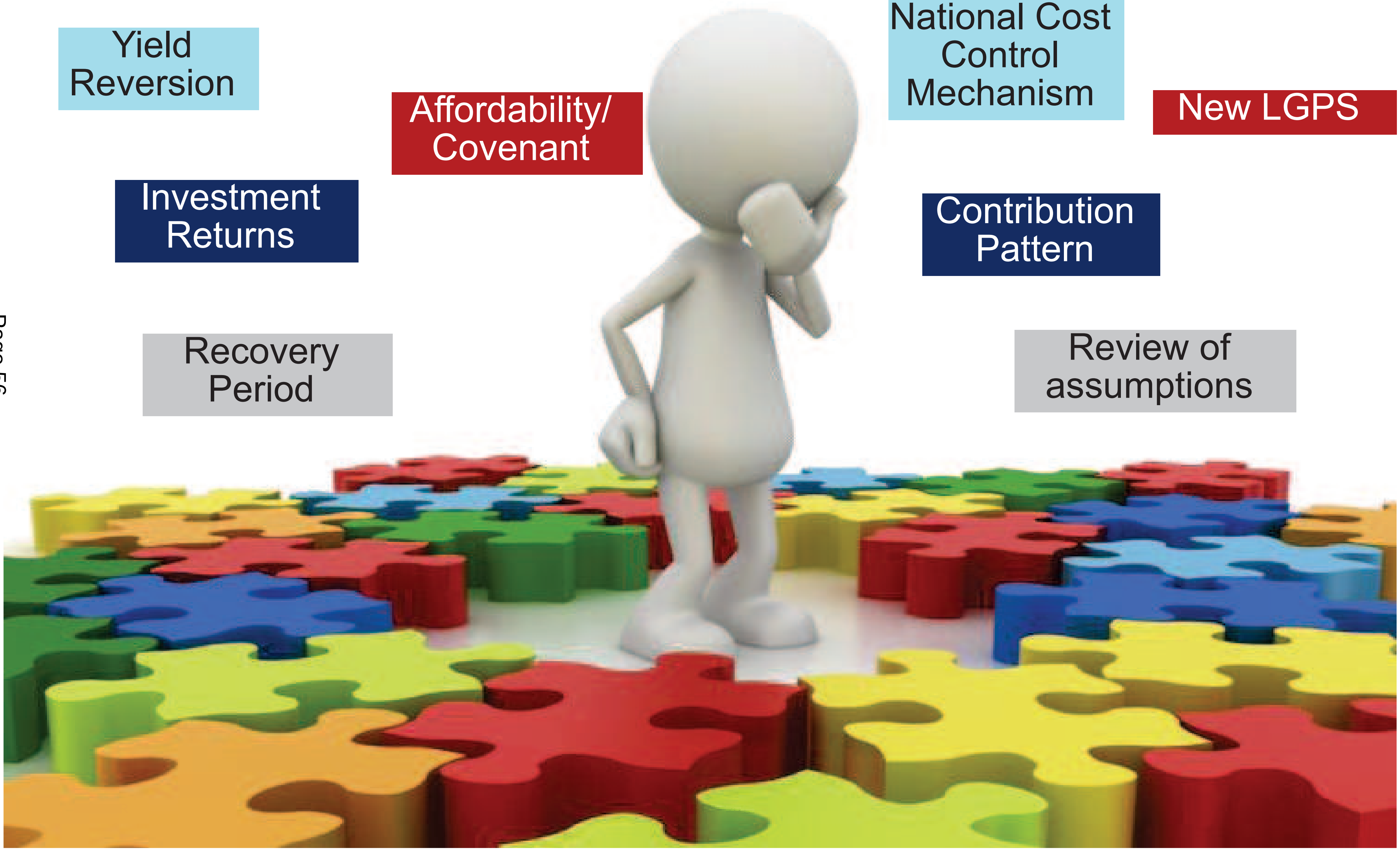
Cost control mechanism will be crucial to the sustainability of the scheme.

Bringing it all together…..
Like for Like with 2010 FSS

	2010	2012
	2010 Valuation (pre 2014 reforms)	Updated for Market Conditions (post 2014 reforms)
Illustrative Deficit (£m)	552	1,049
Annual deficit payment required over period (indexed in line with pay growth) (£m)		
Recovery period 21 years	31	56
Average Future Service Contributions (% Pensionable Earnings)	11.8%	12.5%

STABILISATION OF CONTRIBUTION RATES

Can stability of contribution rates be achieved?
Tools to solve the puzzle



Can stability of contribution rates be achieved?
Key Questions

What is the key period for any stability in terms of the austerity programme?

Can we relieve the pressure on contribution requirements due to market conditions and other factors?

Is the discount rate underlying the valuation expected to remain at the current levels?

What is the investment return expectation over the short, medium and long term on the Fund's assets?

Do we treat all employers the same in terms of the key funding parameters?

Will the reforms and in particular the cost control mechanism impact on the assumptions?

Will the reforms also impact on membership behaviour e.g. retirement patterns and how will this impact on assumptions?

LGPS 2014 Cost Control Mechanism – possible framework

- Total cost envelope will be 19.5% of pay as assessed by GAD for LGPS as a whole (this includes allowance for 50:50 option take-up)
- FSR to remain at initial rate within cap/collar
- Possible intermediate trigger for scheme changes at lower cap/collar
- Covers "member costs" (e.g. life expectancy via longevity index, ill-health retirements, 50/50 take-up?)

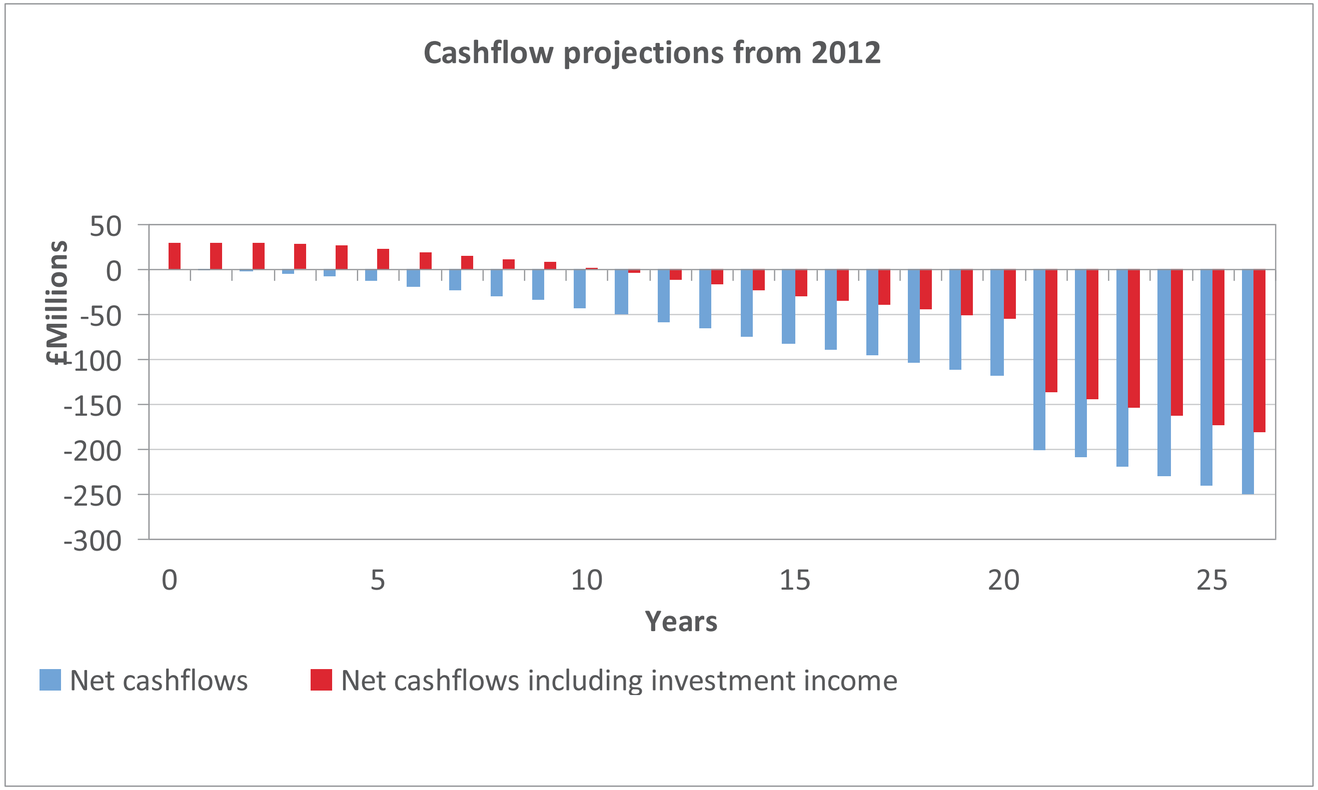
- Mechanisms
  - ➢adjust member benefits
  - ➢adjust member contributions
- Some elements not expected to be in scope
  - ➢Changes in financial assumptions (e.g. discount rate, inflation)
  - ➢Investment returns
  - ➢**Existing deficits**

More details to come but will potentially have an impact on valuation assumptions – in particular life expectancy improvement rates for future service liabilities

FUND LIQUIDITY

Projected Cashflows
Net Cashflow Position

- Our projections show the Fund remaining cashflow positive for one more year.
- Allowing for investment income at 1.0% p.a., the Fund is cashflow positive for around 10 years (2023/24).
- The potential impact on investment strategy and treasury management should be considered, noting that according to the SIP the Fund does not hold any assets in cash.
- Auto-Enrolment will have an effect on the cashflow profile.



The charts are based on the membership data provided by the Fund as at 31 March 2012, and allow for the LGPS reforms expected in 2014. They assume that the current total £ contribution pattern continues.

The key assumptions used to project the cashflows are based on the 2010 valuation ("like for like", adjusted for market conditions as at 31 March 2012 for consistency with membership),

Auto-enrolment

Summary of key employer duties

- Legislation introduces an employer duty to auto-enrol all eligible jobholders (age 22 to SPA, earnings over £8,105) into a qualifying pension scheme.
- Employers will pay a minimum level of contribution on their behalf on qualifying earnings between £5,564 and £42,475 (NI threshold 2012/13 terms).
- Jobholders can opt out, but must be re-enrolled every 3 years. Non-eligible employees can choose to opt in and employer enrols.

Example Staging Dates (based on number of employees)

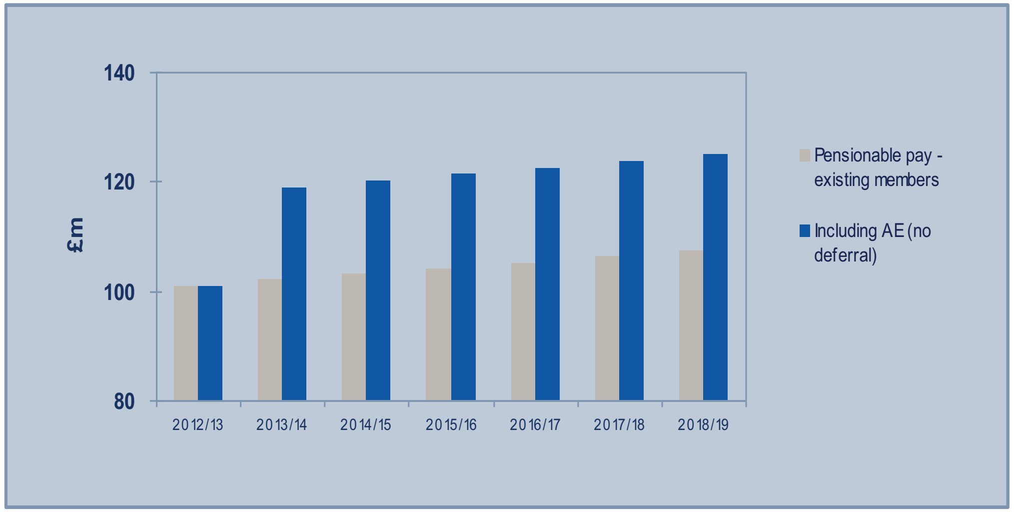
10,000 – 19,999	By 1 March 2013
3,000 – 3,999	By 1 July 2013
50 – 249	By 1 April 2014 to 1 April 2015

Employers using LGPS as auto-enrolment scheme (e.g. scheduled bodies) can delay beyond their staging date until up to 2017 to auto-enrol existing opt-outs, but no delay for new employees.

Auto Enrolment Projections

Example Employer - £100m Current Pensionable Payroll (staging date of 1 April 2013)

Potential impact of AE on pensionable pay



This chart shows projected pay for current members, and the potential increase in pay due to AE. (We have assumed increase in payroll of 1% pa. where projections were not available)

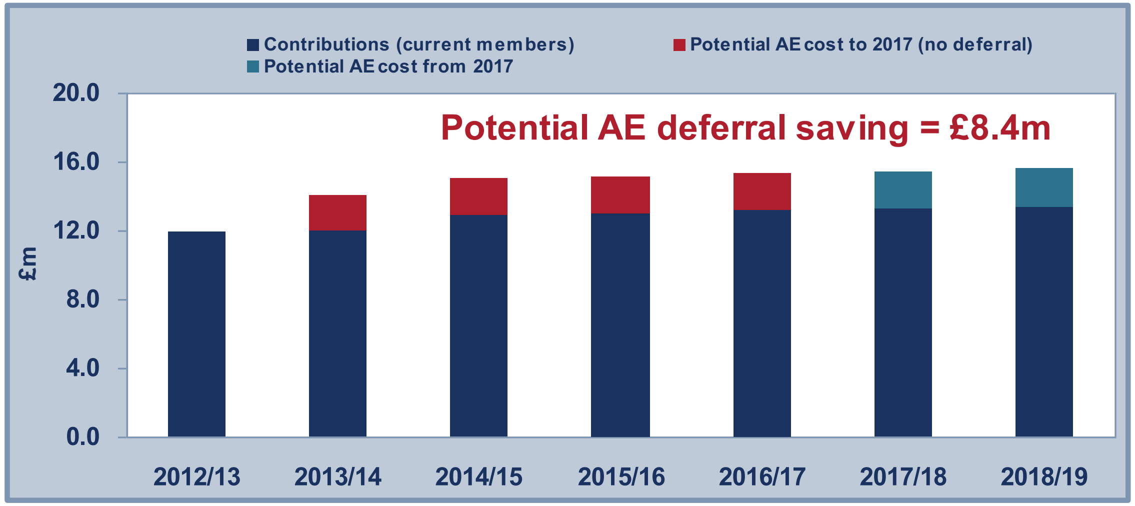
The chart below shows the additional contributions that would be payable by the Employer due to AE.

Currently the Employer's take up rate based on payroll is **75%.** In these projections we've assumed that **50%** of the remaining members will join the Fund due to AE.

This equates to additional pensionable pay of around **£17.5m pa**, equating to additional pension contributions of around **£2.2m pa.**

This means that by choosing to defer the implementation of AE to 2017 the Council can reduce pension fund contributions by a total of **£8.4m** if the assumptions are borne out.

Potential impact on contributions



Auto-Enrolment

Impact on Contributions of different employer sizes and take-up

	Payroll (£)	Staging Date	Reduction - 60% current take-up (£000s)	Reduction - 75% current take-up (£000s)	Reduction - 90% current take-up (£000s)
Employer A	200,000,000	March 2013	34,400	17,200	5,700
Employer B	100,000,000	April 2013	16,900	**8,400**	2,800
Employer C	50,000,000	July 2013	8,300	4,000	1,300
Employer D	10,000,000	November 2013	1,500	700	200
Employer E	1,000,000	April 2015	130	60	20
Employer F	500,000	January 2016	60	30	10

NEXT STEPS – LOOKING FORWARD TO 2013

Valuation timeline

Consideration of data requirements by employers	January/February 2013
Valuation effective date	31 March 2013
Preliminary discussions between Actuary and Fund regarding assumptions and indicative approximate results	April / May 2013
Provision of data by Employers to Fund	April 2013
Provision of data by Fund to Actuary	July 2013
Actuary Processes valuation	July – August 2013
Actuary discusses Councils results & funding strategy with Fund	September 2013
Finalisation of individual employer results by Actuary	October 2013
Liaison with employers and agreement of contributions	October / November 2013
Provision of formal report & certificates to Fund documenting the results of the valuation	March 2014

Actuarial valuations
Data Quality

- Reliability of valuation results for each individual employer ultimately dependent on the quality of the underlying membership data.
- Employer will provide data in the format required by the Fund. Early discussions are needed regarding to ensure the quality of this data.
- Engagement with payroll and HR departments within each employer essential in terms of ensuring the data provided to the Fund is clean and complete as far as possible.
- Volume of membership movements since 2010 valuation increases significance of data quality – potentially a big issue.
- Validation process carried out by Actuary based on both whole Fund and individual employer checks.
- Where data is missing / out of tolerance we may either estimate or query with the Fund – tend to err on the side of caution
- Materiality is important for each employer – results must have credibility.

Next steps

Employers to consider what is an acceptable contributions profile in terms of budgetary constraints with a view to discussing with the Fund

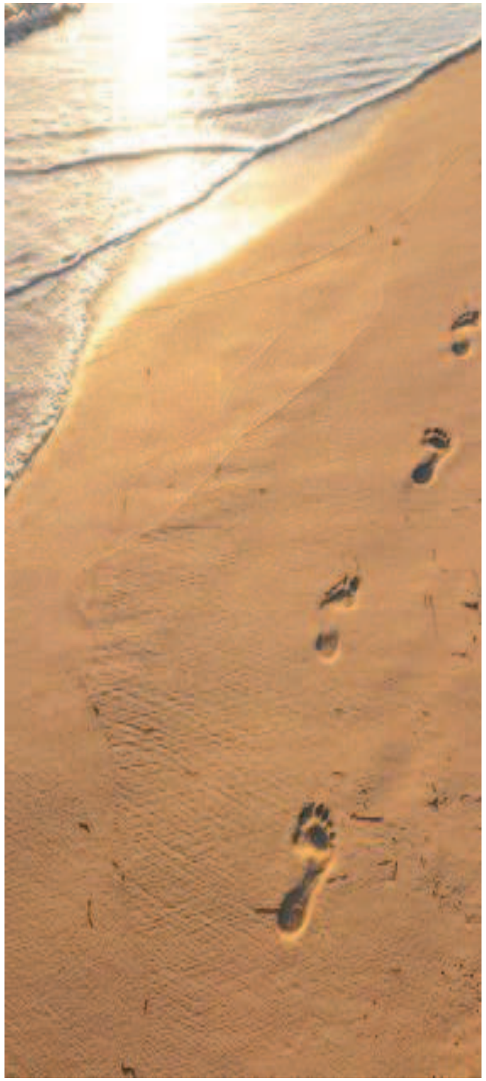
Individual factors could still affect contribution requirements (outsourcing, bulk transfers, profile changes etc)

Employers need to supply good quality data provided in line with the valuation timetable.

The Fund will consider which assumptions are still acceptable and what (if any) potential stabilisation mechanisms can be applied to achieve reasonably predictable contributions.

One such consideration by the Fund will be further analysis of the impact of *reversion* of bond yields on assets, liabilities and deficit recovery plan.

Other additional analyses will also be carried out by the Fund as required, (life expectancy analysis, investment strategy review etc) and assess the impact of changes in the longer term.



APPENDIX:
ASSUMPTIONS AND SUPPORTING INFORMATION

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Past Service Funding Target Financial assumptions – Like for Like with 2010

Market data	31 March 2010	30 September 2012
Corporate bond yield	5.60% p.a.	4.40% p.a.
Fixed interest gilt yield	4.50% p.a.	3.10% p.a.
Index-linked gilt yield	0.70% p.a.	0.20% p.a.
Market-implied price inflation (derived by differencing yields on fixed-interest and index-linked gilts)	3.80% p.a.	2.90% p.a.
Adjustment for Inflation Risk Premium (IRP) and RPI/CPI differential	-0.80% p.a.	-0.80% p.a.
Assumptions used for Past Service Liabilities		
Discount rate: pre-retirement	6.85% p.a.	5.45% p.a.
post-retirement	5.70% p.a.	4.30% p.a.
individual employers	6.10% p.a.	4.70% p.a.
Inflation: Consumer Prices Index (CPI)	3.00% p.a.	2.10% p.a.
Salary inflation	4.50% p.a.	3.60% p.a.
Pension increases	3.00% p.a.	2.10% p.a.

Future Service Financial assumptions – Like for Like with 2010

Market data		31 March 2010	30 September 2012
Corporate bond yield		5.6% p.a.	4.4% p.a.
Fixed interest gilt yield		4.5% p.a.	3.1% p.a.
Assumptions used for Future Service Liabilities			
Discount rate:	pre-retirement	6.75% p.a.	5.85% p.a.
	post-retirement	6.75% p.a.	5.85% p.a.
	individual employers	6.75% p.a.	5.85% p.a.
Inflation:	Consumer Prices Index (CPI)	3.00% p.a.	2.10% p.a.
Salary inflation		4.50% p.a.	3.60% p.a.
Pension increases		3.00% p.a.	2.10% p.a.

Assumptions
Economic scenarios – Projections from 30 September 2012

1 year projection

	Consensus	Depression	Boom	Stagflation	Euro crisis	Gilt sell-off
Annualised index returns (% p.a.)						
Equities	7.5%	-5.0%	10.0%	-2.5%	-30.0%	5.0%
Over 15 Year Fixed Interest Gilts	0.9%	5.0%	-6.9%	-6.9%	18.5%	-14.0%
Index-Linked Gilts (All Stocks)	2.1%	-1.4%	-4.1%	-5.0%	11.6%	-3.4%
AA bonds (All Stocks)	4.8%	1.3%	1.3%	-2.1%	1.3%	1.3%
Cash	0.5%	0.5%	1.0%	1.0%	0.3%	1.5%
Annualised growth rates (% p.a.)						
Inflation	3.0%	3.0%	4.5%	5.0%	2.0%	5.3%
Financial asset yields at end of 1 year (% p.a.)						
Bank Base Rate	0.5%	0.5%	1.0%	1.0%	0.3%	1.5%
Fixed Interest Gilt Yield	3.0%	2.8%	3.5%	3.5%	2.0%	4.0%
Index-Linked (Real) Yield	0.1%	0.3%	0.5%	0.0%	-0.5%	0.5%
Corporate Bond Yield	5.0%	5.5%	5.5%	6.0%	5.5%	5.5%

*We have estimated long term market implied CPI inflation based on the estimated gilt yields above, but allowing for the Bank of England long term target for CPI inflation of 2% pa.

Auto Enrolment Projections
Background and Assumptions

- Calculated projected costs over short and medium term for example employers using their actual staging date based on implied headcount (assuming all employees on £20k p.a.).
- Considered payroll of current employees not in scheme (i.e. existing opt-outs). Not considered change in new entrants profile.
- Used individual employer future service rate for benefits to April 2014 then estimated rate for new scheme.
- Assumed take up rate of **50%.** Central research by the NAPF suggests take up rate of 60% -70%, i.e. opt-out rate of 30% - 40%. Higher LGPS employee contributions suggest higher opt out rate.
- Auto enrolment (AE) already exists in a couple of countries. In Australia AE is compulsory for employees, in Norway AE is non-contributory for employees. Opting out is not applicable.
- However, New Zealand has an AE Scheme, with the ability to opt out, in place. This shows an opt out rate of around 30% although average contribution rates are lower than LGPS. See separate paper for more detail.
- Assumes all employees will opt for full benefits. Employees opting for 50/50 option will reduce £ costs and this can be modelled by adjusting future service rates.

Actuarial advice

This presentation contains actuarial advice to the Administering Authority concerning potential decisions on the financial management of the Fund.

- This presentation forms part of a suite of material that will be used by the Administering Authority in making any decisions.
- It forms part of the audit trail for the 2013 valuation and should be read in conjunction with any other material provided.
- The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining potential contribution rates for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Administering Authority if the information provided in the report is used for any purpose other than that stated (for example for accounting).

LGPS 2014: WRITTEN MINISTERIAL STATEMENT [With additional details]

Brandon Lewis MP
Parliamentary Under Secretary of State for Communities and Local Government

The intention remains to have the new scheme regulations in place to coincide with the next Scheme valuation in 2013 to enable local fund actuaries to reflect elements of the new design in this process before the reformed Scheme comes into operation in 2014 and to give software and payroll providers sufficient time to establish and test procedures for the scheme after April 2014.

The Statutory Consultation will include draft regulations. The initial draft will be sent out before Christmas and will cover the benefit amendments set out in Workstream 1 affecting the current Benefit Regulations.

There will be a narrative paper on Workstream 2 which deals with Governance and Cost Controls

Further documentation will be sent through during the consultation period dealing with calculation criteria [Transfers/Purchase of Additional Benefits]

A second draft SI will sweep up and will be used to amalgamate the existing Benefit and Administration Regulations into one.

As the main parameters(see overleaf) form the basis of the forthcoming statutory consultation have already been released by LGA and Unions, the consultation period for the draft will be cut from 12wks to 6 wks.

The consequences of the new Fair Deal for the local government workforce will be considered by the Department for Communities and Local Government in view of the extant Best Value Authorities Staff Transfers (Pensions) Direction 2007 and Admitted Body Status in the Local Government Pension Scheme

The Government Actuary's Department has confirmed that the scheme design set out above does not exceed the agreed cost ceiling of 19.5% of pensionable pay. A copy of the Government Actuary's Department verification has been placed in the Library.

The initial focus of the statutory consultation exercise will be on the Local Government Association and local government trades unions' proposals for the design of the new scheme from April 2014. The Public Service Pensions Bill introduced on 13 September set out new arrangements for the future of public service pension schemes. This Bill provides a strengthened framework for administration, transparency, governance and cost control of the schemes, including the Local Government Pension Scheme. Although still matters under consideration, the provisions in the Bill do not rule out any of the Local Government Association and local government trades unions' proposals on governance and cost control. I will continue to work closely with those bodies during the statutory consultation to consider these important matters further and in light of issues raised during the consultation.

Discussions are still going on with regards to getting clarification of the effect of the Public Service Pension Bill on the LGPS. It is intended that the reference to HM Treasury being involved in setting criteria for valuations does not apply to LGPS. There will also be more investigations into Merged Funds [eg optimum fund size.

The main parameters forming the basis of the forthcoming statutory consultation are set out below :

- A start date of April 2014 with core elements of the new scheme regulations in place by March 2013
- A pension scheme design based on career average and actual pay
- An accrual rate of 1/49th of pensionable earnings each year
- Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)
- A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service
- A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate
- Pensions in payment to increase in line with a price Index (currently Consumer Prices Index)
- Benefits to increase in any period of deferment in line with a price index (currently Consumer Prices Index)
- Average member contribution yield of 6.5%, with tiered contributions
- Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations
- Early/late retirement factors from age 55 on an actuarially neutral basis
- A vesting period of two years
- Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit
- Ill-health retirement pensions to be based on the current ill-health retirement arrangements. **[There is some recognition that ill health retirements need reviewing but this will be done later due to the current time restraints]**

There will be transitional protection in respect of:

All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme

Protection underpin for members aged 57 to 59 **[10 yrs. protection]**

Rule of 85 protection as in the current scheme.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**14 DECEMBER 2012**
TITLE:	**LGPS INVESTMENT LIMITS – INVESTMENT IN PARTNERSHIPS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – LGPS Investment Limits Appendix 2 – DCLG Consultation Appendix 3 – Draft response	

1. THE ISSUE

1.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "Regulations") impose certain prudential limits on the way in which money which can be invested. In principle, these are designed to manage risk, mainly through diversification. There is a two tier system of investment limits. The first tier is the "normal" limit; the second consists of a set of higher limits which can be utilised subject approval by a Fund's Committee.

1.2. The Department for Communities and Local Government (DCLG) is seeking views on whether any amendment should be made to these limits to enable funds to invest in infrastructure (where most investment vehicles will be via a partnership structure).

1.3. The Avon Pension Fund's draft response is set out in Appendix 3.

2. RECOMMENDATION

The Avon Pension Fund Committee is asked to approve:

2.1. The response to the DCLG consultation.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial considerations to consider.

4. THE REPORT

4.1. The Local Government Pension Scheme Regulations sets out prudential limits for investments. In principle, these are designed to ensure diversification and reduce risk within the Fund. There is a “normal” limit for each category and a “higher” limit that a Fund can elect to use, only if it has taken proper advice regarding the suitability of the type of investment within the investment strategy.

4.2. The Fund complies with the normal limits except for its investments in single partnerships (approved by Committee December 2008 to accommodate the investments managed by Partners) and in Life Funds (approved by Committee March 2006 to accommodate the investments managed by Blackrock) where the higher limits apply. The limits adopted by the Fund are set out in the Statement of Investment Principles.

4.3. The current regulatory limits (normal and higher) are set out in Appendix 1.

4.4. The DCLG is consulting whether the existing limit on partnerships is a barrier to funds investing in infrastructure. Partnership structures are already used for investments in other asset classes including private equity and private real estate in addition to infrastructure. Thus some funds may be approaching the 15% limit prior to any allocation to infrastructure, which could limit overall investment in infrastructure. However, the main barrier to investing in infrastructure is the availability of suitable assets and investment vehicles to facilitate diversified investment opportunities given the size of individual pension funds in the UK.

4.5. The Fund supports amending the limit on partnerships given that it could restrict the ability of funds to invest in infrastructure. However, the Fund would prefer that the DCLG adopt a holistic approach and provide a prudential framework for risk management (as was proposed in the 2011 consultation to which the DCLG never responded) rather than tinker with the investment limits on a piecemeal basis. Adopting a prudential risk framework would put the investment regulations for the LGPS on a similar framework to that applying to UK private sector schemes. This approach would not set prescriptive limits and therefore the guidelines would not have to be revised or tinkered with as the investment environment evolves.

4.6. The DCLG consultation (see Appendix 2) puts forward two options for change:

(A) Increase the limit on investments in partnerships from 15% of a local authority fund to 30%.

(B) Create a new investment class for investment in infrastructure (including via limited liability partnerships), with an appropriate investment limit of 15% of an overall fund.

4.7. The Fund’s draft response to the consultation questions (see Appendix 3) favours option (A) for the following reasons:

4.7.1. It is not optimal for regulations to place a limit on any category of asset class and in this respect it is not appropriate to single out infrastructure, given the barrier to investing is not the asset class itself but the investment structure through which such investments could be made i.e. the 15% limit on partnerships.

4.7.2. Partnerships are a vehicle through which investments can be made and can be used to invest in various assets, not just infrastructure. Option (A) allows flexibility for funds to reflect their investment strategy through the most appropriate investment structure at any point in time.

4.7.3. It could be difficult to clearly define “infrastructure” within the Regulations and poor or out-dated definitions can lead to disproportionate resources being used to manage the investment structure rather than the investment strategy. For example, residential housing for rent or care homes, could be considered property rather than infrastructure and invested via a property mandate (where the appropriate investment structure for such investments may be pooled property funds rather than partnerships).

4.7.4. Option (B) puts forward an “appropriate” limit of 15% for infrastructure. There is no justification as why 15% is deemed appropriate. There could be the case that having taken expert advice an allocation above 15% could be “appropriate” for some funds in relation to their funding strategy; this proposal could prevent funds from making such decisions. There is then the issue of definition discussed previously.

4.7.5. The Regulations and other Codes of Practice (such as the Myners Principles) require all LGPS funds to take expert advice before strategic asset allocation and investment management selection decisions are made. Therefore limits that provide maximum flexibility and minimum prescription are in line with the Regulations and Codes currently in place. In addition, all funds are required to set out their strategic policy in their Statement of Investment Principles including the managing the risks arising from asset allocation.

4.8. Investment in infrastructure, given that some projects could be within the locality of a LGPS fund, brings to the fore the issue of conflicts of interest inherent within LGPS governance structures. Therefore, the response highlights the need to strengthen the Regulations with regard to managing conflicts of interest by providing guidance as to the considerations LGPS funds must take when arriving at investment decisions.

5. RISK MANAGEMENT

5.1. The 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 investment management structure and through the selection process followed before managers are appointed.

6. EQUALITIES

6.1. An Equalities Impact Assessment has not been completed given the technical nature of issue under consideration.

7. CONSULTATION

7.1. None appropriate.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1. The issues to consider are contained in the report.

9. ADVICE SOUGHT

9.1. The Council's Monitoring Officer (Divisional Director – Legal and 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 Woodyard, Investments Manager; 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Schedule 1 – Table of Limits on Investments

	Investment	Normal Limit	Increased Limit
1	Any single sub-underwriting contract	1%	5%
`2	All contributions to any single partnership	2%	5%
3	All contributions to partnerships	5%	15%
4	The sum of — (a) all loans (but see paragraph 1 below; and (b) any deposits with — (i) any local authority; or (ii) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	-
5	All investments in unlisted securities of companies	10%	15%
6	Any single holding (but see paragraphs 2 and 3 below)	10%	-
7	All deposits with any single bank, institution or person (other than the National Savings bank).	10%	-
8	All sub-underwriting contracts	15%	-
9	All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below).	25%	35%
10	All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11	All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below).	25%	35%
12	Any single insurance contract	25%	35%
13	All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

Notes:

1. The restriction in item 4 of the table does not apply to a Government loan.

2. The restriction in item 6 of the table does not apply if—

(a) the investment is made by an investment manager appointed under regulation 8; and

(b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.

3. The restrictions in items 6, 9 and 11do not apply to—

(a) National Savings Certificates;

(b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;

(c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

(d) a deposit with a relevant institution.

Department for Communities and Local Government

Local Government Pension Scheme: Investment in Partnerships

Consultation

November 2012
Department for Communities and Local Government

This document/publication is also available on our website at www.communities.gov.uk

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

November 2012

ISBN: 978-1-4098-3691-9

The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme - Investment in Partnerships
Scope of this consultation:	This consultation seeks views on whether any amendment is necessary to remove specific barriers preventing Scheme funds from being invested in infrastructure investment vehicles designed to control risk exposure and provide both future income stream to funds and necessary capital input into projects intended to stimulate growth.
Geographical scope:	England and Wales.
Impact Assessment:	Not required as no impact on business or individuals

Basic information

To:	This consultation is aimed principally at local government.
Body responsible for the consultation:	The Department for Communities and Local Government is responsible leading on the policy and the consultation exercise.
Duration:	6 weeks, with a further consultation period if it is then necessary to introduce amending statutory provisions
Enquiries and how to respond	For enquiries and to respond to this consultation. Please e-mail sandra.layne@communities.gsi.gov.uk When responding, please ensure you have the words “Investment in Partnerships” in the email subject line. Alternatively you can write to: Local Government Pension Scheme - Investments Department of Communities and Local Government 5/F6 Eland House Bressenden Place London SW1E 5DU For more information, please see www.communities.gov.uk

Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 6 weeks. We are seeking views from the following parties with an interest in the Local Government Pension Scheme: The Welsh Assembly The Chief Executives of: County Councils (England) District Councils (England) Metropolitan Borough Councils (England) Unitary Councils (England) County and County Borough Councils in Wales London Borough Councils South Yorkshire Pension Authority Tameside Metropolitan Borough Council Wirral Metropolitan Borough Council Bradford Metropolitan City Council South Tyneside Metropolitan Borough Council Wolverhampton Metropolitan Borough Council London Pension Fund Authority Environment Agency Town Clerk, City of London Corporation Clerk, South Yorkshire PTA Clerk, West Midlands PTA Fire and Rescue Authorities in England and Wales Police Authorities in England and Wales National Probation Service for England and Wales Local Government Association (LGA) Employers' Organisation LGPC ALACE PPMA SOLACE CIPFA ALAMA Association of Colleges Association of Consulting Actuaries Association of District Treasurers Society of County Treasurers Society of Welsh Treasurers Society of Metropolitan Treasurers Society of London Treasurers Association of Educational Psychologists NAPF NALC

	Society of Local Council Clerks Trades Union Congress GMB UCATT UNISON Unite NAEIAC NAPO MOCOP Members Equal Opportunities Commission

Background

Getting to this stage:	Subsequent to the publication of the Government's *Blueprint for Technology* and the signing of a memorandum of understanding between pension industry representatives and the Government on examining ways pension funds could invest in infrastructure projects, concern has been expressed that extant provisions of the LGPS (Investment and Management of Funds) Regulations 2009 may be placing an unintended bar on authorities seeking to invest in this particular area.
Previous engagement:	See above

How to respond

1. Responses to this consultation must be received by **18 December 2012**.

2. You can respond by email to sandra.layne@communities.gsi.gov.uk or write to:

Local Government Pension Scheme - Investments
Department of Communities and Local Government
5/G6 Eland House
Bressenden Place
London SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at www.communities.gov.uk

Confidentiality and data protection

6. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

7. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

8. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

10. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

11. A copy of the consultation criteria from the Code of Practice on Consultation is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator,
Zone 8/J6,
Eland House,
Bressenden Place
London SW1E 5DU

Contents

Chapter 1 - Introduction

1.1 The primary responsibilities of local authority pension funds are to deliver the returns needed to pay Scheme members the pensions they have worked hard to earn, and to protect local taxpayers and employers from high pension costs. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) are designed to enable local fund managers to pursue effective investment strategies that meet these goals. By requiring that funds and risks are spread across a number of different types of investment, and setting limits on the proportion of funds that can be invested in each type of investment, the Investment Regulations help to minimise risk and protect the interest of taxpayers.

1.2 Within this framework, it is important that local fund managers have appropriate levels of flexibility to maximise their investment opportunities. In this context, concerns have been expressed that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. It has been suggested that this is as a result of certain investment category limits within the Investment Regulations, particularly where investments which use Limited Liability Partnerships have to be considered under the overall restriction applying to partnerships. This consultation, therefore, seeks views on whether there is merit in amending the Investment Regulations to provide further flexibility in the area relating to partnerships.

1.3 The consultation will close on 18 December 2012 and details of how to respond are set out at the beginning of the document. Importantly, this consultation should not be seen as an endorsement by Government of any particular investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis. Rather, this consultation is seeking to identify and remove any unnecessary barriers to investments which can form an integral part of a local investment portfolio and can also assist in stimulating growth.

Chapter 2 - Setting the context

Framework for local investment decisions

2.1 Local pension authorities must ensure that their funds will provide a consistent and known income stream over the long term. This will help minimise the impact of managing pension costs, stabilise the level of employer contribution rates and limit local taxpayers' exposure over the medium to long term. In developing their investment strategies, local fund managers must operate within the framework set by the Investment Regulations. These require funds to be invested across a spread of different types of investment to minimise risk, and limit the proportion of funds that can be invested in each type of investment. A copy of the Investment Regulations can be found at: www.legislation.gov.uk/uksi/2009/3093/contents/made .

2.2 All local authority pension funds are required to have in place a Statement of Investment Principles which will describe the Fund's investment objectives, the types of investments held and the Fund's attitude to risk. Any local investment decision must comply with the Fund's Statement of Investment Principles, must be supported by a clear business case and must have been made in the light of appropriate and proper advice. Final investment decisions rest, in the main with locally elected councillor members of investment committees, although such committees may include other co-opted representative, and the committee will have given due regard to the available professional advice and the appropriate use of public funds.

Investing in infrastructure

2.3 In November 2010, the Government published its *Blueprint for Technology* [1] which set out the Government's aim to make the UK the most attractive place in the world to start and invest in innovative technology companies. The blueprint highlighted the role that pension funds, both in the private and public sector, can play in filling gaps in the provision of growth finance and equity funding for small businesses. Whilst recognising that decisions whether or not to invest in any particular product or sector will remain entirely a matter for individual pension funds, the blueprint encouraged local authorities to consider doing more to match the investment strategies of local authority pension funds with the needs of UK start-ups.

2.4 In November 2011, HM Treasury, the National Association of Pension Funds and the Pension Protection Fund signed a Memorandum of Understanding[2]. All parties agreed that there is the potential for mutual

[1] www.bis.gov.uk/assets/biscore/innovation/docs/b/10-1234-blueprint-for-technology.pdf
[2] www.hm-treasury.gov.uk/d/foi_memorandum_of_understanding.pdf

benefit for the Government and pension funds to facilitate investment in infrastructure. The parties agreed to work together to help establish the arrangements necessary for efficient and appropriate investment in UK infrastructure assets. This work has included the development of the Pension Investment Platform, which will seek to raise funds from both public and private sector pension schemes.

2.5 More recently, in July 2012, Professor John Kay published his independent review of UK Equity Markets and Long Term Decision Making[3]. The review posed several challenges to the relationship between pension funds and markets. Overall, the report recommends that there should be a shift in the culture of the stock market, with the intention of promoting more long term decision making both with a view to improving cash flow returns for pension funds and to provide a source of long term capital investment in businesses to enable them to grow.

The case for change

2.6 Within this context of debate about the role of pension schemes within infrastructure investment, some - including the National Association of Pension Funds - have expressed concern that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. In particular, it has been suggested that difficulty is caused by the 15% limit set by the Investment Regulations on investment in partnerships.

2.7 Commentators argue that, in common with other types of investment with a similar degree of risk, infrastructure investment vehicles are usually organised as limited partnerships. This means that any investment in vehicles such as the Pension Investment Platform (see paragraph 2.4) must be taken together with existing investments in other limited partnerships, including limited partnerships and the use of private equity via a partnership, in considering whether a fund's investment strategy fits within the permitted limits. It has been suggested that, in view of this, the current 15% limit is too low and would put some local authority pension funds at risk of exceeding this limit, and so unable to pursue infrastructure opportunities. It has been argued that this, in effect, limits diversification by constraining access to an asset class that may be well suited to a local authority pension fund's long term needs.

[3] www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report

2.8 In September 2012, the Smith Institute published a report on local authority pension funds and investing for growth[4], which arrived at similar conclusions. Among its proposals it recommended that Government should consider reviewing and exploring potential changes to the restrictions on investments as currently set out in the Investment Regulations. In particular questions were posed in relation to limits for investment in limited liability partnerships which fall under the general definition of partnerships.

[4] www.smith-institute.org.uk/file/local%20authority%20pension%20funds%20-%20investing%20for%20growth.pdf

Chapter 3 - Proposals for consultation

3.1 As indicated, by virtue of this consultation, Government is not endorsing any particular type of investment or investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis, with final decisions resting with locally elected councillors. Similarly, the Government is not proposing to fundamentally change the framework for investment provided by the Investment Regulations. Those regulations provide necessary and effective protections for local council tax payers, the principle of which must remain.

3.2 However, in light of the context described in the previous chapter, this consultation seeks views on whether action is necessary to amend those regulations to remove any unnecessary barriers to investments in infrastructure. If action is considered necessary, the Government would welcome views on what steps it should take.

3.3 The Government considers that there are two clear options for change:

A) Increase the limit on investments in partnerships from 15% of a local authority pension fund to 30%.

Such an increase could facilitate investment in infrastructure investment vehicles along side other existing arrangements organised as limited partnerships. However, there would be no direction for funds to spread investment in limited liability partnerships between different classes of investment. For example, a fund could use this higher limit to increase the proportion of funds that could be invested in other investment opportunities such as private equities. In addition, any increase to the proportion of funds invested in partnerships must be considered within the increased risk potentially involved in such vehicles.

B) Create a new investment class for investment in infrastructure (including via limited liability partnerships), with an appropriate investment limit of 15% of an overall fund.

Again, this approach would need to be considered in the context of increases in risk associated with investment in limited liability partnerships. However, it may help to protect against concentration of investment in a particular type of investment. In considering this option, respondents are asked in particular to offer views on how this might best be defined in regulation.

3.4 In the light of the options set out above, the Government would welcome views on the following questions:

Q1. How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?

Q2. What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?

Q3. Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?[5]

Q4. Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?

Q5. Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

[5] By way of illustration consultees may wish to look at s.2(3) of the Housing and Regeneration Act 2008

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Bath & North East Somerset Council

Avon Pension Fund
LOCAL GOVERNMENT PENSION SCHEME
Bath & North East Somerset Council, Floor 3 South,
Riverside, Temple Street, Keynsham, Bristol BS31 1LA
Telephone: 01225 477000 ~ Facsimile: 01225 395258 ~ Email: avon_pension@bathnes.gov.uk
Website: www.avonpensionfund.org.uk

AVON PENSION FUND

Sandra Layne
LGPS – Investments
Department of Communities and Local Government
5/G6 Eland House, Bressenden Place
London SW1E 5DU

Telephone: 01225 395306
Fax: 01225 395258

Email:
liz_woodyard@bathnes.gov.uk

Date: 14 December 2012

Dear Sandra

The Local Government Pension Scheme: Investment in Partnerships

Thank you for inviting the Avon Pension Fund to respond to the above consultation. The Avon Pension Fund is part of the LGPS, administered by Bath & North East Somerset Council.

Before addressing the questions set out in the consultation paper, the Fund has a number of general comments to make arising from the paper:

- In principle the Fund supports the need to amend the limit on partnerships given that it could restrict some funds' ability to invest in infrastructure where these funds already have significant investments via partnership structures. However, rather than tinker with the investment limits on a piecemeal basis, the Fund would prefer that the DCLG adopt a holistic approach and provide a prudential framework for risk management within the LGPS Regulations (as was proposed in the 2011 consultation which the Fund supported). Adopting a prudential risk framework would put the investment regulations for the LGPS on a similar framework to that applying to UK private sector schemes. This approach would not set prescriptive limits and therefore the guidelines would not have to be revised as the investment environment evolves over time.
- The purpose of the regulations, including the investment limits, is to ensure LGPS funds manage and control investment risk. However, there is a danger that the prescriptive limits around investment structures can determine investment strategy rather than merely be the vehicle through which investment decisions are implemented.
- In addition to the investment limits, the regulations already require funds to have regard to investment risk and to take expert advice on strategic issues. We would question whether the use of limits addresses risk appropriately given the investment risks to which funds

are exposed. It is inappropriate for the regulations to "direct" investment decisions by applying an investment limit on a specific asset class, and as a result assign a perceived level of "risk" to that asset class.

- One area of concern, especially if some infrastructure projects could be within the locality of a LGPS fund, is the conflict of interest inherent within LGPS governance structures (especially given they are multi-employer funds). Local politicians are responsible for the decision making with respect to the investment strategy. Those same politicians will also naturally have a strong interest in developing their local communities. Therefore the regulations should be strengthened to provide guidance of how committees and administering authorities should manage conflicts of interest. Where conflicts arise in investment decisions there should be clear guidance as to the considerations a fund must take into account when arriving at its decision.

- Although this does not fall under the "Regulations", establishing the national platform for Infrastructure investments would be an effective way of bringing the infrastructure projects and investors together. As long as this vehicle delivers the investment returns and diversification of risks required it should enable the smaller funds, in particular, to access infrastructure opportunities in a cost effective way.

Of the two proposals outlined in the consultation paper the Avon Pension Fund is supportive of Option (A) – to increase the limit on partnerships to 30%. The Fund's response to the specific questions is as follows:

Q1. How best could the LGPS (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?

Local authority funds are already able to invest in infrastructure. The barrier within the regulations, is the use of partnerships as the investment vehicle, given the regulations restricts the overall allocation that can be made to partnerships. Therefore the preferred option is to increase the limit on partnerships from 15%. There is no justification for singling out infrastructure as an asset class with a specific investment limit.

Q2. What would be the most appropriate limit on investments in partnerships contained within the LGPS Regulations?

Partnerships are currently used to invest in a variety of assets including private equity and private real estate as well as infrastructure. Therefore the limit on partnerships should be adequate to accommodate all these investment options but must also be "future proof" as other assets that are not widely invested in currently (for example other "real" assets such as forestry) may lend themselves to such investment vehicles in the future.

Given the requirement for funds to take advice and have regard to investment risk and diversification, the absolute limit could be significantly higher than the current 15%. A limit of at least 30% could be appropriate.

Q3. Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the LGPS (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be defined in regulation?

We do not support this approach as the regulations should not "direct" investment decisions. The regulations provide for LGPS committees being responsible for setting investment strategies having taken expert advice. It should be noted that funds are not necessarily adverse to infrastructure as an investment option; the availability of suitable assets and vehicles to facilitate diversified investment opportunities has been the main barrier to infrastructure investing for most funds.

In addition establishing a new class would create a major challenge to define "infrastructure investment" within the regulations and poorly defined or out-dated definitions can lead to problems over interpretation and lead to disproportionate focus on managing the investment structure rather than investment strategy. For example would "infrastructure investments" via equity or bond portfolios or pooled funds be part of this definition? If so how would that affect the other restrictions within the Regulations?

Q4. Are there other ways, not specifically raised in this consultation document, that the LGPS (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?

For the reasons set out above, rather than amend just one investment limit in isolation, the regulations should adopt a prudential framework for the management of investment risk. This would provide flexibility within a risk framework for funds to adopt a strategic policy that supports their funding strategy having taken expert advice.

Q5. Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

Covered in response to Q4.

We hope these comments are a useful contribution to the consultation.

Yours sincerely,

Liz Woodyard
Investments Manager
Avon Pension Fund

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**14 December 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 14 November 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 September 2012 committee meeting, on 14 November 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 14 November 2012

3 FINANCIAL IMPLICATIONS

3.1 None

4 RECOMMENDATIONS

4.1 There are no recommendations arising from the meeting held on 14 November 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 as the report is primarily for information only.

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider 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	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 14th November, 2012, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Nicholas Coombes, Councillor Mary Blatchford and Ann Berresford, Roger Broughton
Advisors: Tony Earnshaw

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions) Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Jignesh Sheth (JLT), Matthew Clapton (Investments Officer)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

21 DECLARATIONS OF INTEREST

There were none.

22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt and Bill Marshall. Roger Broughton attended as substitute.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

26 MINUTES: 5TH SEPTEMBER 2012

The minutes of the meeting of the 5th September 2012 were approved as a correct record and signed by the Chair.

27 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30TH SEPTEMBER 2012

The Assistant Investments Manager introduced the report which updated the Panel on routine aspects of the Fund's investments. The report contained performance statistics for the period ending 30th September 2012. He referred members to Section 4 (Page 9) of the JLT report (Appendix 2) and pointed out the effect on the 3 year risk and return figures of the good performance quarter dropping out at the start of the reporting period. He also highlighted that the aggregate manager relative performance was positive overall for the quarter, with several managers (Jupiter Genesis, RLAM and Invesco) showing a very positive 3 year overall performance outperforming their target over this period. TT had shown particular improvement, but MAN and Schroder Equity were being closely monitored.

The Investments Manager added that the indicative investment return performance for the overall fund for first quarter was 3.6%. The Chair commented that the 3 year property return was still not fully invested. The global property portfolio managed by Partners was still being vested, therefore the 3 year return does not adequately reflect underlying investment performance. However a number of underlying funds had achieved a level vesting where the performance is meaningful at the underlying fund level and these will be included in future reports.

The Assistant Investments Manager said returns data on individual Partner's funds only becomes meaningful once that fund reached 50% invested. Tony Earnshaw commented that 3 years seemed a reasonable term over which to measure performance, given the 10 year plus time horizon of the underlying funds. The Investments Manager pointed out that the initial costs of property investments are proportionally higher, so this affected early returns. The Head of Business, Finance and Pensions added that fund managers needed to be challenged about the spread of investments. A Member asked whether the fund was considering further tactical switches and was informed that JLT would continue to advise, but they had not highlighted any specific opportunities.

The Chair suggested that if these Panel meetings were happening at the wrong part of the reporting cycle, then the Members should be prepared to call a special meeting to discuss any urgent strategic or tactical issues – this was unanimously agreed. A Member commented on the use of dynamic allocation funds which can take advantage of tactical switches – this would obviate the need for extra meetings. She asked whether there were concerns with Schroders and was informed that they would be reviewed in February, along with MAN.

28 WORKPLAN

The Investment Manager introduced this item. She confirmed that the Panel were due to meet with Schroders and MAN at the February 22nd 2013 meeting.

The Panel unanimously agreed that the workplan be recommended to the Committee.

The meeting ended at 9.50 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:	**14 December 2012**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 September 2012)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report 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 September 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

Section 9. Annual Review of Internal Control Reports

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to agree:

2.1 To note the information 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 8-10). 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 estimated funding level at 30 Sept 2012 increased to 73% from 69% at 30 June 2012.

(2) The largest contributor to the improved funding level was the increase in asset values over the quarter. The other positive factor was the impact of a fall in implied inflation causing a reduction in the value put on future liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £91m (+3.6%) in the quarter, giving a value for the investment Fund of £2,792m at 30 September 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance**
Periods to 30 Sept 2012

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	3.6%		
Avon Pension Fund (excl. currency hedging)	3.3%	12.6%	7.4%
Strategic benchmark *(Fund relative to benchmark)*	3.1% *(+0.1%)*	12.5% ***(+0.1%)***	7.3% *(+0.1%)*
Customised benchmark *(Fund relative to benchmark)*	3.1% *(+0.2%)*	12.8% ***(-0.2%)***	7.4% *(=)*
Local Authority Average Fund *(Fund relative to benchmark)*	3.3% *(=)*	12.6% ***(=)***	7.4% *(=)*

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 5.4.

5.2 **Fund Absolute Return**: Quarterly return driven by strong returns from all equity markets (except Japan which fell over the quarter) and UK corporate bonds. 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 prospects for similar high returns from these asset classes over the next 3 years are not as strong in face of concerns over global growth prospects and the historically low bond yields.

5.3 **Fund Relative Return:**

(1) **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Annual relative outperformance was largely driven by several of the Fund's managers outperforming their respective benchmarks used in the strategic benchmark. These included the corporate bond manager, hedge fund managers, property and 3 equity managers (emerging markets and UK). The overweight to corporate bonds (which performed strongly) and underweight to Japan equities (which performed poorly) also added to the outperformance over the twelve month period.

(2) **Versus Local Authority Average Fund:** Performance in line with the LA average even though the Fund has lower than average allocation to UK equities and private equity, and higher than average allocation to bonds and hedge funds.

5.4 **Currency Hedging:** This quarter sterling strengthened against the euro, US dollar and yen, resulting in the returns from equity assets denominated in these currencies reducing in sterling terms. The underlying currency return on the c£720m assets in the hedging programme had a negative impact of 2.2% over the quarter, with the hedging programme offsetting 0.9% of this, thereby improving the net currency return on the assets in the programme to -1.3%. In terms of the Fund's total return, the hedging programme added 0.3% to the Fund's total return in the quarter.

B – Investment Manager Performance

5.5 In aggregate over the 3 year period the managers' performance is in line with the benchmark. 8 mandates met or exceeded their 3 year performance target, which offset underperformance by the Hedge Funds and TT. A detailed report on the performance of each investment manager has been produced by JLT – see pages 22 to 39 of Appendix 2. Genesis, RLAM, Invesco and Jupiter have all significantly outperformed their 3 year performance targets. Other than comments on Man and Schroder (see 5.6 and 5.7 below) JLT's report does not identify any new performance issues with the managers.

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

5.7 The global equity mandate managed by Schroder has underperformed over 12 months but has shown a small improvement this quarter. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile on a quarterly basis. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder will present to the Panel at the meeting on 22 February 2013.

5.8 As part of the ‘Meet the Managers’ programme, the Panel met with TT and Partners Group on 14 November 2012. The summary of the Panel’s conclusions can be found in Appendix 3.

6 INVESTMENT STRATEGY

6.1 JLT’s report did not highlight any strategy issues for consideration. The Fund is currently undertaking a full investment strategy review, concluding in Q1 2013.

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 In August the Equity: Bond allocation (72:28) was rebalanced in conjunction with the reversal of the tactical switch. Following this and subsequent market movements the Equity: Bond allocation is 76:24 as at 31 Oct 2012.

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 officers closely monitor the management of the Fund’s cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and are invested in line with the Fund's Treasury Management Policy which was approved on 16 March 2012.

7.5 The Fund continues to deposit internally managed 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 also deposits cash with the AAA rated RBS Global Treasury Fund and has another AAA 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 During the quarter there was a cash outflow of c. £1.1m per month as benefits paid exceeded contributions. In October there was a net inflow of c. £1m as some major deficit funding payments fell due. The overall trend remains slightly worse than the neutral scenario in the cash flow forecasting model used internally to monitor cash flow. However, it is still 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:	237
Resolutions voted:	2,823
Votes For:	2,738
Votes Against:	72
Abstained:	15
Withheld* vote:	14

* A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.

8.2 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 REVIEW OF INTERNAL CONTROL REPORTS

9.1 As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant), and reports the findings to Committee. These reports are often designated SSAE16 or SSAE3402 reports (previously AAF 01/06 and SAS70 reports).

9.2 ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

9.3 For the reports reviewed in 2012, in each case the external auditor's report stated that the controls were in place and achieved the control objective and there are no issues to bring to the attention of the Committee.

9.4 The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

9.5 As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports.

10 RISK MANAGEMENT

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

11 EQUALITIES

11.1 An Equality Impact Assessment has not been completed as this report is for information only.

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

14.1 The Council's Monitoring Officer (Divisional Director – Legal and 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 SEPTEMBER 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	275.0	15.7	136.2	114.5		12.1							553.5	19.8%
North America	139.2	9.4				82.9							231.5	8.3%
Europe	114.2					25.0		28.8					168.0	6.0%
Japan	32.4					16.6		25.6					74.6	2.7%
Pacific Rim	48.3					14.8		30.5					93.6	3.4%
Emerging Markets					141.0	16.9							157.9	5.7%
Global ex-UK							185.0						185.0	6.6%
Global inc-UK	264.2											7.1	271.3	9.7%
Total Overseas	***598.3***	***9.4***			***141.0***	***156.2***	***185.0***	***84.9***				***7.1***	***1181.9***	**42.3%**
Total Equities	**873.3**	**25.1**	**136.2**	**114.5**	**141.0**	**168.3**	**185.0**	**84.9**				**7.1**	**1735.4**	**62.1%**
BONDS														
Index Linked Gilts	185.4												185.4	6.6%
Conventional Gilts	112.6	25.0											137.6	4.9%
Sterling Corporate	14.7								166.1				180.8	6.5%
Overseas Bonds	80.2												80.2	2.9%
Total Bonds	**392.9**	**25.0**							**166.1**				**584.0**	**20.9%**
Hedge Funds										213.0			213.0	7.6%
Property											207.0		207.0	7.4%
Cash	5.0	16.0	1.7	7.3		2.7					3.7	17.2	53.6	1.9%
TOTAL	**1271.2**	**66.1**	**137.9**	**121.8**	**141.0**	**171.0**	**185.0**	**84.9**	**166.1**	**213.0**	**210.7**	**24.3**	**2793.0**	**100.0%**

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

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Review for period to 30 September 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 an improvement in the funding level over the third quarter of 2012, when considering the impacts of financial markets only.
- The drivers of this are:
  - A positive return on the assets, in particular from equities.
  - A fall in the Market Implied (RPI) inflation assumption used to value the liabilities. This reduces the value of future inflation-linked payments and hence reduces the value of the liabilities.

Fund Performance

- The value of the Fund's assets increased by £91m over the third quarter of 2012 to £2,792m. . The total Fund, (including the impact of currency hedging), outperformed the Fund's strategic benchmark over the quarter by 0.5%, producing an absolute return of 3.6%.

Strategy

- Equity markets generally produced strong returns, with most regions returning around 4-6% over the quarter and producing double-digit returns over the last 12 months. The exception was Japanese equities, which fell over the quarter and year. However, due to the very strong returns of Q3 2009 falling out of the analysis, the 3 year benchmark equity returns have fallen to slightly below the assumed strategic returns.
- Bond returns have been high over the last three years and ahead of the strategic return. This was a result of falling bond yields, although only corporate bond yields continued to fall over the most recent quarter. Low yields potentially limits the return over the next few years.
- Overseas Fixed Interest and hedge funds performed below the assumed strategic return.
- Whilst the 3 year property return was ahead of the strategic return, the bulk of the performance came from the year 2009-2010 (22.6%), with returns over the most recent year being a more modest 3.5%.

Managers

- In line with general market returns, all managers have produced positive returns over the last quarter.
- Each manager has performed in line with or exceeded their benchmark over the last quarter, with the exception of SSgA Europe enhanced indexation (underperformed by 0.1%) and Blackrock Property (by 0.2%).
- The four fund-of-hedge fund managers and TT International have not met their 3-years target performance. TT's performance has improved over recent quarters and the Panel met TT on November 14.
- The number of funds in which Man invests has continued to reduce, and now stands at 54. This quarter, they have outperformed their benchmark by 0.2% but their 3 year return remains negative. The Panel are meeting Man in February 2013.

- In aggregate the managers slightly underperformed the customised benchmark over the year, with outperformance by TT international, Jupiter and Genesis more than offset by underperformance by the hedge funds Man and Stenham.
- There have been no significant concerns raised with any of the Fund's managers.

Key points for consideration

- The fund has unwound a tactical switch from December 2011 over the last quarter, resulting in an asset allocation closer to the strategic benchmark. Further tactical switches will be considered as opportunities arise.
- The performance of Man should continue to be closely monitored as the changes are completed to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.

Contents

Section Two – Market Background

This update covers the three months, and 12 months to the end of September 2012.

Yields as at 30 September 2012	% p.a.
UK Equities	3.6
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	0.1
Corporate Bonds (>15 yrs AA)	4.0
Non-Gilts (>15 yrs)	4.2

Market Returns	3 Mths	1 Year
Growth Assets	%	%
UK Equities	4.7	17.2
Overseas Equities	3.9	17.4
USA	3.3	25.6
Europe	6.6	12.5
Japan	-3.6	-5.2
Asia Pacific (ex Japan)	6.7	16.2
Emerging Markets	4.6	11.8
Property	0.6	3.5
Hedge Funds	3.4	6.8
Commodities	8.3	8.8
High Yield	2.7	15.9
Cash	0.1	0.5

Absolute Change in Yields	3 Mths	1 Year
	%	%
UK Gilts (>15 yrs)	0.0	-0.6
Index-Linked Gilts (>5 yrs)	0.2	-0.1
Corporate Bonds (>15 yrs AA)	-0.2	-1.1
Non-Gilts (>15 yrs)	-0.4	-0.8

Inflation Indices	3 Mths	1 Year
	%	%
Price Inflation - RPI	1.0	2.6
Price Inflation - CPI	1.0	2.2
Earnings Inflation *	0.3	2.1

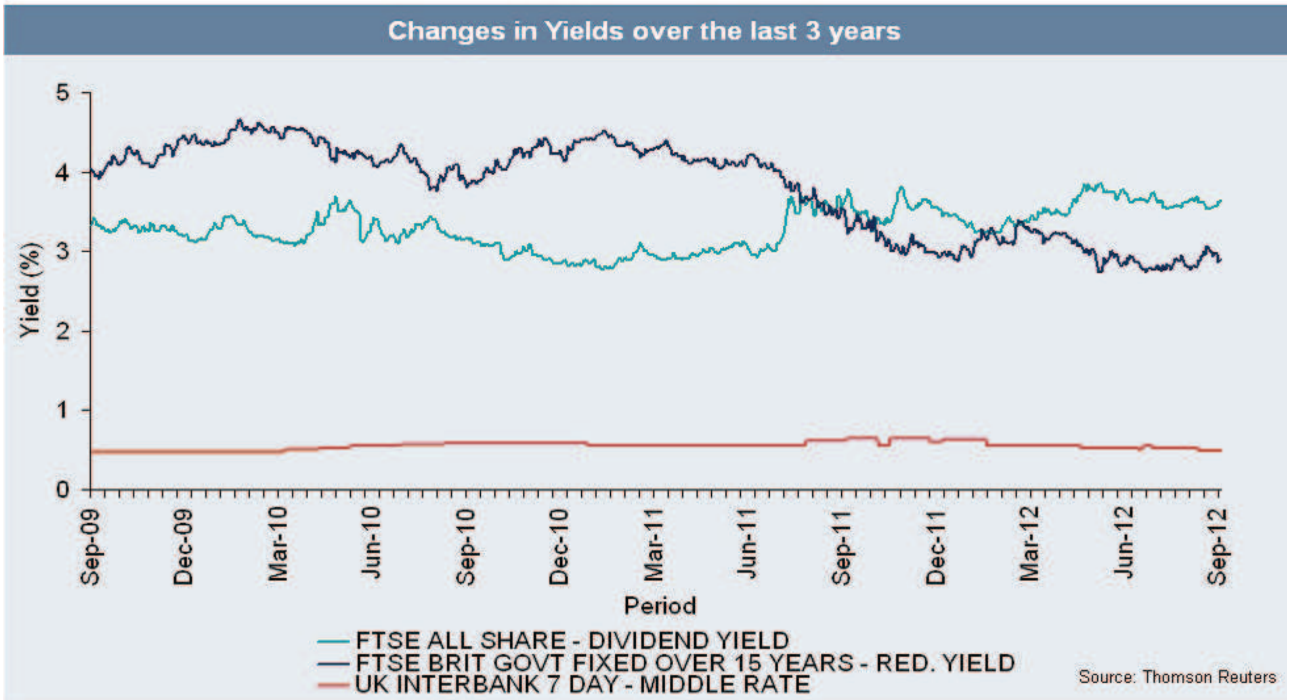
Change in Sterling	3 Mths	1 Year
	%	%
Against US Dollar	3.0	3.7
Against Euro	1.6	8.1
Against Yen	0.4	4.6

Market Returns	3 Mths	1 Year
Bond Assets	%	%
UK Gilts (>15 yrs)	1.1	13.0
Index-Linked Gilts (>5 yrs)	-3.2	5.0
Corporate Bonds (>15 yrs AA)	4.3	16.4
Non-Gilts (>15 yrs)	6.3	15.4

* *Subject to 1 month lag*
Source: Thomson Reuters

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 on 30 Sep 2009.



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 18 months.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 September 2012, 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	8.0	Slightly behind the strategic return, reflecting a relatively flat return during 2011. The next three years is less certain due to current economic uncertainty.
Global equities	8.4	7.3	
UK Gilts	4.7	10.7	Significantly ahead of the assumed strategic return as gilt yields have fallen to historic lows and corporate bond yields have also fallen. Over the last quarter, only corporate yields continued to fall, and low yields potentially limits the return over the next few years.
Index Linked Gilts	5.1	9.3	
UK Corporate Bonds	5.6	8.8	
Overseas Fixed Interest	5.6	4.6	Behind the assumed strategic return.
Fund of Hedge Funds	6.6	1.6	Behind the assumed strategic return. Low LIBOR levels could lead to continued low performance.
Property	7.4	11.3	Ahead of the assumed strategic return, although the index return comprises three annual returns of 22.6%, 8.7% and 3.5%.

Source: Statement of Investment Principles, Thomson Reuters.

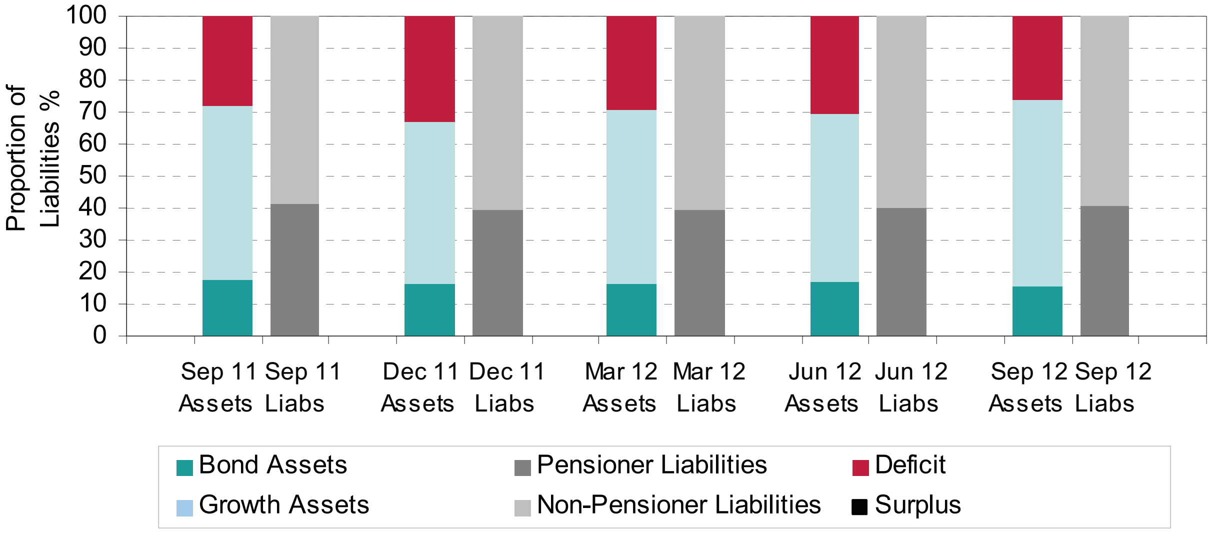
See appendix A for economic data and commentary

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

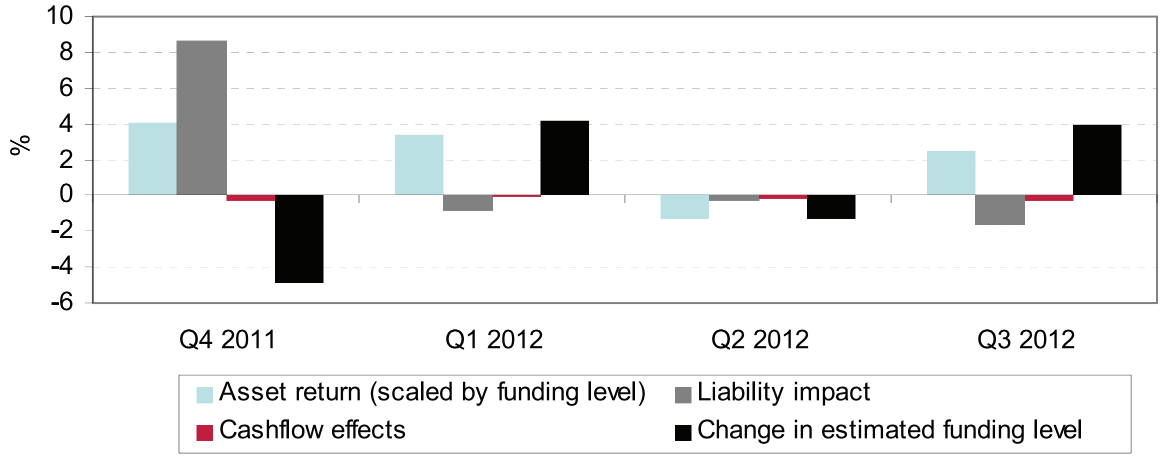
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix 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 increased by around 4% over the third quarter of 2012, all else being equal. This was driven by:
  - A positive return on the assets, in particular from equities.
  - A fall in the Market Implied (RPI) inflation assumption used to value the liabilities. This reduces the value of future inflation-linked payments and hence reduces the value of the liabilities.
- 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, although there has been an improvement over the last quarter and last twelve months.

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.

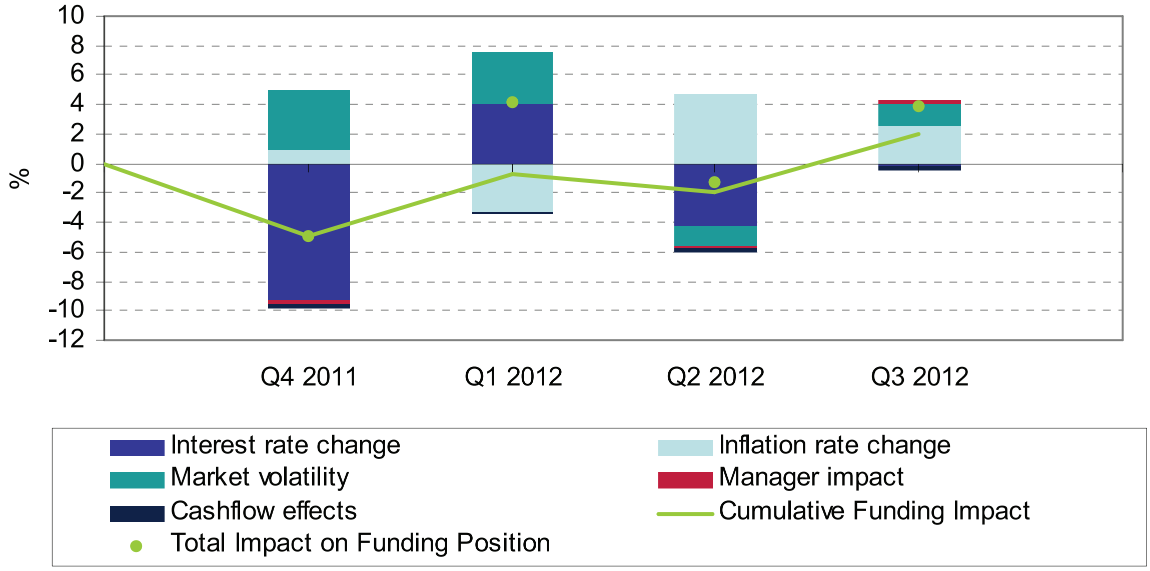


Note 1: A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.5%, over the last quarter.
- Over the quarter, the value placed on the liabilities has decreased by an estimated 1.7% mainly due to a reduction in the Actuary's inflation assumption.
- Overall, the combined effect has led to an increase in the estimated funding level to 73% (from 69% at 30/06/2012).

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.



- ‘Interest rate change’ reflects the impact caused by the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields fall this has a negative impact, for example as in Q4 2011. Over the last quarter, the discount rate assumption was unchanged resulting in a negligible contribution, which is due to the liabilities unwinding.
- The Market Implied (RPI) inflation assumption has fallen over last two quarters, reducing the estimated liabilites and therefore giving a positive contibution to the estimated funding, as shown by light blue "inflation rate change" bars.
- For Growth assets, ‘Market volatility’ is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has been positive over the last quarter mainly due to the rise in equity markets.
- 'Manager impact’ is the investment performance compared to the strategic benchmark. This was positive over the last quarter but gives a relatively small contribution compared to the other factors.
- The small ‘cashflow effects’ reflect factors such as pension payments and contributions/disinvestments.
- Overall the investment factors have had a positive impact on the estimated funding level of the Scheme, both over the last quarter and the last twelve months.

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 September 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 September 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	553,400	19.8	18.0
Overseas Equities	1,181,979	42.3	42.0
Bonds	583,999	20.9	20.0
Fund of Hedge Funds	212,978	7.6	10.0
Cash (including currency instruments)	53,633	2.0	-
Property	206,957	7.4	10.0
TOTAL FUND VALUE	**2,792,947**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £91m over the third quarter of 2012 to £2,792m. This was mainly due to strong absolute performance from UK and overseas equities, although each asset class contributed positively to the increase.
- In terms of the asset allocation, there was some re-balancing over the last quarter to move the Fund closer to its strategic benchmark weightings. £80m was switched from bonds, of which £75m was transferred to overseas equities and £5m to cash. Equities performed better than bonds over the last quarter, further increasing the proportion held in equities.
- In percentage terms, bonds reduced by 3.5% (from 24.4% to 20.9%), of which around 2.9% was due to the switch and 0.6% due to market movements. In totality, equities increased by 3.4% (from 58.7% to 62.1%), comprising 2.8% due to the switch and 0.8% from market movements.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2012		Net new money £'000	30 September 2012	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	115,438	4.3	-	121,709	4.4
TT International	UK Equities	131,198	4.9	-	137,884	4.9
Invesco	Global ex-UK Equities	165,283	6.1	10,000	185,007	6.6
Schroder	Global Equities	135,430	5.0	30,000	171,023	6.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	81,646	3.0	-	84,902	3.0
Genesis	Emerging Market Equities	133,548	4.9	-	140,956	5.0
MAN	Fund of Hedge Funds	60,928	2.3	-	61,995	2.2
Signet	Fund of Hedge Funds	63,263	2.3	-	64,713	2.3
Stenham	Fund of Hedge Funds	32,494	1.2	-	32,957	1.2
Gottex	Fund of Hedge Funds	52,560	2.0	-	53,313	1.9
BlackRock	Passive Multi-asset	1,207,763	44.7	34,450	1,271,197	45.5
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	72,372	2.7	-7,463	66,102	2.4
RLAM	Bonds	232,188	8.6	-80,000	166,193	6.0
Schroder	UK Property	129,504	4.8	-	130,228	4.7
Partners	Property	73,553	2.7	7,384	80,408	2.9
Record Currency Mgmt	Dynamic Currency Hedging	-4,864	-0.2		2,815	0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	8,343	0.3		7,114	0.3
Internal Cash	Cash	10,966	0.4	6,446	14,431	0.5
Rounding		-	0.0	-	-	0.0
TOTAL		**2,701,613**	**100.0**	**817**	**2,792,947**	**100.0**

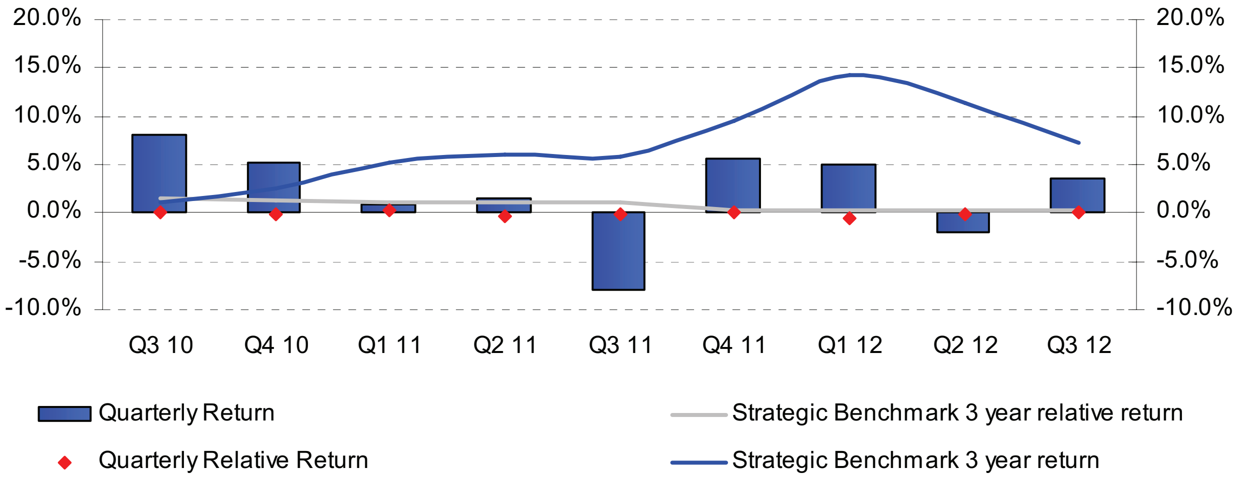
Source: Avon Pension Fund, Data provided by WM Performance Services.

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)	3.6	n/a	n/a
Total Fund (ex currency hedge)	3.3	12.6	7.4
Strategic Benchmark	3.1	12.8	7.4
Relative (inc currency hedge)	+0.5	n/a	n/a
Relative (ex currency hedge)	+0.2	-0.2	0.0

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 September 2012.

Asset Class	Weight in Strategic Benchmark	Index returns Q3 2012	Contribution to total benchmark (quarter)	Index returns 1 year	Contribution to total benchmark (1 year)
UK Equities	18%	4.7%	0.8%	17.2%	3.1%
Overseas Equities	42%	4.1%	1.7%	16.0%	6.7%
Index Linked Gilts	6%	-3.2%	-0.2%	5.0%	0.3%
Fixed Coupon Gilts	6%	1.1%	0.1%	13.0%	0.8%
UK Corporate Bonds*	5%	5.7%	0.3%	13.3%	0.7%
Overseas Fixed Interest	3%	-0.3%	0.0%	-0.9%	0.0%
Fund of Hedge Funds	10%	0.6%	0.1%	-1.1%	-0.1%
Property	10%	0.4%	0.0%	2.8%	0.3%
Total Fund	**100%**				

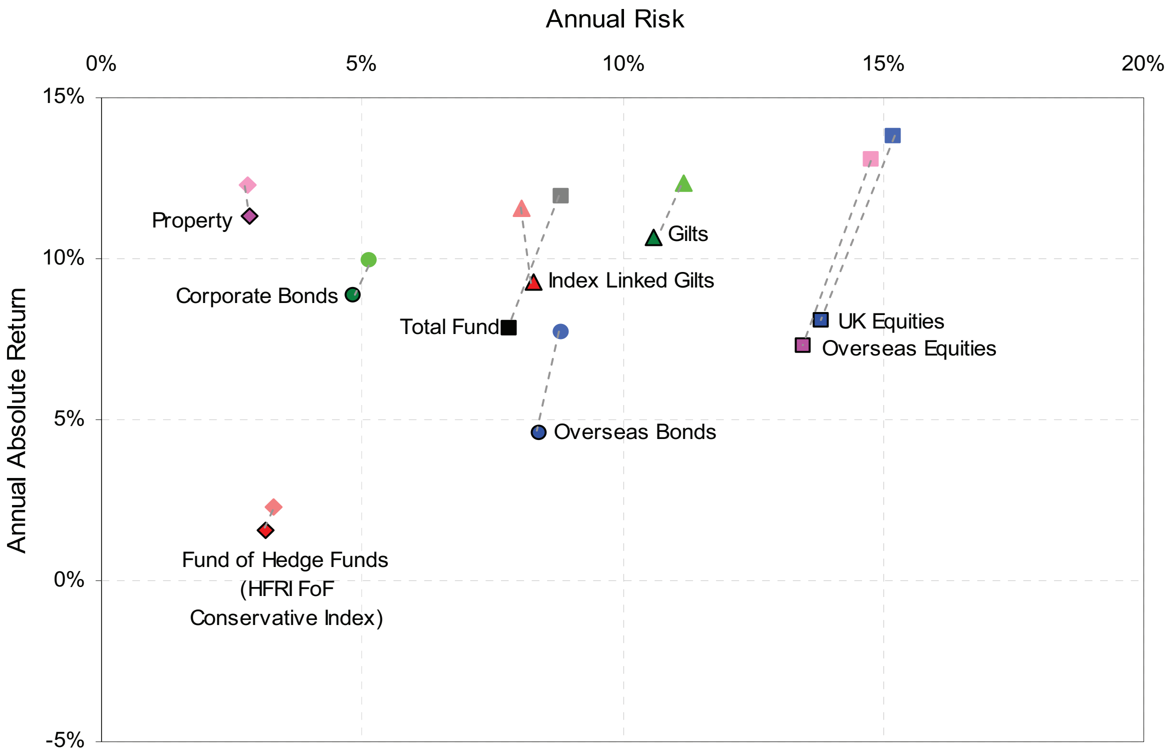
Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differs from the 'long maturities' index returns shown on the Market Background page in Section Two.

- **Market impact:** Global stock markets rallied strongly over the quarter, assisted by the efforts of central banks in Europe, the US and Japan.
- Trade-weighted sterling strengthened a little during the quarter, primarily against the US Dollar which was affected by an improvement in risk appetites. This affected overseas equity returns in sterling terms.
- Corporate bonds significantly outperformed gilts, but both posted positive returns. The average credit spread fell from 2.7% above gilts to 2.2%. Index linked gilts significantly underperformed conventionals.
- Property capital values declined over the quarter, but the income element allowed total returns to remain positive, at 0.4%.
- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, which made up the bulk of the benchmark return in rising markets over both the quarter and year.
- The other asset classes made small contributions, with 0.2% from the fixed interest elements and 0.1% from hedge funds over the quarter.

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 September 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 20.

3 Year Risk v 3 Year Return to 30 September 2012



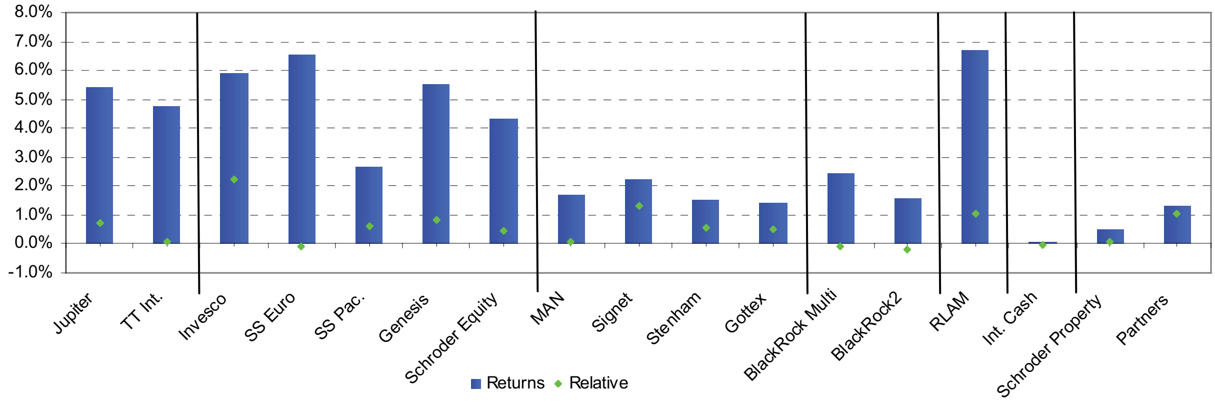
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- The 3 year return on all of the asset classes shown in the chart has fallen compared to the position last quarter.
- In particular, the 3 year equity return (both UK and overseas) has fallen from around 13% p.a to around 8% p.a. This is largely due to the rally during the third quarter 2009 falling out of the analysis, during which time equities rose by more than 20%.
- The volatility of equities, bonds and conventional gilts has fallen, significantly so for equities.
- The asset class with the highest return over three years is now Property, at 11.3% p.a., although the bulk of this growth was in 2009-2010. The second highest is conventional gilts, at 10.7% p.a.
- Property and Fund of Hedge Funds continue to be the least volatile asset classes, with risk/return characteristics broadly similar to last quarter.
- Both UK and overseas equity returns now fall below their assumed strategic return of 8.4% p.a. Overseas Bonds have fallen below their strategic return of 5.6% p.a., and hedge funds remain significantly below their 6.6% p.a. strategic return. The 3 year return on the other asset classes (property, gilts, index-linked gilts and corporate bonds) remain above the respective strategic returns.

Aggregate manager performance

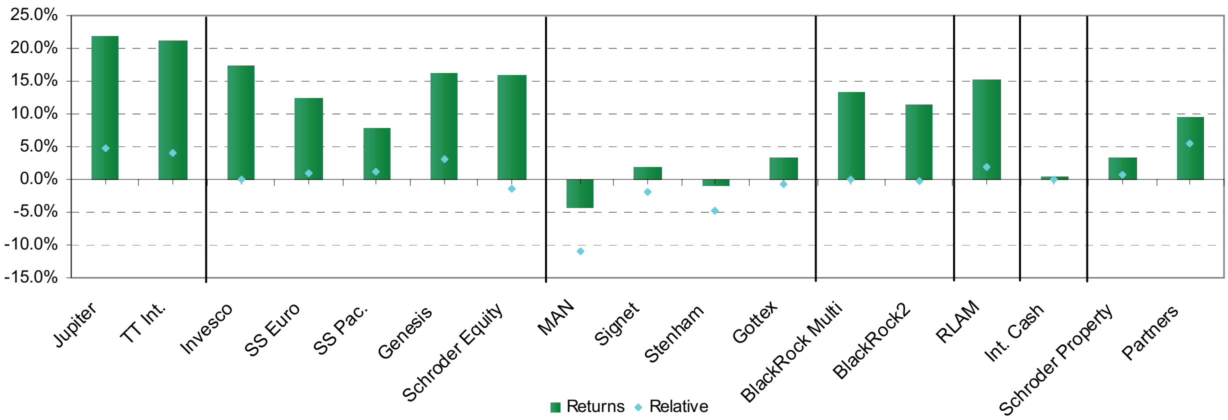
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of September 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - **Quarter to 30 September 2012**

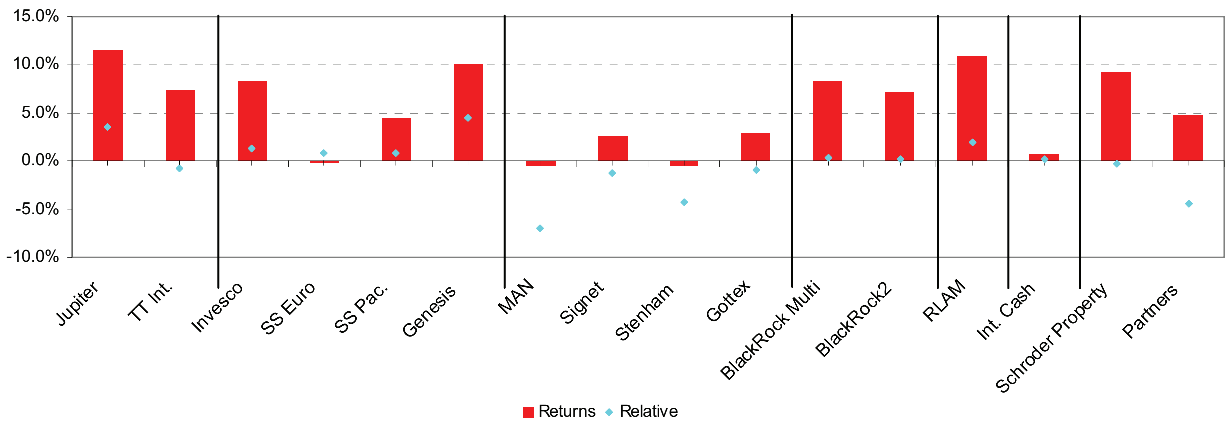


Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 30 September 2012**



Absolute and relative performance - **3 years to 30 September 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 September 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.

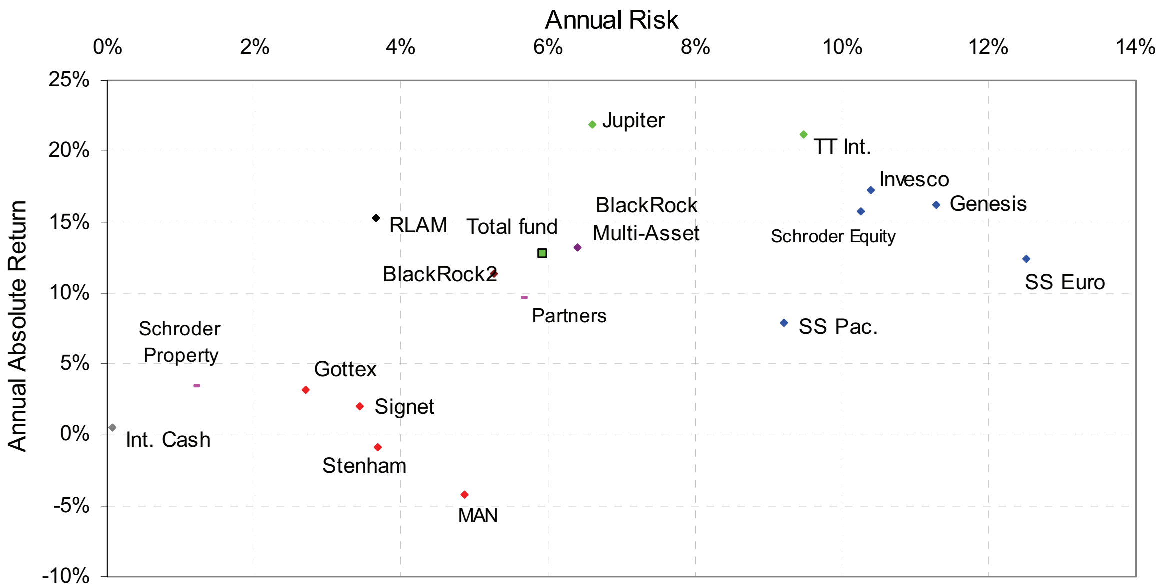
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+0.7	+4.7	+3.4	Target met
TT International	+0.4	+4.2	-0.9	Target not met
Invesco	+2.2	-0.2	+1.3	Target met
SSgA Europe	-0.1	+1.0	+0.5	Target met
SSgA Pacific	+0.8	+1.4	+0.7	Target met
Genesis	+0.7	+3.1	+4.5	Target met
Schroder Equity	+0.4	-1.5	N/A	N/A
Man	+0.2	-10.8	-7.0	Target not met
Signet	+1.3	-1.8	-1.2	Target not met
Stenham	+0.5	-4.9	-4.2	Target not met
Gottex	+0.5	-0.6	-0.9	Target not met
BlackRock Multi - Asset	0.0	-0.2	+0.1	Target met
BlackRock 2	-0.2	-0.1	0.0	Target met
RLAM	+1.2	+2.1	+2.0	Target met
Internal Cash	0.0	0.0	0.0	N/A
Schroder Property	+0.1	+0.7	-0.3	Target not met
Partners Property	+1.0	+5.4	N/A	N/A

Source: Data provided by WM Performance Services
Data for Partners is lagged by 1 quarter.

Manager and Total Fund risk v return

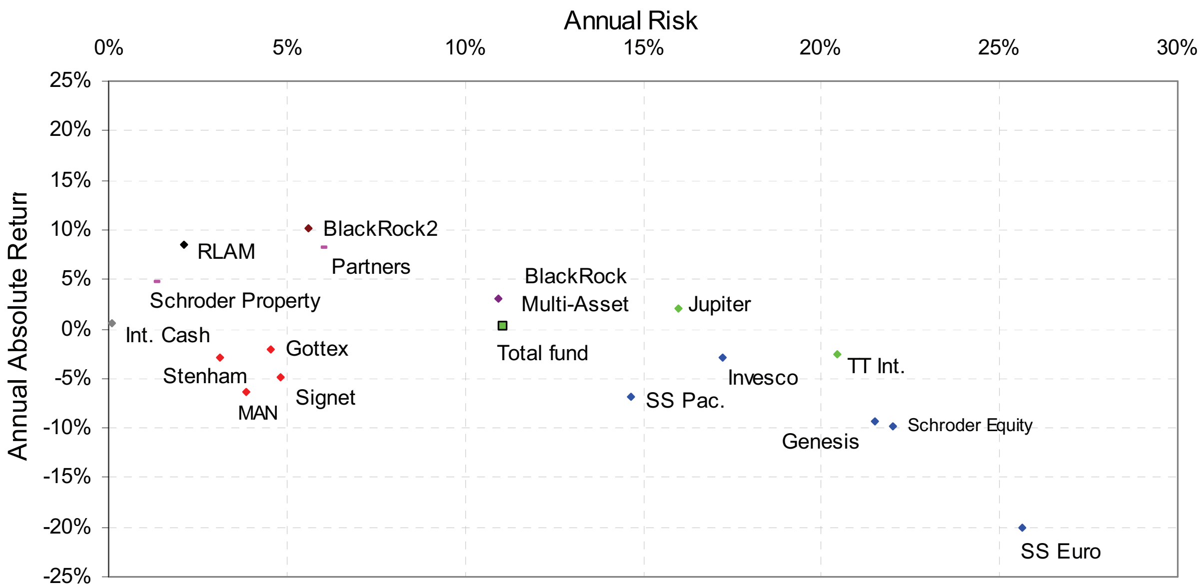
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2012 of each of the funds. We also show the same chart, but with data to 30 June 2012 for comparison.
- Note that the risk scale is different on the charts below, and that the September total will be in the final report.

1 Year Risk v 1 Year Return to 30 September 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 June 2012



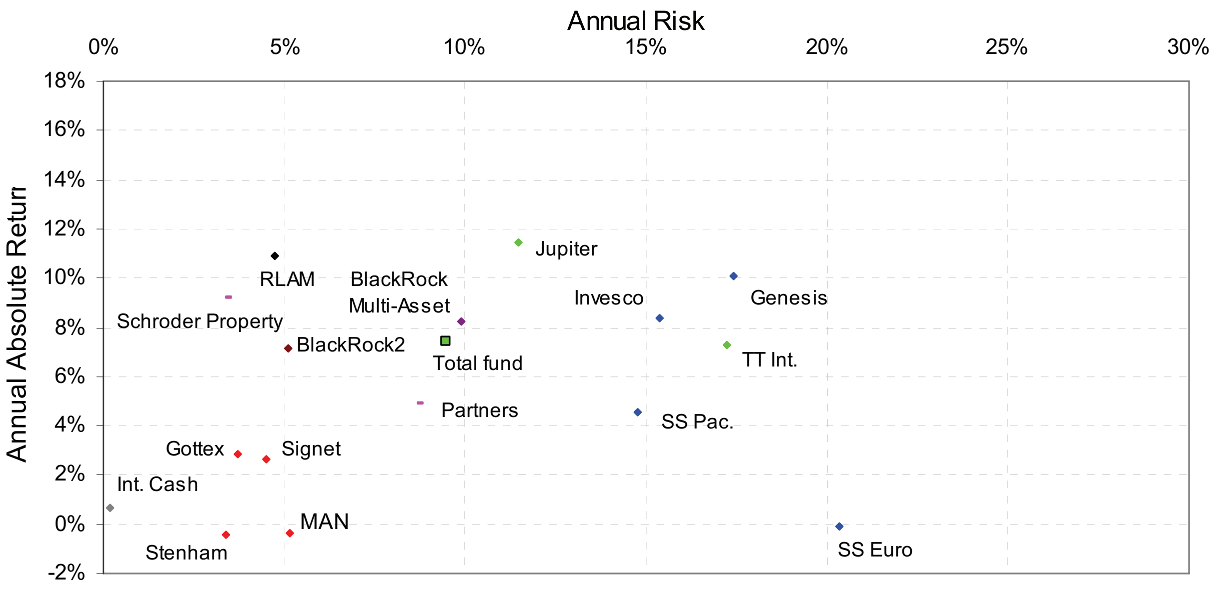
Source: Data provided by WM Performance Services

- 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 1-year returns are higher to September than June for all funds apart from Schroder Property. In particular, for the equity returns it has moved from negative returns to returns generally of 15-20% for the overseas and 22% for the UK funds.
- The risk has reduced for all funds apart from MAN, Stenham and RLAM, by around half for the equity funds.

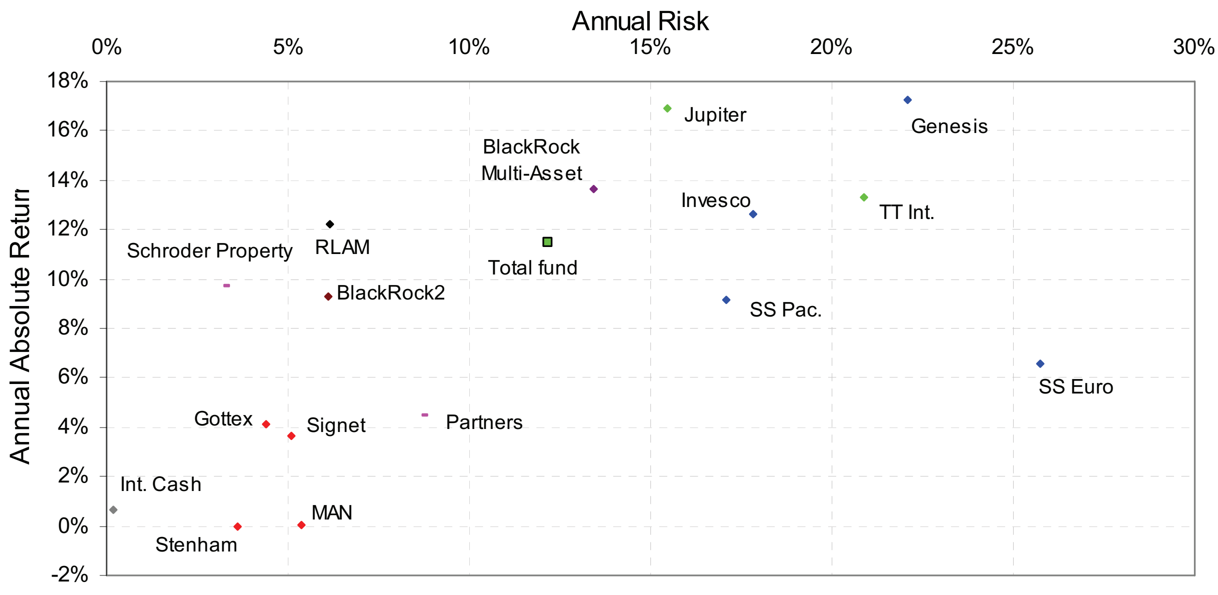
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2012 of each of the funds. We also show the same chart, but with data to 30 June 2012 for comparison.

3 Year Risk v 3 Year Return to 30 September 2012



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 June 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

- The three year returns have all fallen, apart from Partners. Equity fund returns have fallen by around 5% p.a., with the other funds falling by a lesser extent.
- The risk has also reduced by a broadly consistent level across all funds to around 80% of the level as at 30 June. The exception is Schroders Property, which has increased slightly (albeit from a low base).
- In line with the generic chart on page 15, and as expected, the Fund of Hedge Fund managers have provided the least volatile performance and equity managers the most volatile.

Conclusion

- The strongest returns over both the 1 and 3 year period are from equity funds.
- Bond returns continue to be high over the 3 year period, and have been very high over the last 12 months. This was a result of falling yields, which have showed signs of flattening over the last quarter, which reduced the prospects for similarly high returns over the next 3 year period.
- As expected, the Fund of Hedge Fund managers have provided low volatile performance over both the 1 and 3 year periods. However, over the longer 3 year period they have all underperformed their assumed strategic return. Schroders' Property also shows a low volatility.

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.

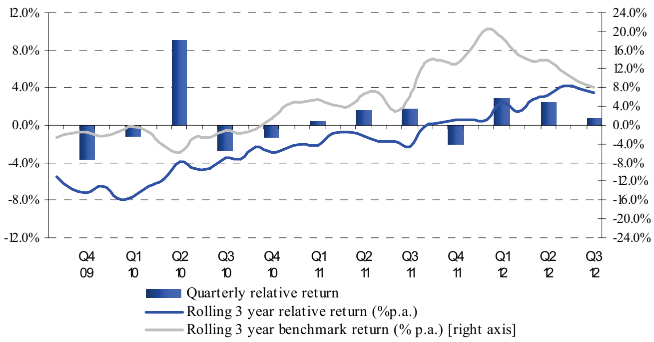
Key points for consideration

- The fund has unwound a tactical switch from December 2011 over the last quarter, resulting in an asset allocation that is closer to the strategic benchmark weight. Further tactical switches could be considered.
- The performance of Man should continue to be closely monitored as the changes are completed to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.

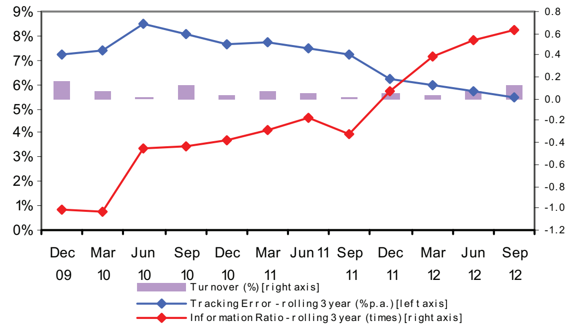
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

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:**
£121,709	4.4	5.5%	Not available

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.4	21.9	11.5
Benchmark	4.7	17.2	8.1
Relative	+0.7	+4.7	+3.4

Source: Data provided by WM Performance Services, and Jupiter

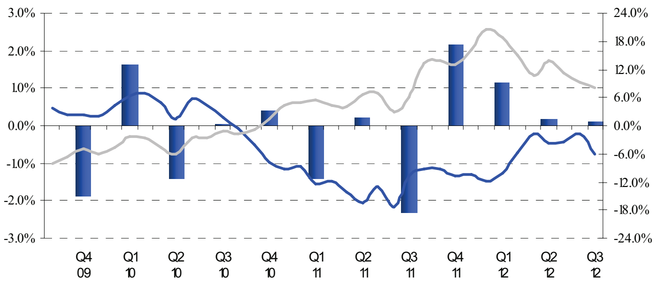
Comments

- The Fund's allocation to Cash (5.6%) decreased marginally compared to the preceding quarter (5.7%) remaining below the 7% limit.
- The industry allocation has continued to remain considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q3 2012, Jupiter was significantly underweight in Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services, Utilities and Technology. This relative allocation has been consistent with previous quarters.

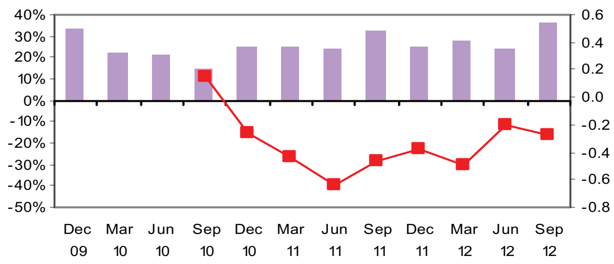
TT International – UK Equities (Unconstrained)

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**
£137,884	4.9	2.6%	50

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.1	21.4	7.2
Benchmark	4.7	17.2	8.1
Relative	+0.4	+4.2	-0.9

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

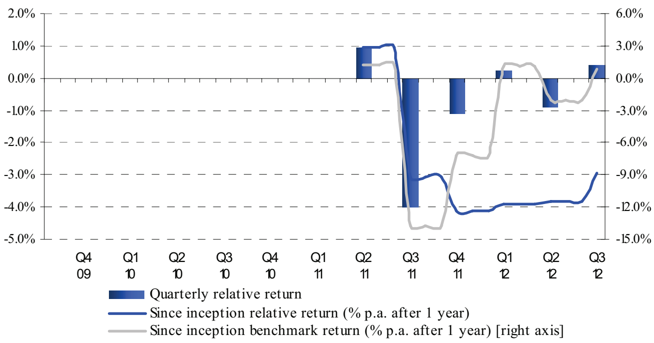
Comments

- The Fund held an overweight position in Industrials by 3.5% and was underweight Healthcare and Financials, by 2.9% and 2.7% respectively, at the end of the quarter.
- Turnover, over the third quarter, increased significantly by 12.7% to 36.6% compared to the last quarter's number of 23.9%. This was the highest turnover rate since Q1 2009.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters, to stand at 2.61%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio (risk adjusted return), fell by 0.07 after an increase last quarter.

Schroder – Global Equity Portfolio (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
Global Equities (Unconstrained)	**MSCI AC World Index Free**	**+3.5-4.5%**	**April 2011**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£171,023	**6.1**	**N/A**	**N/A**

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.3	15.9	N/A
Benchmark	3.9	17.4	N/A
Relative	+0.4	-1.6	N/A

Source: Data provided by WM Performance Services, and Schroders

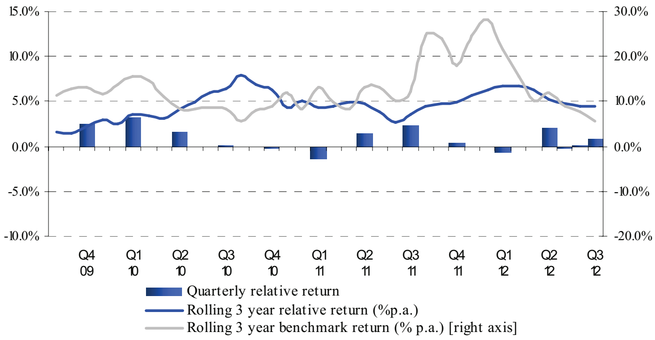
Comments

- The portfolio outperformed over the quarter as market sentiment turned positive. Many of the stocks that were weak in Q2, including Google, rebounded in Q3. As the price of gold rallied, their stock, Newcrest Mining, was also a strong performer.
- Schroder remain cautious towards Continental Europe, with a low exposure. However, this detracted over the last quarter as low quality European stocks produced strong returns as investor sentiment improved.
- In terms of country weightings, the largest overweight position is Japan (+2.5%), moving from a broadly neutral position last quarter. North America remains the most underweight (-3.1%), with the United Kingdom now underweight (-1.3%) compared to +2.2% on 30 June. European exposure has increased, but remains underweight (-0.4%)
- In terms of sector weightings, there is more deviation from the benchmark weighting at 30 September compared to 30 June. Consumer Discretionary (+2.9%) remains the most overweight, and the fund is now also overweight in Healthcare, Industrials and Information Technology. Financials, Energy and Telecoms remain underweight.
- Schroder continue to pursue companies which should benefit from longer-term global trends, and believe that market is still too focussed on the short-term, due to mixed economic data and volatile conditions. 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'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.
- Officers will continue to monitor performance and Schroder are meeting the Panel in February 2013.

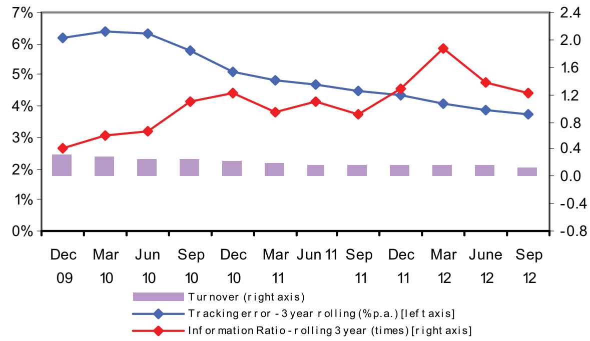
Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance target	Inception date
Emerging Market equities	**MSCI EM IMI TR**	**-**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£140,956	**5.0**	**3.7%**	**160**

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.5	16.3	10.1
Benchmark	4.8	13.1	5.6
relative	+0.7	+3.1	+4.5

Source: Data provided by WM Performance Services, and Genesis

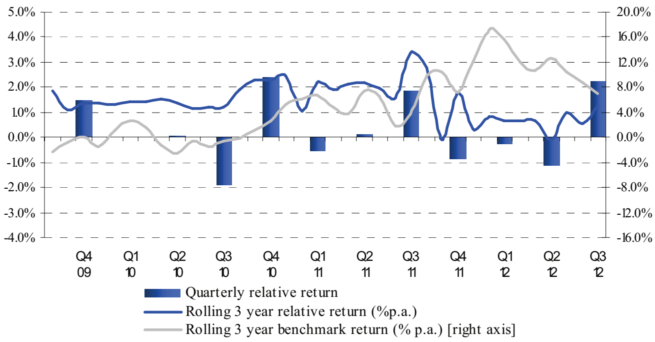
Comments:

- The Fund is overweight to India, South Africa and Russia, and underweight to South Korea and China. Maintaining the underweight position in China is partly due to the restrictions on non-local investors. Please note that the over- and underweights 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 3.9% in Q2 2012 to 3.7% in Q3 2012. This is the 11th consecutive quarter of a reduction in the tracking error. The 3 year information ratio (risk adjusted return), fell from 1.4 to 1.2.
- The allocation to Cash (1.9%) increased slightly compared to the previous quarter (1.5%).
- On an industry basis, the Fund is overweight Consumer Staples (+6.7%), Health Care (+2.7%) and Materials (1.2%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.6%) and Telecom Services (-2.5%). These are broadly similar positions to last quarter.

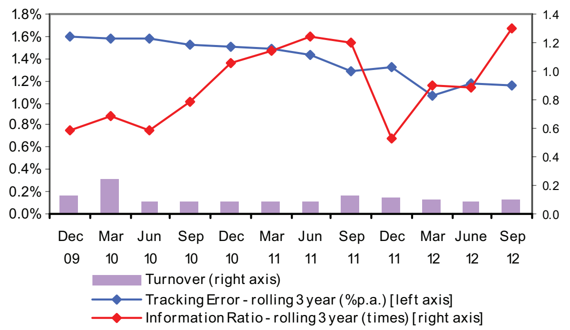
Invesco – Global ex-UK Equities (Enhanced Indexation)

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**
£185,007	6.6	1.2%	365

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.8	17.2	8.4
Benchmark	3.6	17.4	7.1
relative	+2.2	-0.2	+1.3

Source: Data provided by WM Performance Services, and Invesco

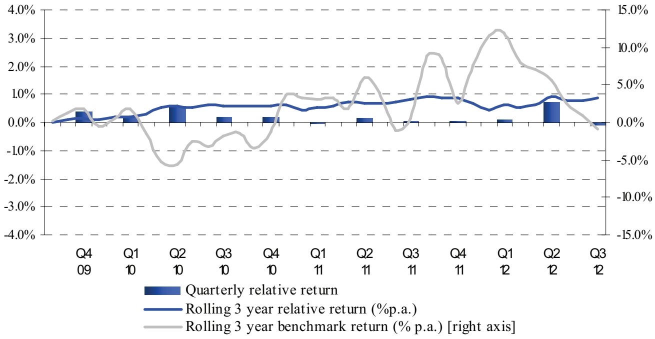
Comments:

- Over the last quarter, all strategies continued to be positive contributors except for Style and Sector selection.
- The absolute volatility has decreased to 8.9% at the end of the third quarter compared to 13.2% at the end of the second quarter.
- The turnover for this quarter of 10.4% increased from 9.2% in the previous quarter. This is the first quarter that the turnover has increased after three consecutive quarters of reducing turnover. The number of stocks (365) remained almost at par compared to the previous quarter (372).
- The industry allocation is relatively in line with the benchmark industry allocations. Apart from Consumer Staples (-1.1%), 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 returned above the benchmark due to both good performance this quarter and poor performance from Q3 2009 falling out of the analysis.

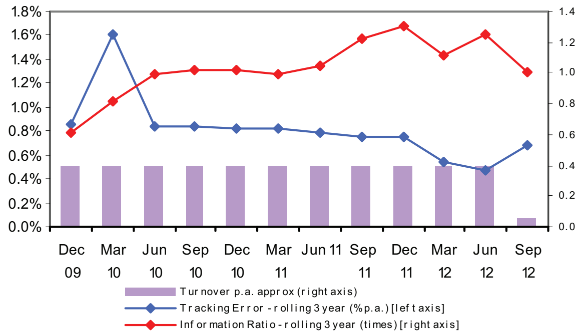
SSgA – Europe ex-UK Equities (Enhanced Indexation)

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**
£28,833	1.0	0.7%	120

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.4	12.3	-0.2
Benchmark	6.5	11.3	-0.7
relative	-0.1	+1.0	+0.5

Source: Data provided by WM Performance Services, and SSgA

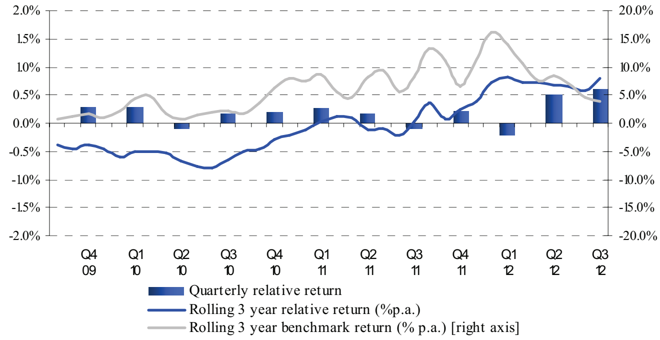
Comments:

- France, Germany and Switzerland make up over 60% of the fund's benchmark - it is overweight in Germany and underweight in Switzerland.
- As previously reported, the pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. As at the end of the third quarter of 2012, it stands at £113.53 million.
- Turnover has fallen for the first time from 40.0% to 5.2%. The tracking error has increased for the first time since the last five quarters.
- The information ratio has fallen this quarter following an increase in the previous quarter.

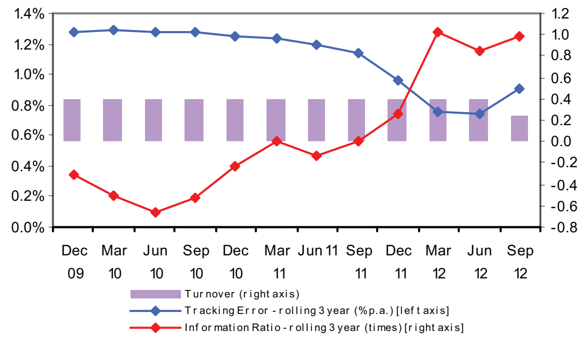
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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**
£56,069	2.0	0.9%	444

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.8	8.0	4.5
Benchmark	2.0	6.6	3.8
relative	+0.8	+1.4	+0.7

Source: Data provided by WM Performance Services, and SSgA

Comments:

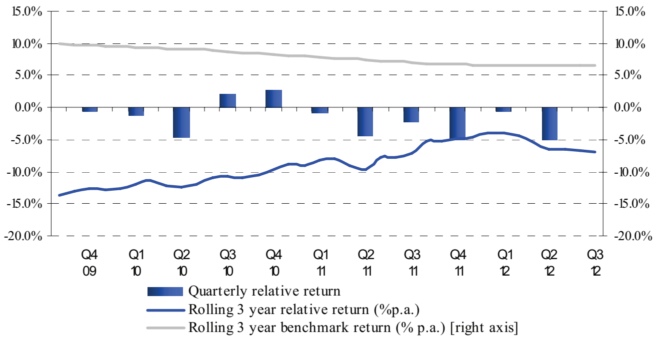
- In terms of country allocation, there are no significant deviations away from the benchmark. Just under half of the fund is invested in Japan.
- Turnover has fallen for the first time to 23.5% from the static 40.0%.
- The information ratio (+0.98) has increased compared to the previous quarter (+0.85).
- The tracking error of the fund has increased for the first time eight quarters.

MAN – Fund of Hedge Funds

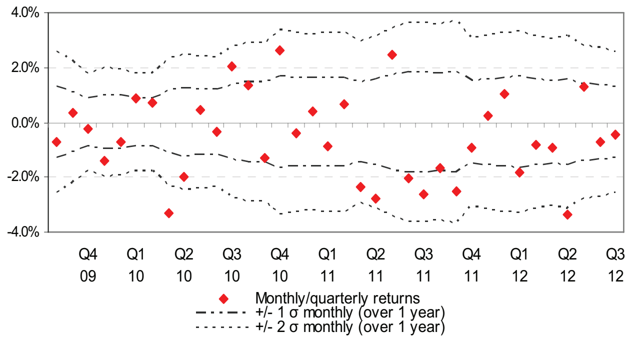
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +5.75%**	**5.4%**	**August 2007**

Value (£'000)	% Fund Assets	Number of funds
£61,995	**2.2**	**54**

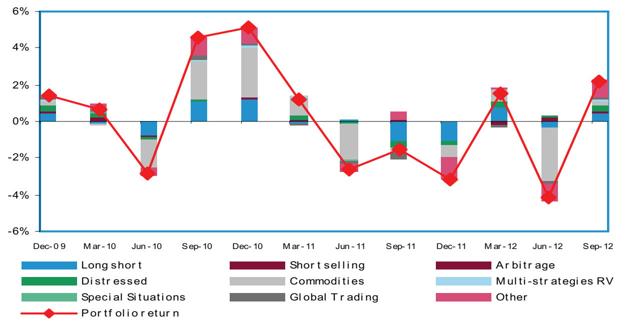
Relative returns [#1]



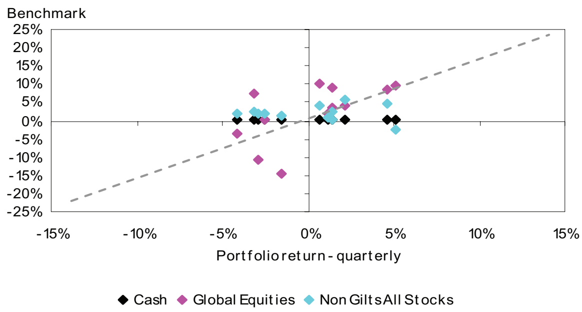
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.8	-4.1	-0.4
Benchmark	1.6	6.7	6.6
relative	+0.2	-10.8	-7.0

Source: Data provided by WM Performance Services, and MAN

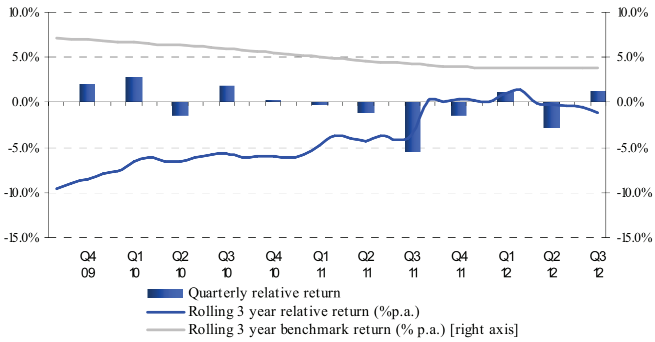
Comments:

- Man has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker long-term performance. Their 3 year absolute performance is the same as Stenham at -0.4% p.a.
- 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. The number of funds has further reduced over the past quarter from 66 to 54, which compares to 75 at the end of March.
- 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.

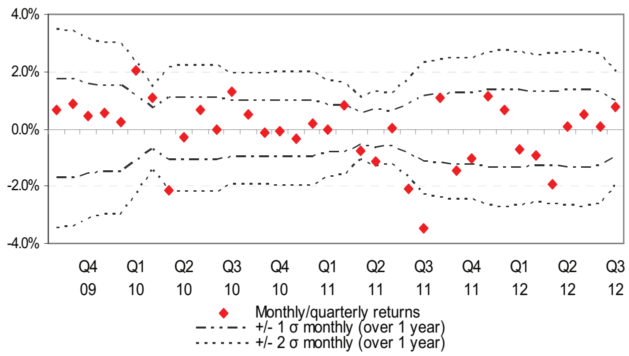
Signet – Fund of Hedge Funds

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**	
£64,713	2.3	45	

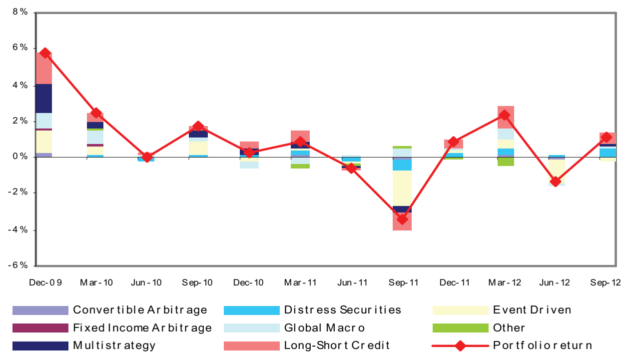
Relative returns [#1]



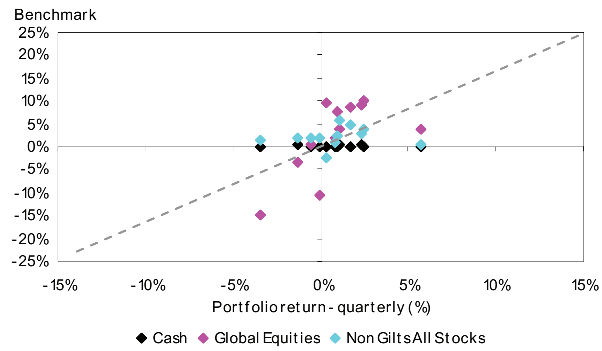
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.2	2.1	2.6
Benchmark	0.9	3.9	3.8
relative	+1.3	-1.8	-1.2

Source: Data provided by WM Performance Services, and Signet

Comments:

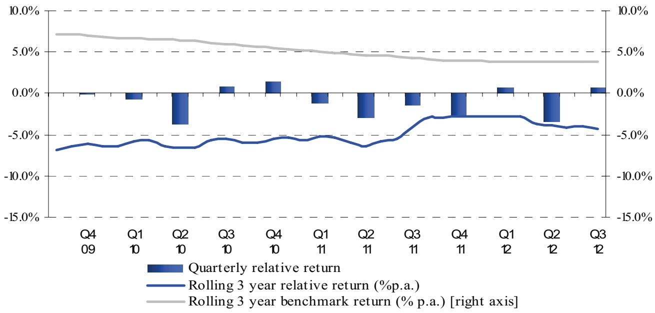
- Most strategies contributed to the positive absolute returns. Event Driven, Volatility Arbitrage, Long-Short Equity and Portfolio Protection strategies produced negative returns.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

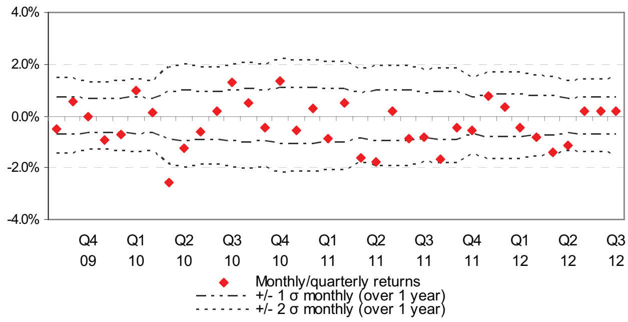
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +3.0%**	**3.1%**	**August 2007**

Value (£'000)	% Fund Assets	Number of funds
£32,957	**1.2**	**35**

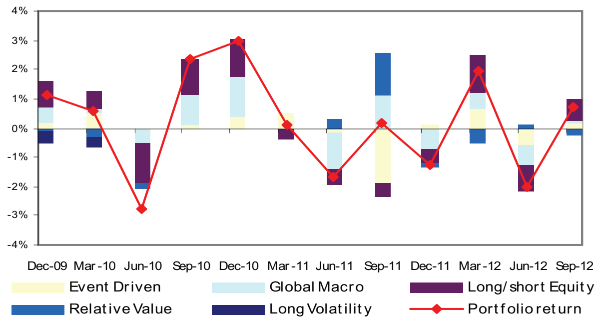
Relative returns [#1]



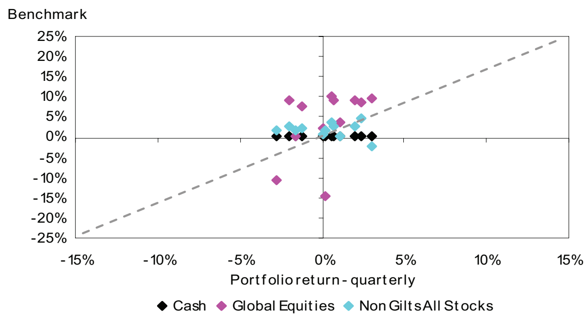
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.4	-1.0	-0.4
Benchmark	0.9	3.9	3.8
relative	+0.5	-4.9	-4.2

Source: Data provided by WM Performance Services, and Stenham

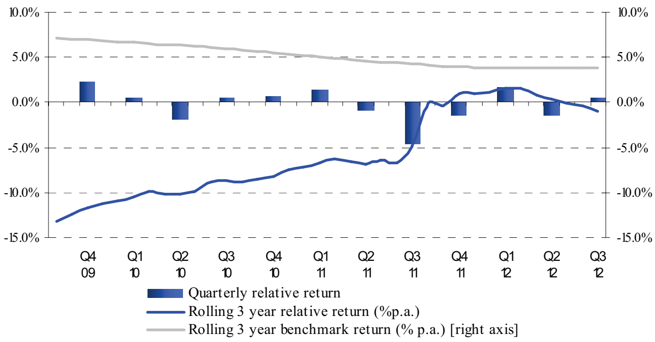
Comments:

- Relative value strategies produced the lowest return over the quarter, and detracted 0.3% from the portfolio. Global Macro and Long Volatility were neutral. The positive contribution to performance came only from Long/short Equity (0.8%) and Event Driven (0.2%) strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 69.0% of the total Fund allocation. The allocation to Cash increased from 1.0% to 3.0% over the quarter. This is the first increase to the allocation to Cash after four consecutive quarters of a decrease.
- 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.

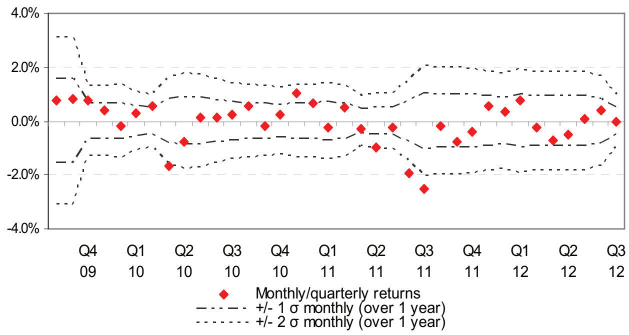
Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	2.7%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£53,313	1.9	Not available	

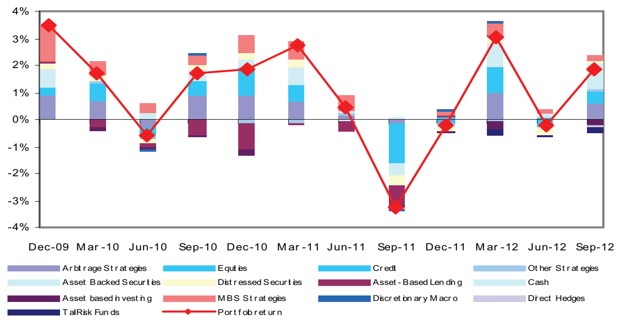
Relative returns [#1]



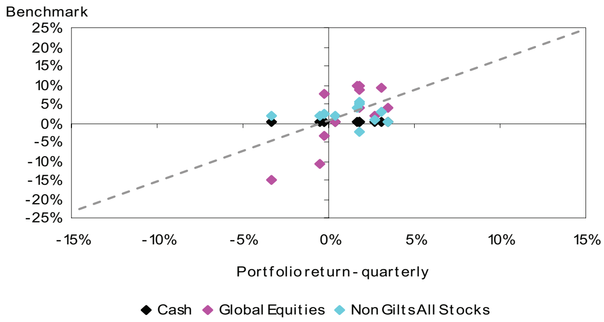
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.4	3.3	2.9
Benchmark	0.9	3.9	3.8
relative	+0.5	-0.6	-0.9

Source: Data provided by WM Performance Services, and Gottex

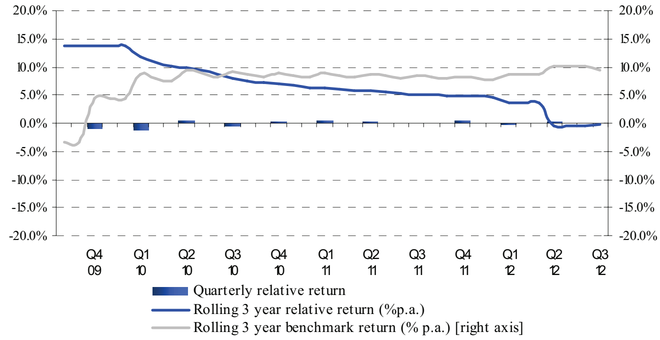
Comments:

- 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.

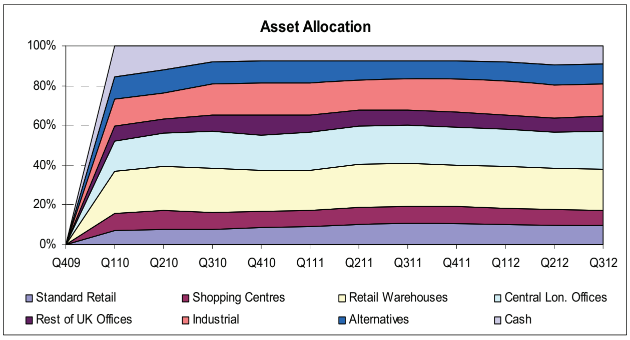
Schroder – UK Property

Mandate	Benchmark	Outperformance target	Inception date
UK property	**IPD UK pooled**	**+1.0%**	**February 2009**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of funds**
£130,228	**4.7**	**Not available**	**16**

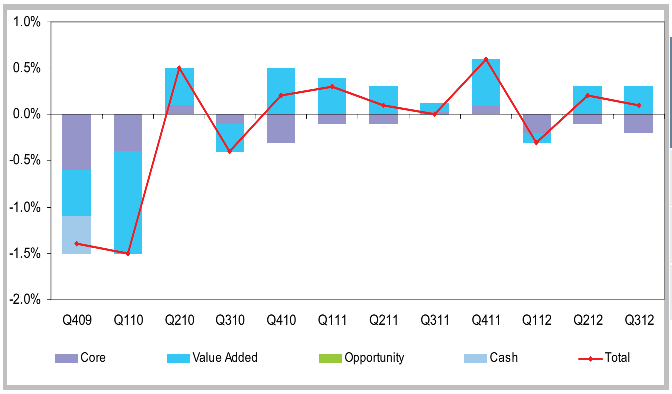
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.5	3.5	9.2
Benchmark	0.4	2.8	9.5
relative	+0.1	+0.7	-0.3

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.
- The style of underlying fund held are divided into 'core' and 'value add'. Their outperformance has come from 'value add' managers, offset to come extent by the 'core' managers, both over the quarter and year.
- There were two transactions during the quarter, the final drawdown for the Real Income Fund (circa £236,000) and the second drawdown for the Local Retail Fund (circa £215,000).
- They continue to hold an overweight position relative to benchmark in Central London offices, where demand has remained strong.
- Schroder continue to forecast flat total returns in 2012, as capital value declines largely offset the property income return.

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

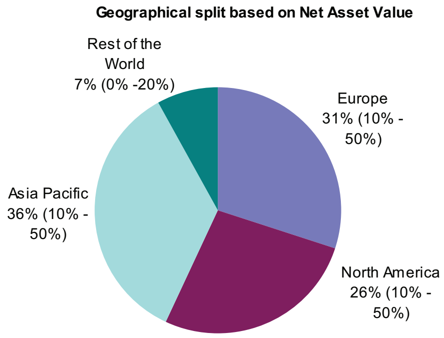
To date, Partners have drawn down approximately £78 million, or approximately 59% of the Fund's intended commitment of approximately £132 million. A total of £7.65 million was drawn down over the quarter, across all of the funds listed below apart from Distressed US Real Estate 2009, which has already drawn down most of its commitments. The draw downs commenced in September 2009.

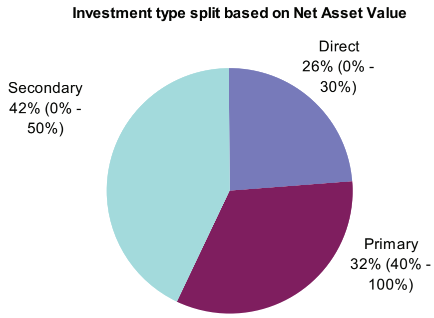
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2012 (£ Million)	Since inception Net IRR
Asia Pacific and Emerging Market Real Estate 2009	11.50	12.06	9.4%
Direct Real Estate 2011	3.38	3.37	0.4%
Distressed US Real Estate 2009	12.41	12.46	10.5%
Global Real Estate 2008	29.70	30.17	9.6%
Global Real Estate 2011	9.73	10.04	9.2%
Real Estate Secondary 2009	11.10	12.31	19.5%
Total	**77.82**	**80.41**	**10.7%**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 30 September 2012.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 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, 50% of the commitments are allocated to primary investments.

Performance over Q3 2012

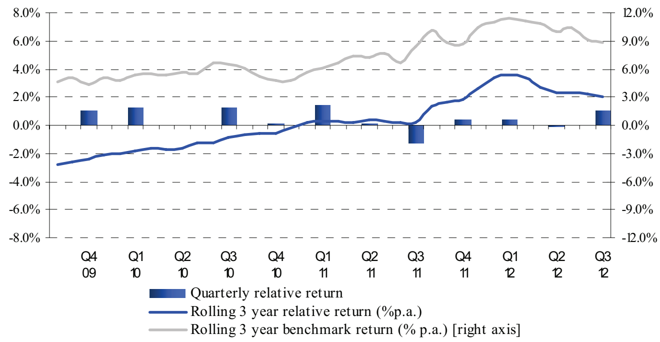
Distributions since inception total £7.71m, with no distributions over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Performance over Q2 2012 was positive, with the manager producing a return of 1.3%, which was ahead of the benchmark by 1.0%. Over the 1 year to 30 June 2012, the performance of Partners was 9.6%, against a benchmark return of 4.2%.

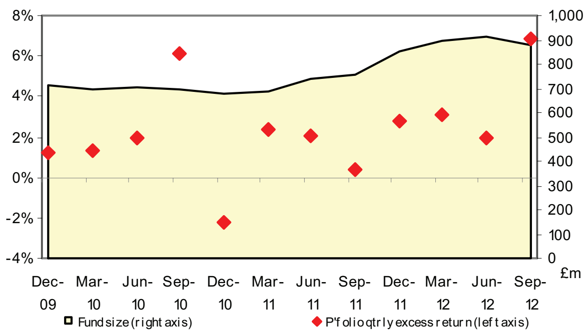
Royal London Asset Management – Fixed Interest

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**	
£166,193	**6.0**	**248**	

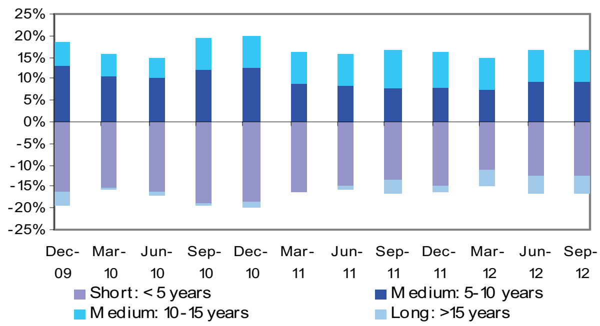
Relative returns [#1]



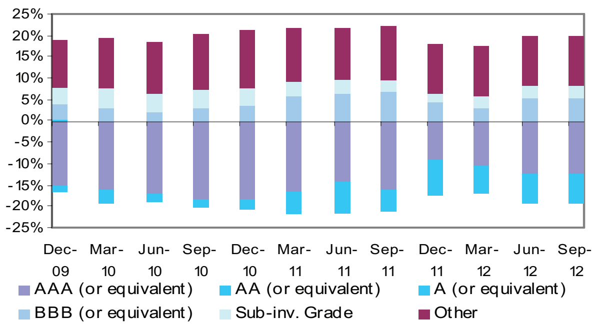
Performance v fund size [#3]



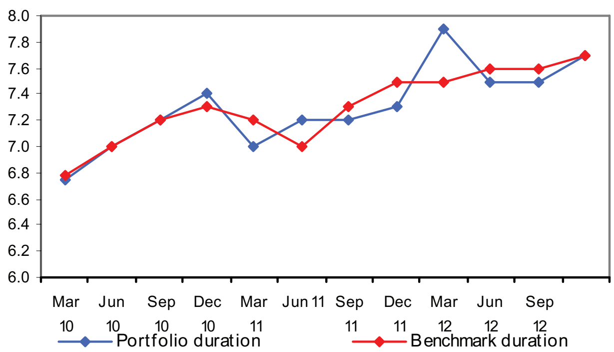
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.9	15.4	10.9
Benchmark	5.7	13.3	8.9
relative	+1.2	+2.1	+2.0

Source: Data provided by WM Performance Services, and RLAM

Comments:

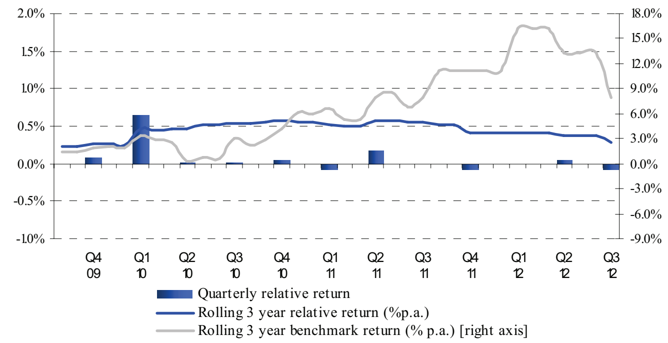
- RLAM have maintained a consistent philosophy for some time - the Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- Similarly, RLAM favour medium term maturity bonds.
- Performance relative to the benchmark may be volatile 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

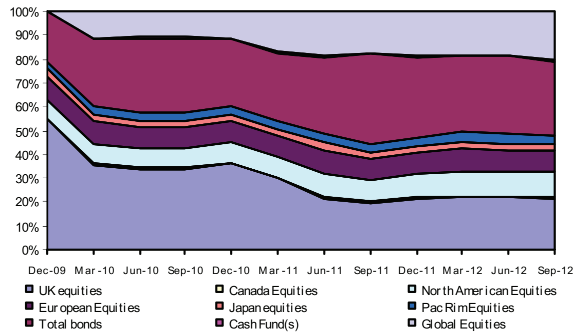
Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	**In line with customised benchmarks using monthly mean fund weights**	**0%**	**April 2003**

Value (£'000)	% Fund Assets
£1,271,197	**45.5**

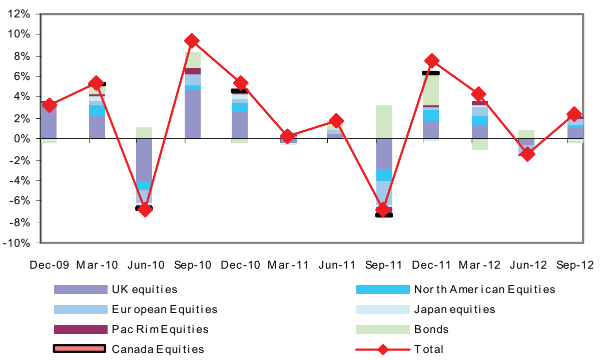
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	13.2	8.2
Benchmark	2.5	13.4	8.1
relative	0.0	-0.2	+0.1

Source: Data provided by WM Performance Services, and BlackRock

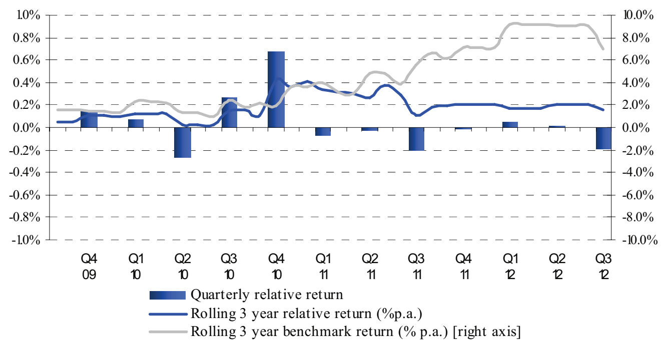
Comments:

- 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.

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**		
£66,102	2.4		

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	11.4	7.1
Benchmark	1.8	11.5	7.1
relative	-0.2	-0.1	0.0

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holdings in European Equities reduced to zero (from 6.2%) and the cash level increased to around one-quarter of the Fund. The allocation UK Equity Futures and US Equities also increased, with UK Gilts reduced.
- UK Gilts and UK Equity Futures were the two largest contributors to the positive absolute return, with a small negative contribution from 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% over the quarter whilst QE measures were held at £375bn, providing some stability to markets.	• The demise of JJB Sports, closely followed by Optical Express, although long expected in the former's case, is another indication that the UK economy is not out of the woods yet.
	• CPI inflation remained within the Bank of England's target range over the quarter. The latest Office of National Statistics figure showed CPI at 2.2% in September.	• Unemployment was high through the quarter maintaining levels seen previously.
	• The recession we have been experiencing has been marked by a lower-than-usual rate of insolvency amongst companies. Corporate profits held up well in large parts of the economy (ex the service sector), driven mainly by exports.	• The latest Purchasing Managers Index (PMI) registered 52.2 as at August. This is above the 50.0 (no change) point and represents slightly increasing confidence in the economic situation.
Overseas Equities		
North America	• US GDP growth remained in positive territory over the quarter. It is currently stated at 1.3% for Q2 2012 down from the initial estimates of 1.7%. US unemployment fell to its lowest level since January 2009 over Q3. The percentage of US unemployment is now 7.8% down from 8.1% last quarter.	• Companies are likely to remain cautious in their spending and hiring decisions ahead of the upcoming US election and potential 'fiscal cliff' through the simultaneous expiry of tax cuts and imposition of spending cuts in 2013 that could occur.
	• The US Fed launched QE3 (even QE3+) during the quarter. This latest programme consists of the Fed promising to purchase $40bn of assets each month until the labour market significantly improves. This provided a welcome boost for markets towards the end of the quarter.	• The likely Presidential election outcome has reached a new peak of uncertainty with the first of the televised debates. These have proved to be a source of worry for markets.

Asset Class	What Happened?	
	Positive Factors	Negative Factors
Europe	• The ECB maintained interest rates over the quarter and announced a series of asset purchases over the quarter in an attempt to provide liquidity and increase confidence in markets.	• Unemployment remains high - particularly in peripheral Eurozone countries as austerity measures impact on confidence. Some areas are seeing unemployment in certain sections of the population in excess of 50%.
	• These increased bailout funds are seen as proof of the political class's commitment to the Euro. Despite the recent 'relief' rally on the back of Mario Draghi's comments, equity markets are still a long way from their previous highs.	• Spanish debt costs rose with investor confidence declining as investors doubted Spain's ability to repay its debt. Civil unrest on the street of major Spanish cities increased as austerity budgets continued to reduce the population's standard of living.
Japan	• Valuations still look cheap relative to the rest of the region, particularly as the rebuilding work continues. However, performance has been stymied in Sterling terms as a result of exchange rate movements.	• Politics in both China and Japan seem to have helped escalate the long running dispute over the Senkaku Islands, enough to spook investors. China is a very important market for Japan, both as a customer and as a base for manufacture. Exports to China are now higher than to the USA and recent protests are undermining investor confidence.
Asia Pacific	• Most central banks held their interest rate strategy, helping market confidence. The exceptions were as in Q2, with cuts in Australia as they expect more challenging times ahead and in China, which is trying to stimulate growth.	• Asian Equities have largely moved sideways in recent months, weighed down by concerns over Europe (and the effect on exports) and, more significantly, China, where the economic outlook has worsened.
		• In China manufacturing data has fallen to a nine-month low. The economic slowdown in China is being complicated by the leadership transition in early November, already providing much negative publicity.
Emerging Markets	• Global Emerging Markets have had a volatile quarter. The weak global economy provides major headwinds to growth in the developing world.	• Stagnant commodity prices but rising food prices are also a concern in the short term.
	• Although Global Emerging Markets experienced slower GDP growth over the quarter, this was still significantly higher than that experienced by the developed markets.	• Political instability is the main investor concern at present with the political leadership of China changing and the continued uncertainties in the middle eastern regions proving a drag to growth.

Asset Class	What Happened?	
	Positive Factors	**Negative Factors**
Gilts	• In a repeat of Q2 the demand for Gilts has proved resilient. Government bond yields remain at near record lows, as the UK continued its 'safe haven' status among sovereign debt issuers. However expensive Gilts may look, until the European Debt crisis is resolved, this situation may continue.	• CPI inflation remained within the Bank of England's target range over the quarter. The latest Office of National Statistics figure showed CPI at 2.2% in September.
		• The recent German Constitutional Court judgement appeared to take some risk off the table for markets however, there is still a high degree of uncertainty surrounding this asset class and the 10 year+ remains particularly vulnerable to market shocks.
Index Linked Gilts	• Demand for Index Linked Gilts remains as limited supply supports the price and investors continue to seek protection against inflation.	• Yields turned slightly positive in Q3. With a review underway by the Office of National Statistics into the calculation of RPI, markets seem to have assumed that the calculation basis will change to bring RPI closer to CPI.
Corporate Bonds	• Sterling Corporate Bonds had high positive returns. Markets also approved of the Eurozone's efforts to support the sovereign bond markets.	• The Corporate Bond Market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they have done throughout 2012.	• The well established trend of overall void levels increasing in tandem with the lowering of capital values as well as falling rental yields continued through Q3.

Economic statistics

	Quarter to 30 September 2012			Year to 30 September 2012		
	UK	Europe[(1)]	US	UK	Europe[(1)]	US
Real GDP growth	1.0%	n/a	0.5%	0.0%	n/a	2.3%
Unemployment rate	7.9%	*10.7%*[(4)]	7.8%	7.9%	10.7%[(4)]	7.8%
Previous	*8.1%*	*10.6%*[(u)]	*8.2%*	*8.1%*	*9.7%*	*9.0%*[(u)]
Inflation change[(2)]	1.0%	0.6%	0.8%	2.2%	2.6%	2.0%
Manufacturing Purchasing Managers' Index	48.4	46.1	51.5	48.4	46.1	51.5
Previous	*48.4*	*45.1*	*49.7*	*51.1*	*48.5*	*50.8*
Quantitative Easing / LTRO [(3)]	£375bn	€1,018bn	$2,694bn	£375bn	€1,018bn	$2,694bn
Previous	*£325bn*	*€1,018bn*	*$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 September 2012 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) CPI inflation measure; (3) Refers to amounts announced and therefore ignores changes due to debt maturing. LTRO refers to the European Central Bank's Long Term Refinancing Operation; (4) As at August 2012; (u) Updated since our previous reports.

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.

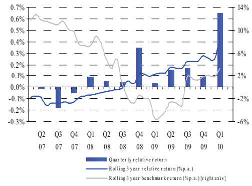
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and 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.

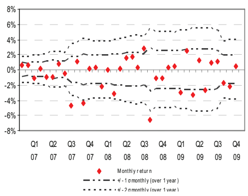
Reference — ***Description***

#1



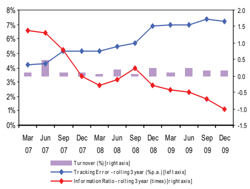
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.

#2



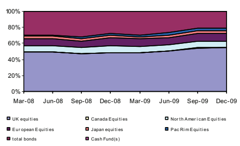
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - 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



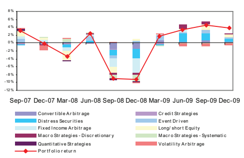
This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken 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



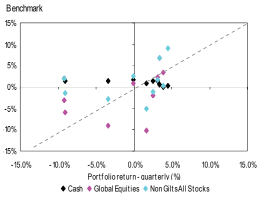
This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.

#6



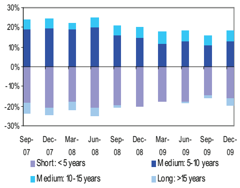
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



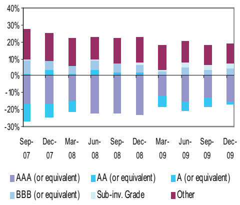
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



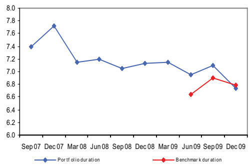
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	-
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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APPENDIX 3

SUMMARY OF INVESTMENT PANEL MEETINGS WITH INVESTMENT MANAGERS (on 14 November 2012)

The Panel met with TT and Partners Group.

Panel Conclusions on TT

TT are being closely monitored following a period of poor performance. They made changes to the team and process in Q4 2011.

The most important changes were to Sector teams (financials, and oil and gas) and removing the directional bias of the portfolio in the absence of a strong directional view.

Performance has improved considerably since changes made in Q4 2011 with one year performance above target level and the 3 year rolling measure improving. The portfolio is now achieving consistent performance at target level (TT have achieved 4 consecutive quarters of relative outperformance) whilst keeping the sensitivity of the portfolio to market movements neutral (i.e. keeping beta around 1). Attribution of outperformance has been broad across sectors with particular improvement in financials, oil and gas and basic materials.

While uncertainties continue about the global economy (despite continued central bank support), company balance sheets continue to improve. TT see Eurozone near term tail risks reducing and believe there is now an opportunity for fundamentals to play out. Equity market valuations are currently attractive but TT are still cautious about earnings growth given the limited ability for many corporates to make further cost reductions. TT continue to position the portfolio to be relatively insensitive to market inflexion points.

TT explained their voting policy and decision making process. On remuneration, the key factor for them is transparency. In TT's experience, corporate boards are being more reflective of investor requirements.

The Panel were reassured by the changes made and the resulting consistent performance. The Panel felt that TT should return to normal monitoring. The Panel identified no particular issues to raise with the Committee.

Panel Conclusions on Partners Group

The portfolio is well diversified by investment year, transaction type, strategy and geography. It is c. 57% invested.

Performance is good with the portfolio achieving an aggregate internal rate of return (IRR) of 10.7% which given the early stage of some of the investments, is strong. It was agreed to monitor IRRs at underlying fund level as they became invested, and at the aggregate level. This information will be included in the quarterly performance monitoring report.

Given the weak market outlook (low rental growth and high stable vacancy levels) Partners continue to focus on deploying funds where capital is scarce and not seeking to compete for trophy assets. This involves exploiting their skills in structuring property deals and taking advantage of distressed and motivated sellers whilst maintaining a focus on defensive assets.

Partners described their concerns regarding Eurozone instability and their original plan to invest in core European property. Given these concerns and the limited ability to impact the overall value in core property investments, Partners have decided to allocate the remaining commitments to value-add investments via 2 of their global real estate funds. This allocation remains within the mandate guidelines.

The Panel were satisfied with the progress of investing the portfolio, the positioning and performance, and agreed the ongoing programme of commitments to the proposed funds.

Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2012

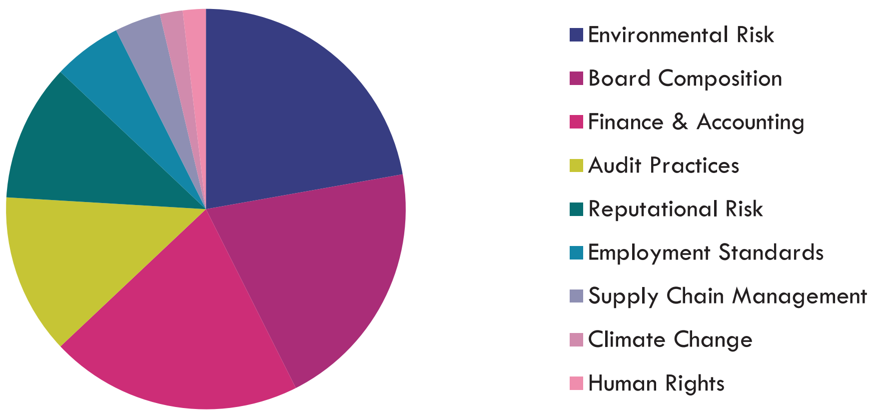
Local Authority Pension Fund Forum

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 £115 billion.

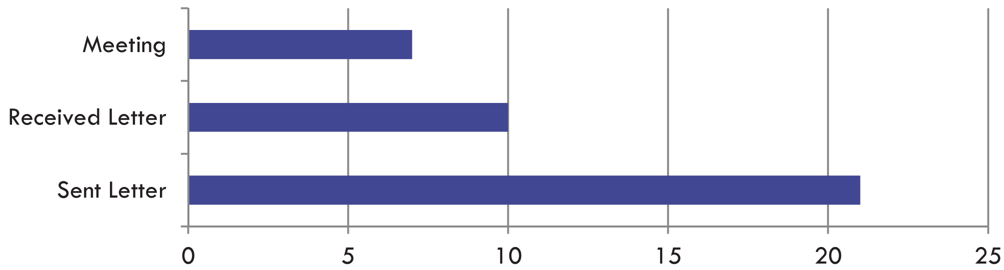
ENGAGEMENT SUMMARY

JULY TO SEPTEMBER 2012

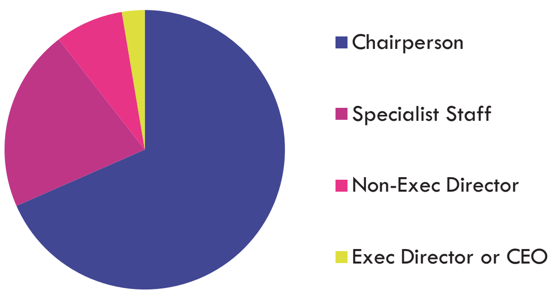
Topics



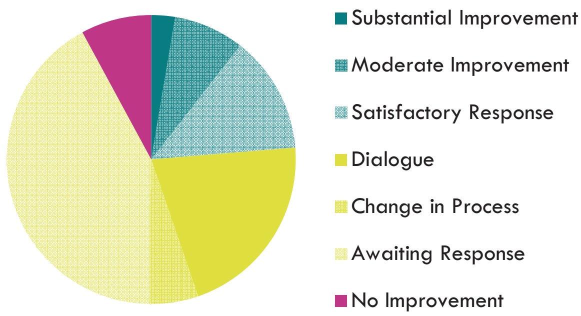
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Met with directors at **Barclays**, **Lloyds**, **HSBC** and **Standard Chartered** directors to discuss IFRS, 'true and fair view' accounting, as well as recent fines and reputational risk in the banking sector.
- LAPFF member funds signed an open letter to Rupert Murdoch from Class A shareholders asking the **News Corp** board to appoint an independent Chair at its successor companies.
- Wrote to the Chair of **Lonmin** to express deep concern regarding violence at the company's South African platinum mine and to encourage the board to implement best practice principles in its relationships with police and security forces.
- Discussed sustainability and responsible supply chain management with **Kingfisher**, the parent company of household name B&Q. Met with **Reckitt Benckiser** on labour standards and supply chain management.
- Met with **Rolls-Royce** to discuss the company's role in reducing airline greenhouse gas emissions through improved jet engine technologies.
- Received responses from **EOG Resources** and **Wal-Mart** to the request that they participate in the CDP Water questionnaire. Both companies have declined to participate again this year. LAPFF also wrote to ten companies requesting they provide a response to the **Forest Footprint Disclosure** project.
- Sent letters to 36 companies in the FTSE 350 encouraging them to meet the **board diversity** targets set out by the Davies Review. We received responses from 12 companies on their measures to consider diversity in the boardroom.

THE FORUM IN THE NEWS

Investor calls for audit reform – Professional Pensions, 25 Sept

Local investment opportunities – AICIO, 20 Sept

News Corp shareholder resolution – Institutional Investor, 4 September, Telegraph, 5 September

Independent Chair at News Corp - BBC News, 18 July, The Telegraph, 18 July 2012, International Business Times, 19 July

Bob Diamond's Remuneration - The Guardian, 3 July

View more press coverage: http://www.lapfforum.org/press_coverage

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Upon hearing of the horrific violence at **Lonmin's** West Markiana mine, LAPFF wrote to the Chair, Roger Phillimore, to express deep concern regarding the violence, asking the board to take due care in its relationships with police and security forces. The letter encouraged the company to refrain from issuing back to work orders to striking workers, for fear it would lead to more violence. It also asked the company to review community and workplace grievance mechanisms in light of the social unrest. The company responded swiftly to LAPFF's letter outlining its position with regard to the conflict. LAPFF was pleased to hear that the company has softened its stance; however tensions at the mine remain high and the company faces real financial risk.

PLATINUM FACTS

80% of world's platinum reserves are in South Africa

12% of global supply is produced by Lonmin mines

31% is used for catalytic converters

28% goes to producing jewellery

Members of LAPFF signed an open letter to **Rupert Murdoch** sent by 18 investors holding non-voting Class A shares and representing US $1.6 trillion in assets. The letter expressed the investors' support of the shareholder resolution filed by Christian Brothers Investment Services and co-filed by two LAPFF member funds requesting that News Corp appoint an independent chair. Class A shareholders do not have the right to file shareholder proposals or vote at the company's annual meeting. The LAPF chair met with UK investors to build support for the shareholder resolution and a webinar was held for US and other overseas investors.

Finally, LAPFF wrote to 36 companies on the FTSE 350 encouraging them to consider **diversity** when making appointments to the boardroom. To date, 12 companies have responded to the letter, highlighting the steps they are taking to implement the recommendation of the Davies Review which asks companies to achieve 25% women on the board by 2015. Many companies that responded highlighted their strategies to address diversity generally within the organisation, but there continues to be a serious disconnect between diversity in the workforce and diversity at the senior executive and director level.

PROMOTING GOOD GOVERNANCE

Financial Reporting & Audit

Criticisms of IFRS appear to be gaining steam as more investors and companies raise concerns about the distortive effects IFRS has on company balance sheets. LAPFF has initiated a round of meetings with the board chair or audit committee chair of each of the large

UK banks to discuss the Forum's concerns about accounting standards and the risk the standards pose to shareholder capital. This quarter, the Chair of LAPFF met with board directors and the finance directors of **Barclays**, **Lloyds**, **HSBC** and **Standard Chartered** to highlight the deficiencies in IFRS accounting and seeking each company's perspective on the issue. LAPFF has also arranged a meeting with **RBS**.

The Forum co-signed an investor letter to the **European Commission** (EC) on mandatory auditor rotation and recommended that auditors should not receive fees for non-audit services equal to more than 50% of the statutory audit fee to help avoid problematic conflicts of interest. The investor group also called for an investigation as to whether IFRS could provide a 'true and fair' view.

MANAGING ENVIRONMENTAL ISSUES

Environmental Risk Management

LAPFF is a long-term supporter of the **Forest Footprint Disclosure Project** and the **Water Disclosure Project**. This quarter the Forum wrote to 12 companies asking them to respond to these initiatives. Wal-Mart and EOG Resources replied to LAPFF's request stating that they did not intend to reply to the CDP Water questionnaire in 2012.

30 investors with assets of **US $2.5 trillion** signed up to the Forest Footprint Disclosure project in 2012

In March, LAPFF joined 35 other global funds, to write to **21 oil and gas companies** that are producing shale oil, asking for information about how much they are flaring and their plans to reduce flaring. Twelve of the 21 companies have responded, with a further three planning to do so. An investor webinar in September outlined potential follow-up investor engagement with these companies regarding flaring and other environmental risks related to shale oil.

A meeting with **Rolls-Royce** was very informative in explaining the company's technological approach to meeting demanding carbon reductions and its investment in newer technologies such as tidal power. The Forum expressed the view that the company could reinvigorate its message from the board on the strategic importance of carbon management to the business.

TARGETING SOCIAL ISSUES

Employment Standards & Sustainable Supply Chains

Meetings were held with **Reckitt Benckiser** and **Kingfisher** on the issue of sustainable supply chains and labour standards. Kingfisher, the parent company to UK 'do it yourself' chain B&Q described its recent Net Positive sustainability strategy which sets out a vision to not only 'do no harm', but to have a net positive impact on the environment. Kingfisher has set stringent

Kingfisher sold **7.1 million m^3** of timber products in 2011/12, roughly equivalent to the size of **Switzerland**.

-Kingfisher 2012 Sustainability Report

targets for sourcing sustainable timber, and for energy efficiency. The company has also recently improved its communication to shareholders about its sustainability initiatives and how they contribute to the bottom line.

The Forum's interest in meeting with Reckitt Benckiser was to learn from one of the market-leading companies on sustainability, how they integrate sustainability into the supply chain. LAPFF encouraged the company to continually improve its disclosure with regard to supply chain audit results and remediation practices.

In July, the Forum formally signed up to the **Access to Nutrition (ATN) Investor Statement**, following four years of engaging with UK companies on the investment risks posed by obesity. LAPFF's support for the initiative signifies the continued relevance of health and nutrition as an investor concern.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS AND CONSULTATION RESPONSES

Following the publication of an SEC review of IFRS, LAPFF wrote to the **Office of the Chief Accountant at the SEC** to raise concerns about conflicts of interest within the IASB – the international body that sets accounting standards. The US has yet to adopt IFRS and is undertaking a review of the standards.

The Forum was represented in a meeting between several institutional investors and Senior Advisors at the **Bank of England** to discuss IFRS accounting at UK banks in July. The investors expressed serious reservations about the current accounting framework and advocated for a return to prudence and the 'true and fair view' in UK accounting. Representatives from LAPFF also met with the Department for Business Industry and Skills (BIS) and the Financial Reporting Council (FRC) to highlight concerns regarding inherent risks in IFRS accounting for institutional investors. The meeting was productive and LAPFF is working with other investors to further engage with key policy decision-makes on this issue.

LAPFF was also pleased to read that consultation responses submitted to regulators in Denmark have quoted the Forum's research into IFRS, highlighting the role the accounting standards played in the financial crisis.

No formal consultation responses were submitted by LAPFF this quarter. All consultation responses submitted by LAPFF to date can be viewed online at: http://www.lapfforum.org/consultations.

NETWORKS & EVENTS

- **News Corp:** webinar on shareholder resolution to appoint an independent chair
- **Oil sands** webinar on environmental & social risks by Ceres
- **30% Club** celebrates reaching over 50 Chairmen supporters
- **Food Ethics Council** Roundtable 'Overcoming commercial and political short-termism'
- **Integrated Reporting** webinar by Paul Druckmann, CEO, IIRC
- **UKSIF** annual lecture: Big Society Capital
- **Green Investment Bank** webinar by UKSIF & Transform UK

The Forum chaired a webinar to highlight the rationale for the shareholder resolution for an independent chair, and to debate wider concerns about the governance of News Corp.

The **30% Club** celebrated reaching over 50 FTSE 100 Chairman supporters in July. Attendees were advised of the progress of the initiative to date and of plans to develop the momentum behind this business-led approach to better balanced boards. Many board appointments have been to non-executive roles so it is intended to have a greater focus on the executive pipeline at companies.

LAPFF also participated in a **Ceres** webinar highlighting key social and environmental risks in the oil sands. Oil sands operating companies have recently set up an industry association to examine sustainability in oil sands operations and accelerate the pace of environmental improvement. The webinar outlined some practical steps companies can take to address issues such as water management, reclamation, biodiversity and greenhouse gas emissions. It also suggested how investors can engage with companies to encourage prudent environmental management in the extraction of oil sands.

The issues of commercial, political and consumer short-termism were debated at a **Food Ethics Council Roundtable** which explored key challenges faced by food businesses in progressing towards a sustainable food system and how this can be influenced by relevant players in the investment chain.

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Archer-Daniels Midland	Environmental Risk	Awaiting Response
Ashtead Group	Board Composition	Moderate Improvement
Barclays	Finance & Accounting, Reputational Risk	Dialogue
Berendsen	Board Composition	Change in Process
Bunge Limited	Environmental Risk	Awaiting Response
Danone S.A.	Environmental Risk	Awaiting Response
EOG Resources	Environmental Risk	No Improvement
Fresnillo	Board Composition	Moderate Improvement
General Mills, Inc	Environmental Risk	Awaiting Response
Greggs	Board Composition	Satisfactory Response
Halfords Group	Board Composition	Satisfactory Response
Hikma Pharmaceuticals	Board Composition	Satisfactory Response
HSBC Holdings plc	Finance & Accounting, Reputational Risk	Dialogue
Intertek	Board Composition	Moderate Improvement
Kingfisher	Supply Chain, Employment Standards	Substantial Improvement
Kraft Foods Inc	Environmental Risk	Awaiting Response
Lloyds Banking Group	Finance & Accounting, Reputational Risk	Dialogue
Lonmin	Human Rights, Employment Standards	Awaiting Response
McDonald's Corporation	Environmental Risk	Awaiting Response
National Express	Employment Standards, Board Composition	Awaiting Response
News Corp	Board Composition, Reputational Risk	Dialogue
Olam International Limited	Environmental Risk	Awaiting Response
Reckitt Benckiser	Supply Chain Management	Satisfactory Response
Rolls-Royce	Climate Change	Satisfactory Response
Royal Bank of Scotland	Finance & Accounting, Audit Practices	Dialogue
Standard Chartered	Finance & Accounting, Audit Practices	Dialogue
Wal-Mart Stores Inc	Environmental Risk	Awaiting Response
Wilmar International	Environmental Risk	Awaiting Response
Xstrata	Board Composition	Change in Process
Yum! Brands Inc	Environmental Risk	Awaiting Response

Local Authority Pension Fund Forum

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 £115 billion.

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

PIRC

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**14 DECEMBER 2012**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE IN 7 MONTHS TO 31 OCTOBER 2012** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 OCTOBER 2012;** **(3) SUMMARY PERFORMANCE REPORT FOR THE PERIOD FROM 1 APRIL 2011 TO 31 OCTOBER 2012**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 Summary Financial Accounts: 7 months to 31 October 2012** **Appendix 2 Summary Budget Variances: 7 months to 31 October 2012** **Appendix 3A Balanced Scorecard : 3 months to 31 October 2012 (narrative)** **Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items** **Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 October 2012 *(Retirements from ACTIVE status)*** **Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 October 2012 *(Retirements from DEFERRED status)*** **Appendix 5 Active membership statistics over 42 months to 31 October 2012** **Appendix 6 Joiners & Leavers statistics over 42 months to 31 October 2012** **Appendix 7 Summary Performance Report on Scheme Employers/APF performance for the period to 31 October 2012 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds***	

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 3 months to 31 October 2012. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 October 2012 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 October 2012.

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure incurred for 7 months to 31 October 2012

2.2 Performance Indicators and customer satisfaction feedback for 3 months to 31 October 2012

2.3 Summary Performance Report for period from 1 April 2011 to 31 October 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 7 months to 31 October 2012 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2013 is for net expenditure to be £46,000 below budget. Within the directly controlled Administration budget the forecast is for expenditure to be above the original budget by £14,000. This includes £17,000 additional expenditure on the implementation of *i-Connect* approved by the Committee at its September 2012 meeting. In that part of the budget that is not directly controlled expenditure is forecast to be £60,000 below budget.

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 3 MONTHS TO 31 OCTOBER 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 3 month period was 5,864 tasks created and 5,717 cleared (97.48%), leaving an outstanding workload from the period of 147 tasks or 2.52% 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:

- Level of use of the Avon Pension Website fell slightly to 4,000 hits on average over the period but is still ahead of expectations as pensions continues to have a high profile in the media *(Chart 2)*
- A continuing low level in short-term sickness (1.37%) 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").**

All Annual 2011/12 Annual Benefit Statements including those for Councillors have been sent out.

6 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 OCTOBER 2012

6.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on 68 questionnaires returned from ***active*** members retiring. On average 75% received their lump sum and 88% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on 35 questionnaires returned from *former* active members retiring from ***deferred*** status. 91% received their lump sum and 97% 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 97% (See chart item 5 on both graphs).

6.2 **C*linics:*** None being held 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 35 members with more than 3 months service opted out over the 7 month period to 31 October 2012. When annualised this is 60 and expressed as percentage of the total membership of 32,756 this is only 0.18 % and is an encouraging sign that significant numbers of members are not leaving the Scheme now that the expected changes to benefits in 2014 are known. The fact that contributions for LGPS members did not increase in April 2012, as other public sector schemes did, would have had a beneficial effect on maintaining membership. For lower paid workers which make up a significant percentage of the Fund, contributions for the same or better benefits are unlikely to rise and in some cases could be lower!

The additional introduction of an alternative 50/50 scheme will also give those a cheaper option if the amount of their pension contribution in these austere times in the existing scheme is unaffordable. These all bode well for retention of members in the Scheme; however, the 50/50 option may actually encourage members of the current scheme to move to the lower level option to reduce their on-going contributions.

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 42 months period from 1 May 2009 to 31 October 2012 are shown 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 however at 31 October 2012 it has dropped to 32,756 compared to 33,500 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 **Performance Report** is now sent quarterly to each of the four unitary authorities to report on both their and Avon Pension Fund's administration performance against targets in the SLAs.

9.2 A Summary report to the Committee is now a requirement of the Administration Strategy. The Report for the period from April 2011 to 30 September 2012 is included as **Appendix 7**. Previously these were taken in *exempt session. The Pensions Committee however voted at its last meeting in favour of ceasing to review these in exempt session.* 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 and the steps taken to assist these employers in improving their performance to avoid the imposition of additional charges.

9.3 **Appendix 7** contains:

- Trend graphs for each of the largest employers *(viz. 4 unitaries) showing performance on supplying the Avon Pension Fund with accurate leaver forms (Retirements (Annex 1) and Deferreds (Annex 2)) for *cumulative* period from 1 April 2011 to 30 September 2012.
- Report on late pension contributions by employers to the Fund due for the 3 months to 31 October 2012.
- Year-End Status Report showing employers who have still not sent their full year-end information.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 <u>**Employer Self Service**</u>**:** Employers have been advised that Employer Self Service has been enhanced to allow online updating of member changes and that from April 2013 this will be the only acceptable way to send the Fund changes; for those continuing to send in paper format additional costs may result.

10.2 So far 149 employers have returned forms confirming that they wish to register for ESS and the number of employers who have completed registration is 52; however the remainder but have not yet completed registration. Development is now concentrated on Phase Two of ESS "Update facility" as all employers need to register to enable electronic online updating which is mandatory from 1 April 2013.

10.3 **<u>Auto enrolment / *i-Connect*</u>**

Following approval to proceed by the Pensions Committee in September 2012, the Avon Pension Fund has purchased additional middleware from *i-Connect* (a sister company of Heywood- supplier of the hardware) which will allow information on *starters* and *changes* to be uploaded **monthly** automatically into the APF's pension database from the employer's payroll data extract. This will be in respect of the 4 unitaries who have over 70% of the active membership and should result in due course in a significant improvement in the quality of timeliness of information submission resulting in improved member data and level of service the Avon Pension Fund will be able to provide to its members. The four unitaries have also signed contracts to take *i-Connect* which is necessary for the APF database monthly updating to operate.

The *i-Connect* product also has **another important function for employers** helping them meet their legal obligations under the recently introduced government *auto enrolment* regulations. The *i-Connect* software will continuously monitor an employer's workforce electronically every month assessing their staff for auto enrolment purposes and if an employee must legally be auto enrolled; i-*Connect* will report this, alerting employers to the requirement.

Further medium-sized Scheme employers are expected to sign up for *i-Connect* as each employer's staging date for auto enrolment approaches and they need to monitor their workforce; as they do, the coverage for automatic monthly updating of information on APF's pension database will increase.

The relative cost of *i-Connect* in comparison to other *middleware* products currently available is quite low (cost to employers is relative to their size) and it is likely that even smaller employers may wish to take it. The Fund is not actively encouraging its take up by other employers at present until the product is tested and is proven to work.

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

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : PERIOD ENDING 31 OCTOBER 2012

	SEVEN MONTHS TO OCTOBER 2012			FULL YEAR 2012/13		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	ACTUAL £	VARIANCE £
Administration						
Investment Expenses	46,085	36,092	(9,993)	75,273	75,273	0
Administration Costs	40,277	42,999	2,722	75,511	75,511	0
Communication Costs	48,561	36,629	(11,932)	80,998	72,998	(8,000)
Payroll Communication Costs	59,284	79,629	20,345	79,499	82,499	3,000
Information Systems	138,936	137,244	(1,692)	216,346	235,346	19,000
Salaries	743,700	747,269	3,569	1,372,293	1,372,293	0
Central Allocated Costs	244,549	236,899	(7,650)	395,186	403,186	8,000
Miscellaneous Recoveries/Income	(96,833)	(94,167)	2,667	(166,000)	(174,000)	(8,000)
Total Administration	**1,224,558**	**1,222,594**	**(1,964)**	**2,129,106**	**2,143,106**	**14,000**
Governance & Compliance						
Investment Governance & Member Training	179,625	76,417	(103,208)	307,929	284,929	(23,000)
Members' Allowances	23,625	(3,555)	(27,180)	40,500	40,500	0
Independent Members' Costs	28,443	13,074	(15,369)	48,760	48,760	0
Compliance Costs	198,071	263,805	65,734	340,550	431,550	91,000
Compliance Costs recharged	(150,000)	(194,019)	(44,019)	(150,000)	(258,000)	(108,000)
Total Governance & Compliance	**279,764**	**155,722**	(124,042)	**587,739**	**547,739**	**(40,000)**
Investment Fees						
Global Custodian Fees	70,000	41,847	(28,153)	120,000	100,000	(20,000)
Investment Manager Fees	5,864,224	5,684,486	(179,738)	10,052,955	10,052,955	0
Total Investment Fees	**5,934,224**	**5,726,333**	**(207,891)**	**10,172,955**	**10,152,955**	**(20,000)**
NET TOTAL COSTS	**7,438,546**	**7,104,650**	**(333,897)**	**12,889,800**	**12,843,800**	**(46,000)**

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Summary of main budget variances: Forecast for full year, as at 31 October 2012 — APPENDIX 2

Variances Analysis of the full year forecast expenditure or income, against budget to the year end.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
General Communication Costs	(8,000)	Reduced expenditure in 2012/13 due to the rescheduling of the production of the LGPS 2014 booklet to 2013/14 is partly offset by the additional costs of at*ease* magazine due to expected free distribution arrangement becoming unavailable.
Payroll Communications	3,000	Additional costs of introducing new Fire-fighter's scheme, rechargeable to Avon fire service (see below).
Information Systems	2,000 17,000	Additional expenditure on Disaster Recovery programme. Implementation of I Connect system as approved by September Committee.
Central Allocated Costs	8,000	Additional legal charges relating to new admission agreements partly offset by savings on other centrally allocated costs and additional recharges (see below).
Miscellaneous recoveries / income	(8,000)	Additional recharge of legal fees relating to new admission agreements, and costs relating to new Fire-fighter's scheme. (See above).
Administration	**14,000**	
Governance Costs	(23,000)	Provisional amount for SRI tender no longer required following outcome of the Responsible Investing review.
Compliance Costs	91,000	increase in the number of new bodies, mainly academies, requiring admission agreements and IAS 19 reports. This is offset by increased recharges of fees to employing bodies (see below).
Compliance Costs Recharged	(108,000)	Increased recharges of actuarial fees as per above including the Pension Fund's administration charge to cover its related additional costs.
Global Custodian Fees	(20,000)	Custody fees lower than assumed in budget preparation that took place prior to completion of custody tender.
Expenditure outside direct control	**(60,000)**	
Total Forecast Underspend	**(46,000)**	

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

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PENSIONS SECTION ADMINISTRATION

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

Key Performance Indicators

INDICATOR	Green Red Amber	Reporting Dept	2011/12 Actual	Target for 2012/13	Actual - 3 months to 31/10/2012	Comment	
Customer Perspective							
General Satisfaction with Service - clinic feedback	G	Admin	100%	95%	0.00%	No clinics held during period and none planned for 2012.	
General Satisfaction with Service - retirees feedback	G	Admin	96%	95%	98.49%	Generally very good response from retirees (See Appendices 4A & 4B)	
Percentage Compliance with Charter Mark criteria	G	Admin	100%	95%	n/a	Chartermark Accreditation obtained as part of B&NES Finance in 2008: discontinued from 2011 *(item will be removed from next report)*	
Level of Equalities Standard for Local Government	G		100%	100%	100%	Fully Compliant	
Service Standards - Processing tasks within internal targets (SLA)							
Deaths [12 days]	G	Admin	60%	90%	90.00%	18 of 20 Tasks were completed within target	
Retirements [15 days]	G	Admin	53%	90%	92.93%	486 of 523 Tasks were completed within target	
Leavers (Deferreds) [20 days]	G	Admin	53%	75%	71.32%	741 of 1039 Tasks were completed within target	
Refunds [5 days]	G	Admin	71%	75%	86.96%	60 of 69 Tasks were completed within target	
Transfer Ins [20 days]	A	Admin	24%	75%	56.30%	67 of 119 Tasks were completed within target	
Transfer Outs [15 days]	G	Admin	30%	75%	82.64%	100 of 121 Tasks were completed within target	
Estimates [10 days]	G	Admin	89%	90%	97.89%	880 of 899 Tasks were completed within target	
Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
Number of complaints	G	Admin	**0**	0	0	Again, no complaints in this period- none received within last 2yrs	
Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	on time	100%	100%	Due next quarter	
Number of hits per period on APF website	G	Admin	49256	36000p/a 3000p/q	12045	4015 per calendar month for reporting period	**Graph 1**
Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	n/a	None this quarter	
Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%		None sent in this quarter.	
Annual Benefit Statements distributed by year end	G	Admin	92%	100%	100%	2012 ABSs all sent out by end of October	

People Perspective

Health & Safety Compliance	**G**	All	100%	100%	100%		
% of staff with Investor in People Award (IIP)	**G**	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
% of new staff leaving within 3 months of joining	**G**	All	0%	4%	0%	One leaver in period but he had than 3 months service	
% of staff with up to date Performance Reviews	**G**	All	97%	100%	n/a	None due in this period but he had than 3 months service	
% Average Sickness Absence / a) Short Term / b) Long Term	**G**	All	2.50%	a) 3% b) 3%	a) 1.37 b) 0%	Well ahead of APF target and well ahead of corporate target of 5%	**Graph 2**
% 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 Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

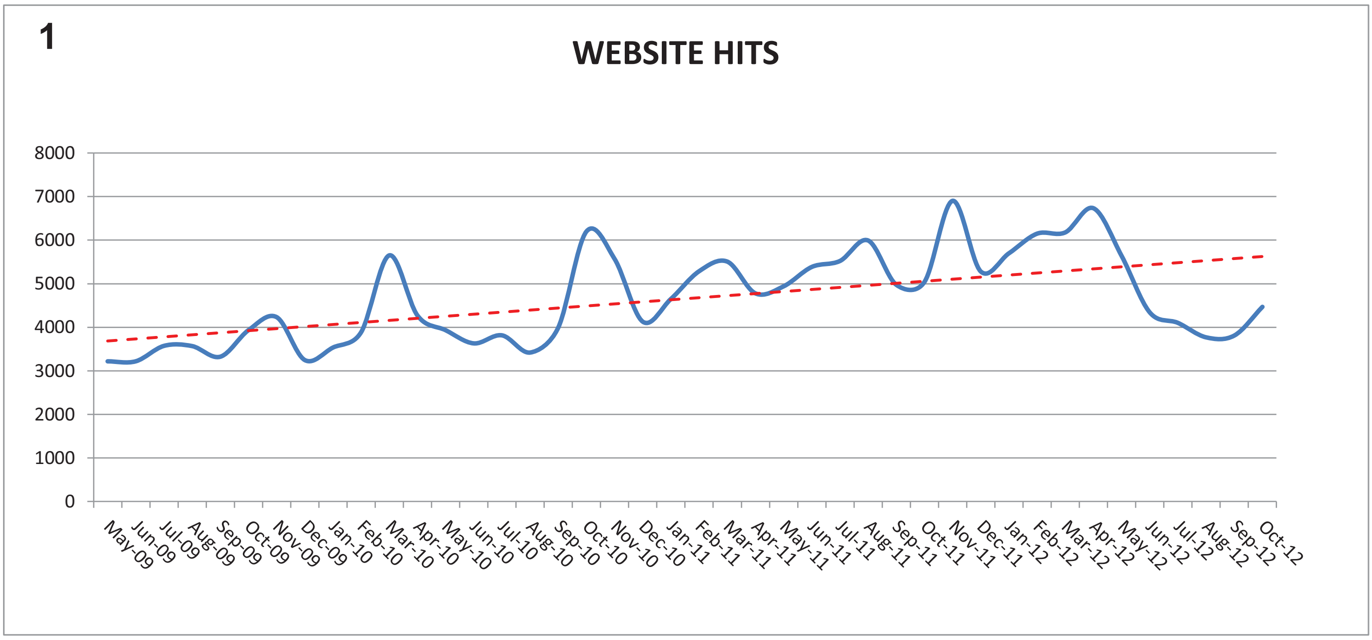
Process Perspective

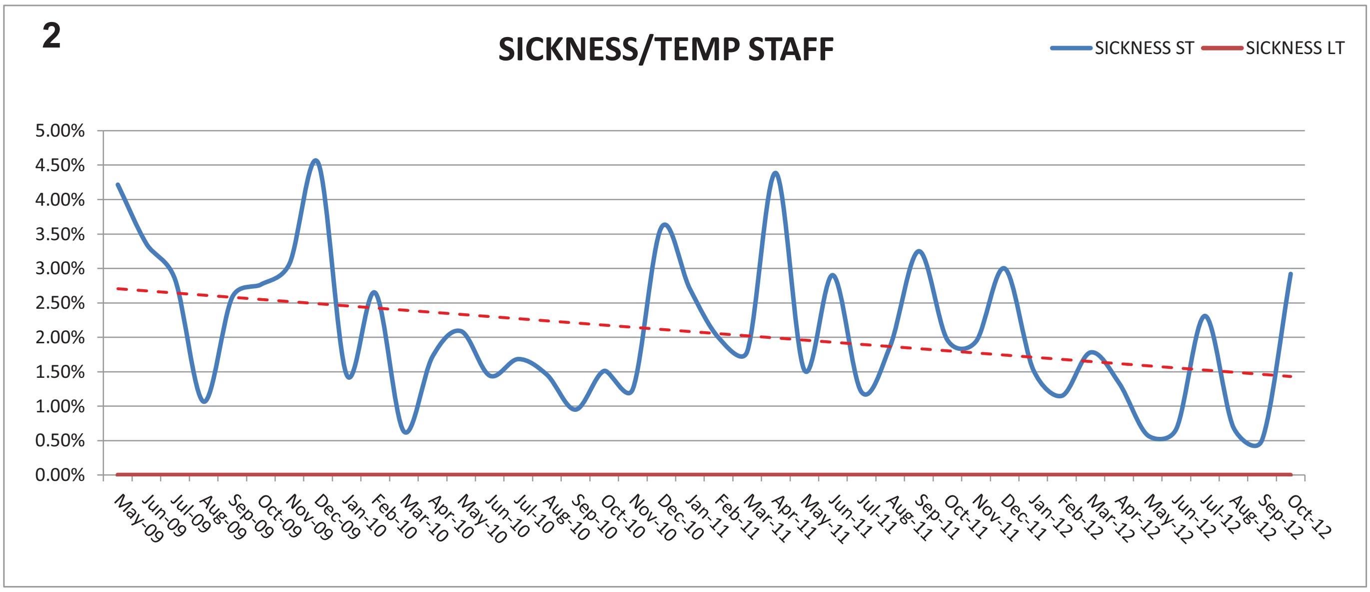
a) Services actually delivered electronically / b) Services *capable* of delivery to members	**A**	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a) 0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 2000 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
Telephone calls received in period	**G**	Admin	8664 per quarter	not applicable	8874	First time the number of calls has been specifically included and *a **replacement graph** (see 2b) below)*	**Graph 3**
% Telephone calls answered within 20 seconds	**G**	Admin	99%	98%	98%	8675 of the 8874 calls, answered within 20 second. *As target is almost always achieved or exceeded **previous graph has been replaced** by one showing the **number** of calls received*	
% Complaints dealt with within Corporate Standards	**G**	Admin	100%	100%	100%	On target	
Letters answered within corporate standard	**G**	Admin	100%	95%	100%	Ahead of target	
Cases received and cleared Target is to maintain work in progress/outstanding **below 10%.**	**G**	Admin	5.77%	10%	2.52%	5864 Created, 5717 cleared (97.48.% leaving only 2.52% of workload outstanding). Well ahead of target	**Graphs 4, 5 & 6**
Collection of Pension Contributions:- a) % employers received late b) Total Value of late contributions	**G**	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 1.78.% b) 0.7%	3 out of 168 employers sent their contributions in late. Late contributions include an estimated £223,000 from Bristol City Council in relation to Local Authority Schools that have outsourced their payroll. We are in contact with Bristol CC in regard to their resolving this issue. Where material, interest on late payments will be charged at base rate plus 1% in accordance with the 2008 regulations.	
Year End update procedures (conts & salaries received **by 31/08/2012)**	**G**	Admin	81%	100%	98%	Pen Conts and Pen Rems now received from all but 3 small employers *(See Appendix 7 of Summary Performance Report for full details)*	
No. of customer errors (due to incomplete data)	**G**	Admin	2%	3%	2%	Acceptable error level	

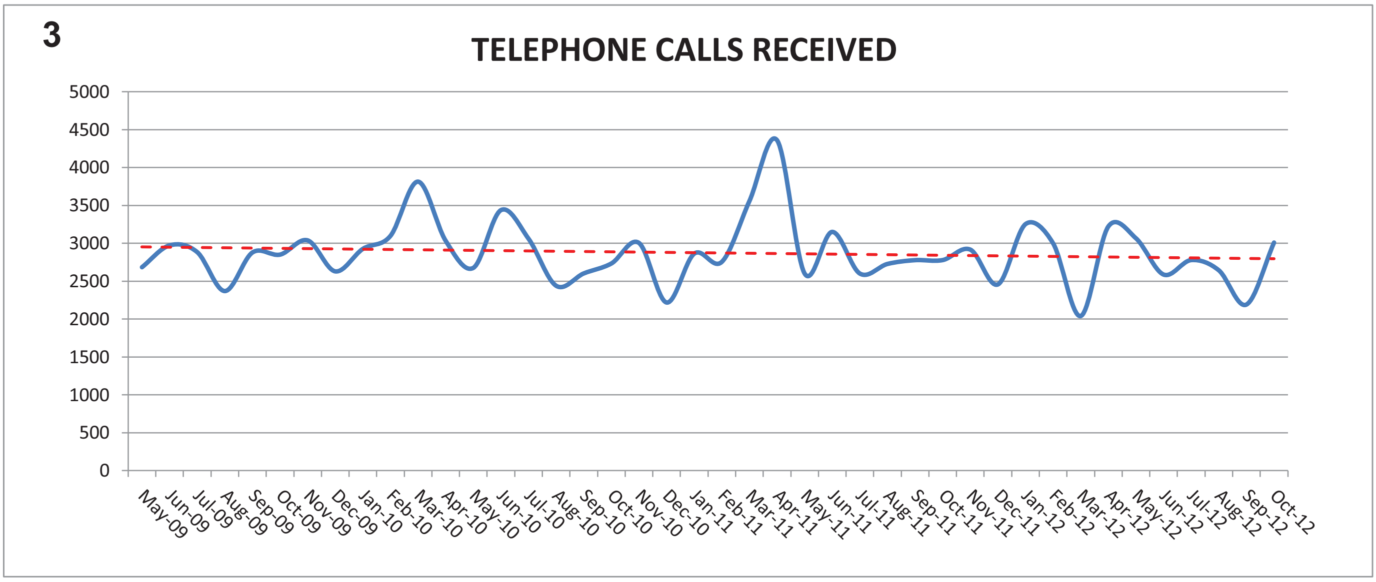
Resource Perspective

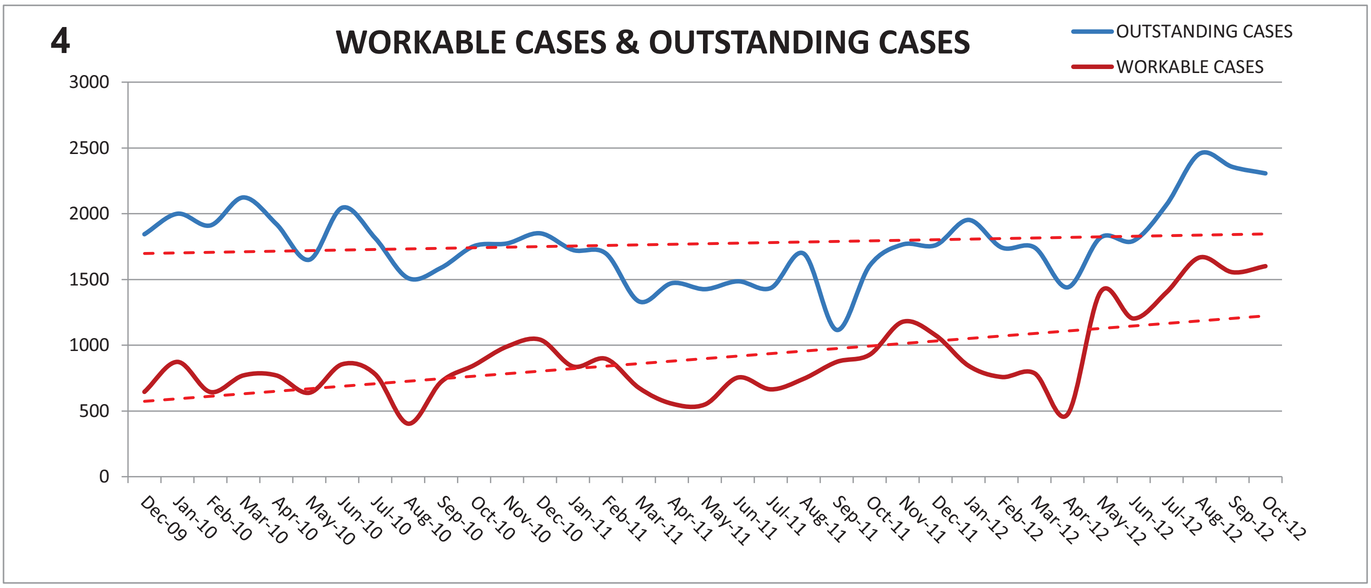
% Supplier Invoices paid within 30 day or mutually agreed terms	**G**	Admin	93%	94%	84.85%	Business Financial Services (inc Pensions) figure is below target - tis is unusual
Temp Staff levels (% of workforce)	**G**	All	0.37%	3%	0.00%	
% of IT plan achieved against target	**G**	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow. The Admin Strategy will be used to encourage employers to provide information electronically as the norm. New Employer Access module to be rolled out in 2011 will allow employers to key information electronically into the pensions database.
% of Training Plan achieved against target	**G**	Supp & Dev	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.

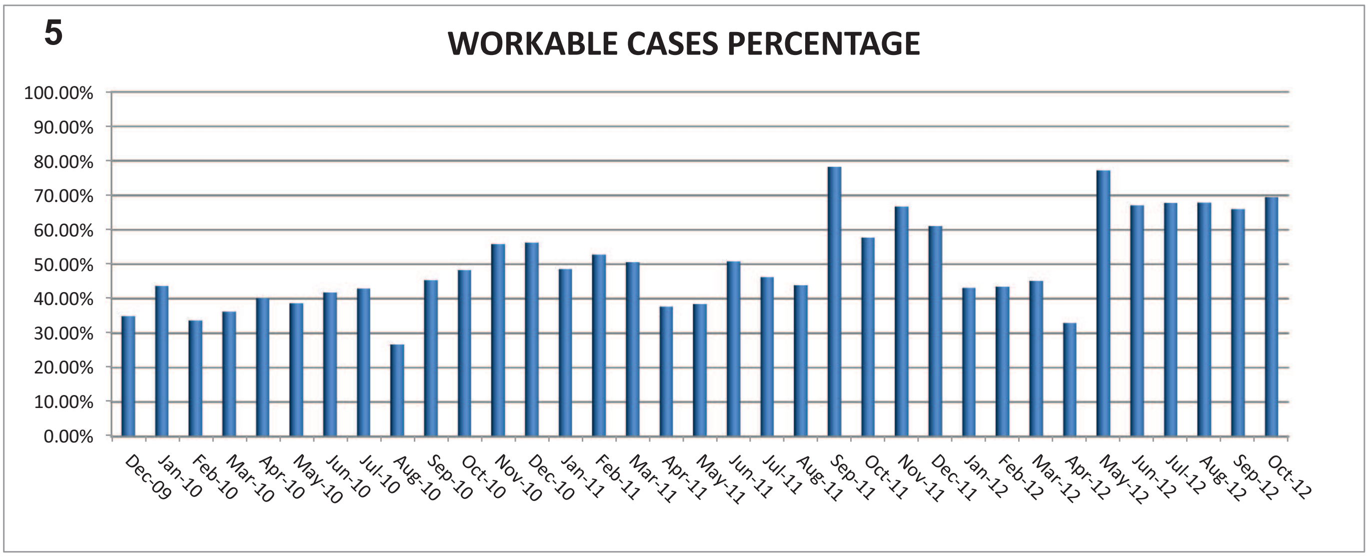
PENSION FUND ADMINISTRATION APPENDIX 3B GRAPHS ONLY (Nos 1 - 6)

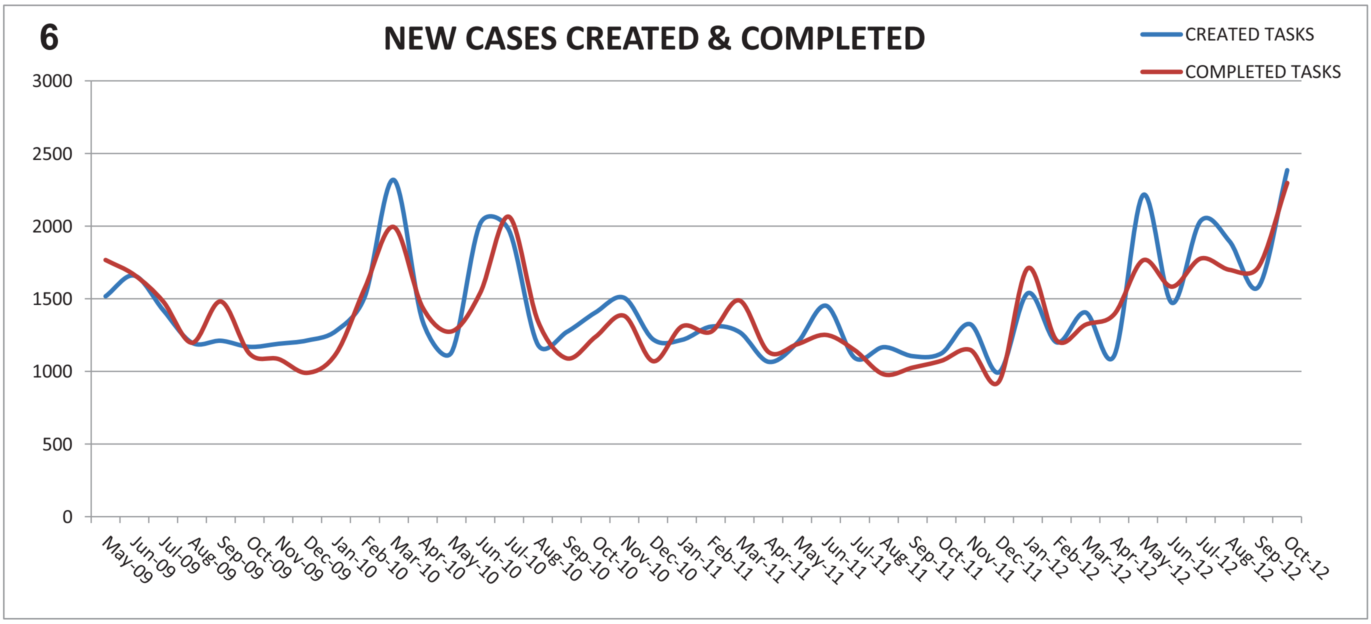







4
WORKABLE CASES & OUTSTANDING CASES
OUTSTANDING CASES
WORKABLE CASES
3000
2500
2000
1500
1000
500
0
Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12


5
WORKABLE CASES PERCENTAGE
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
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 Aug-12 Sep-12 Oct-12


6
NEW CASES CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
3000
2500
2000
1500
1000
500
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 Aug-12 Sep-12 Oct-12

Active Retirements August - October 2012

Responses to Retirement Questionnaire

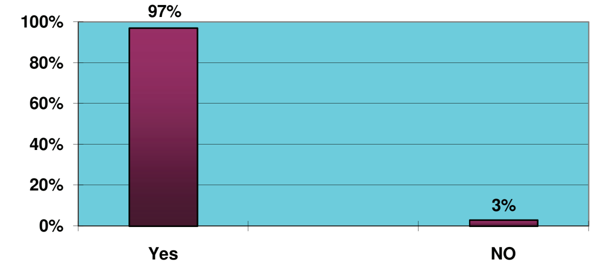
	Question		Response	Number	%
	Number of Questionnaires in this period		68		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	66	97%
			NO	2	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	42	62%
		B	Within 10 working days after R'ment date	19	28%
		C	Later than 10 days after R'ment date	7	10%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	33	79%
			Later than 10 days after R'ment date	9	21%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	12	63%
			Later than 10 days after returning Opt Form	7	37%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	6	86%
			Later than 10 days after returning Opt Form	1	14%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	60	88%
			Later than 1 month after R'ment date	8	12%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	51	75%
			Good	15	22%
			Average	2	3%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	7	10%
			No	61	90%
7	Were you treated with sensitivity & fairness?		Yes	68	100%
			No		0%

Deferred Retirements August - October 2012

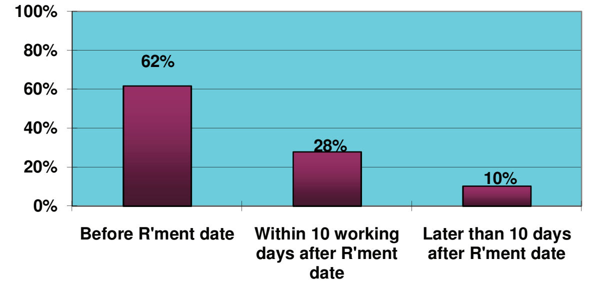
Responses to Retirement Questionnaire

	Number of Questionnaires in this period		35		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	35	100%
			NO	0	0%
2	Did you receive your LGPS Retirement Benefits Option Form.......	A	Before R'ment date	30	86%
		B	Within 10 working days after R'ment date	3	9%
		C	Later than 10 days after R'ment date	2	6%
3A	Did you receive your Lump Sum Payment.....		Within 10 days after R'ment date	28	93%
			Later than 10 days after R'ment date	2	7%
3B	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	2	67%
			Later than 10 days after returning Opt Form	1	33%
3C	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	2	100%
			Later than 10 days after returning Opt Form	0	0%
4	Did you receive your first Pension Payment....		Within 1 month after R'ment date	34	97%
			Later than 1 month after R'ment date	1	3%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	27	77%
			Good	7	20%
			Average	1	3%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	3	9%
			No	32	91%
7	Were you treated with sensitivity & fairness?		Yes	35	100%
			No		0%

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

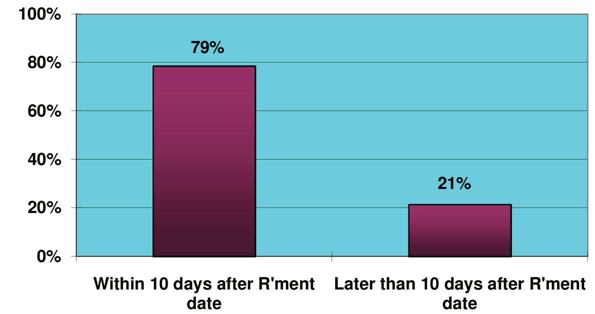


2. Did you receive your LGPS Retirement Benefits Option Form......?

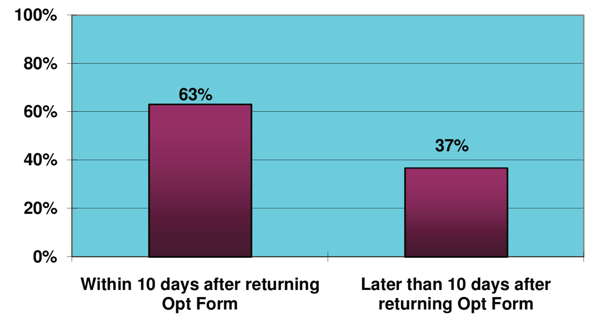


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

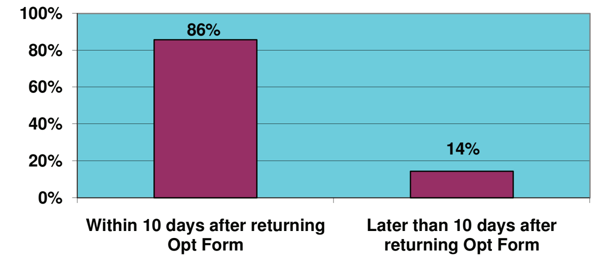
3A. Did you receive your Lump Sum Payment.....?



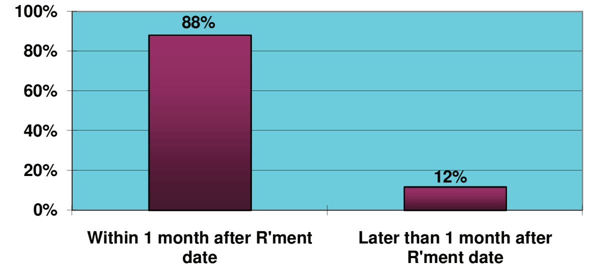
3B. Did you receive your Lump Sum Payment...?



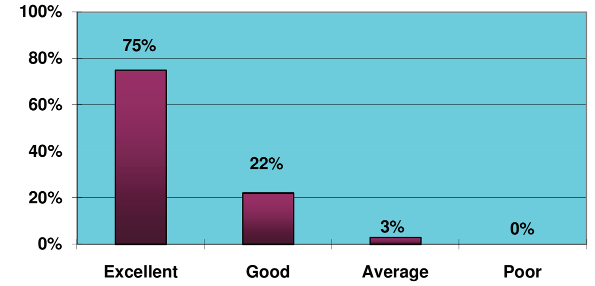
3C. Did you receive your Lump Sum Payment....?



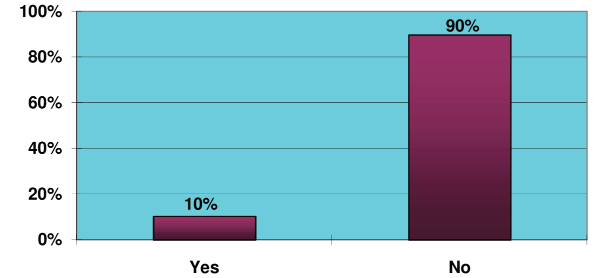
4. Did you receive your first Pension Payment...?



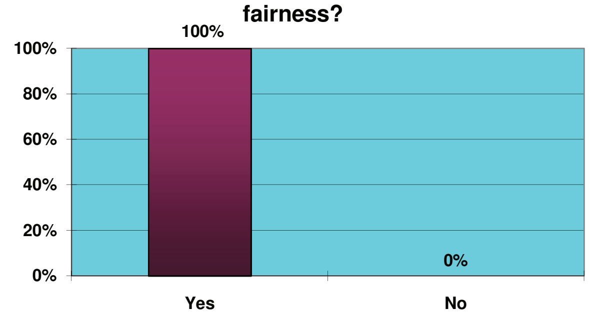
5. Overall, how would you rate the service you received from Avon Pension Fund?



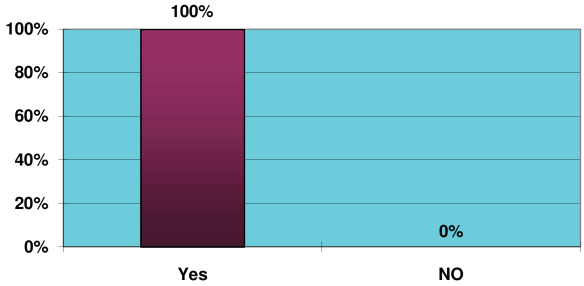
6. Is there anything we could have done to improve the service we provided?



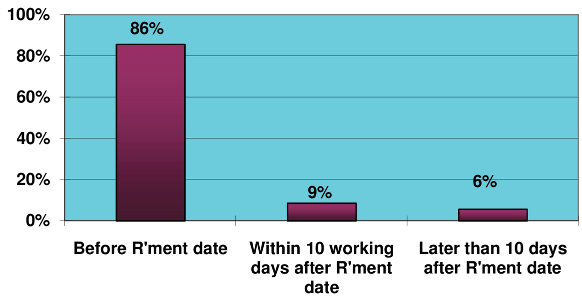
7. Were you treated with sensitivity & fairness?



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

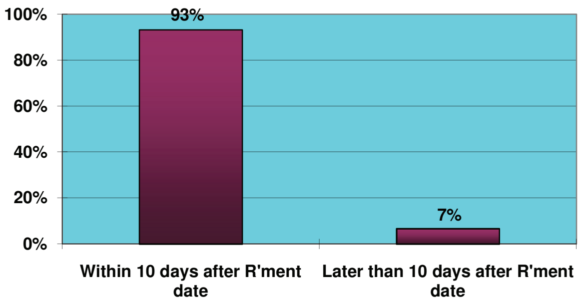


2. Did you receive your LGPS Retirement Benefits Option Form...?

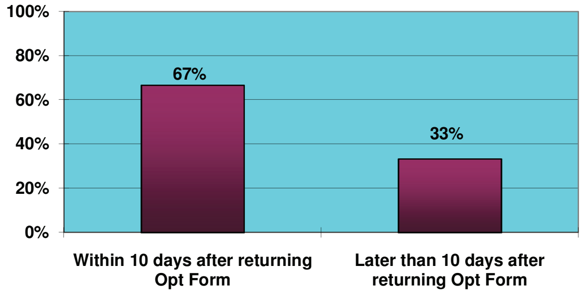


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

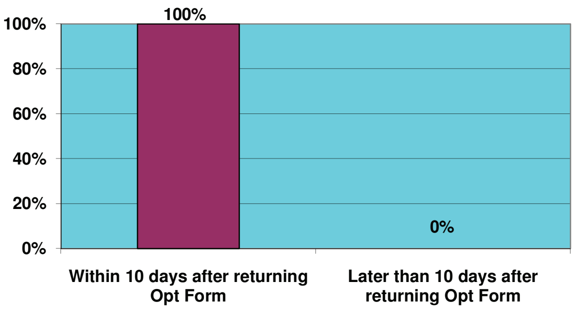
3A. Did you receive your Lump Sum Payment...?



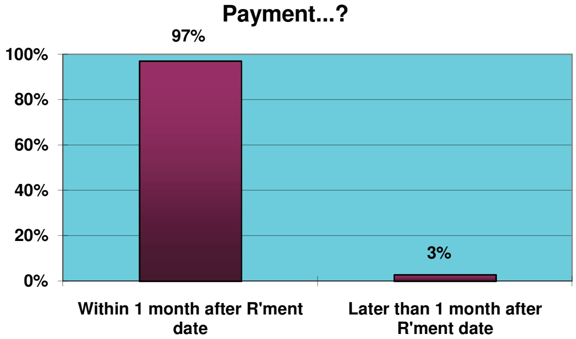
3B. Did you receive your Lump Sum Payment...?



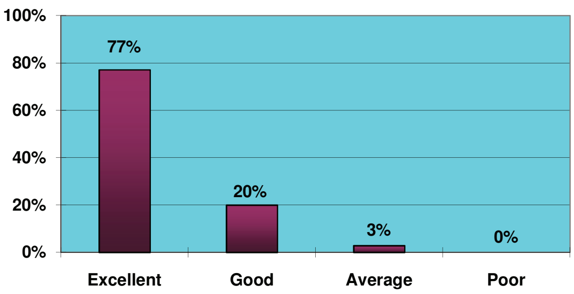
3C. Did you receive your Lump Sum Payment....?



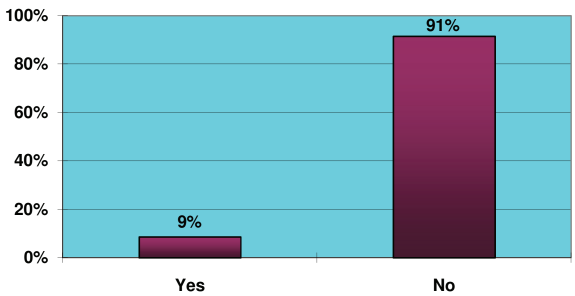
4. Did you receive your First Pension Payment...?



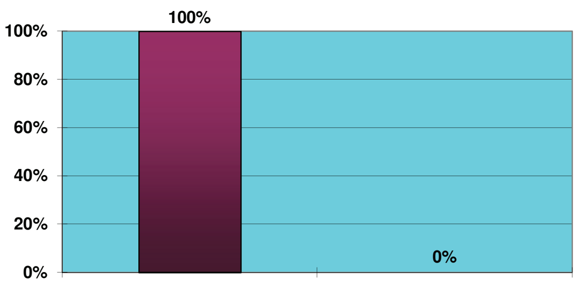
5. Overall, how would you rate the service you received from Avon Pension Fund?



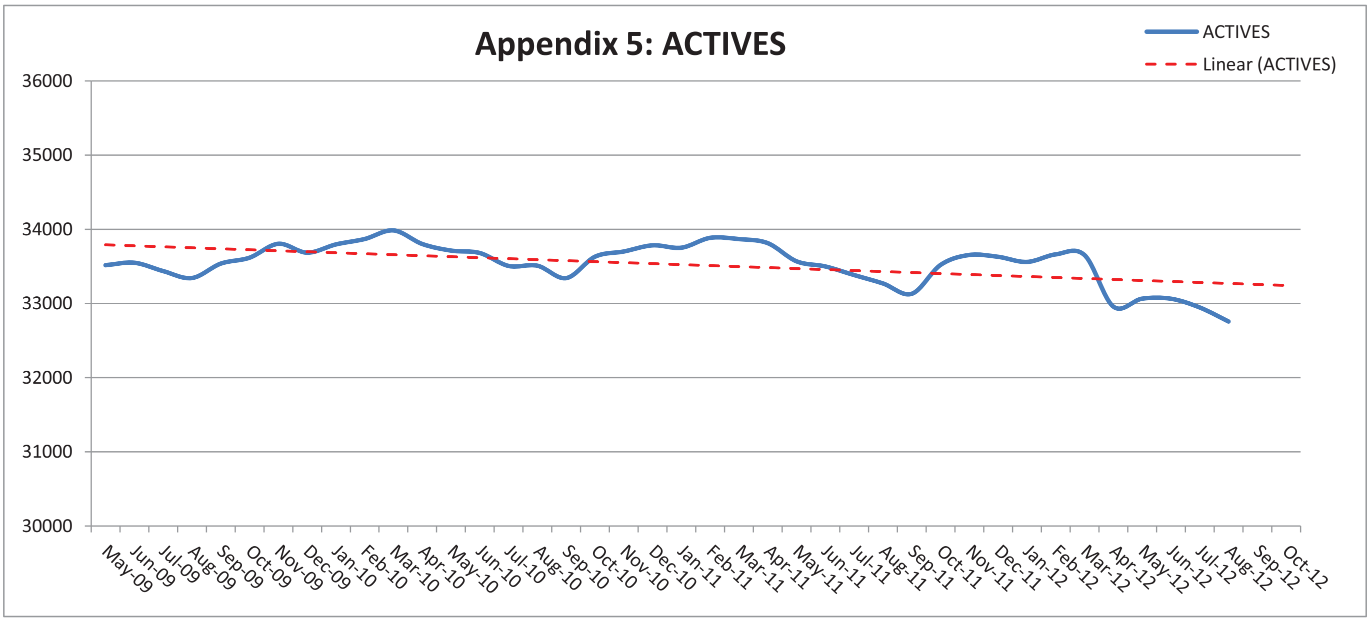
6. Is there anything we could have done to improve the service we provided?

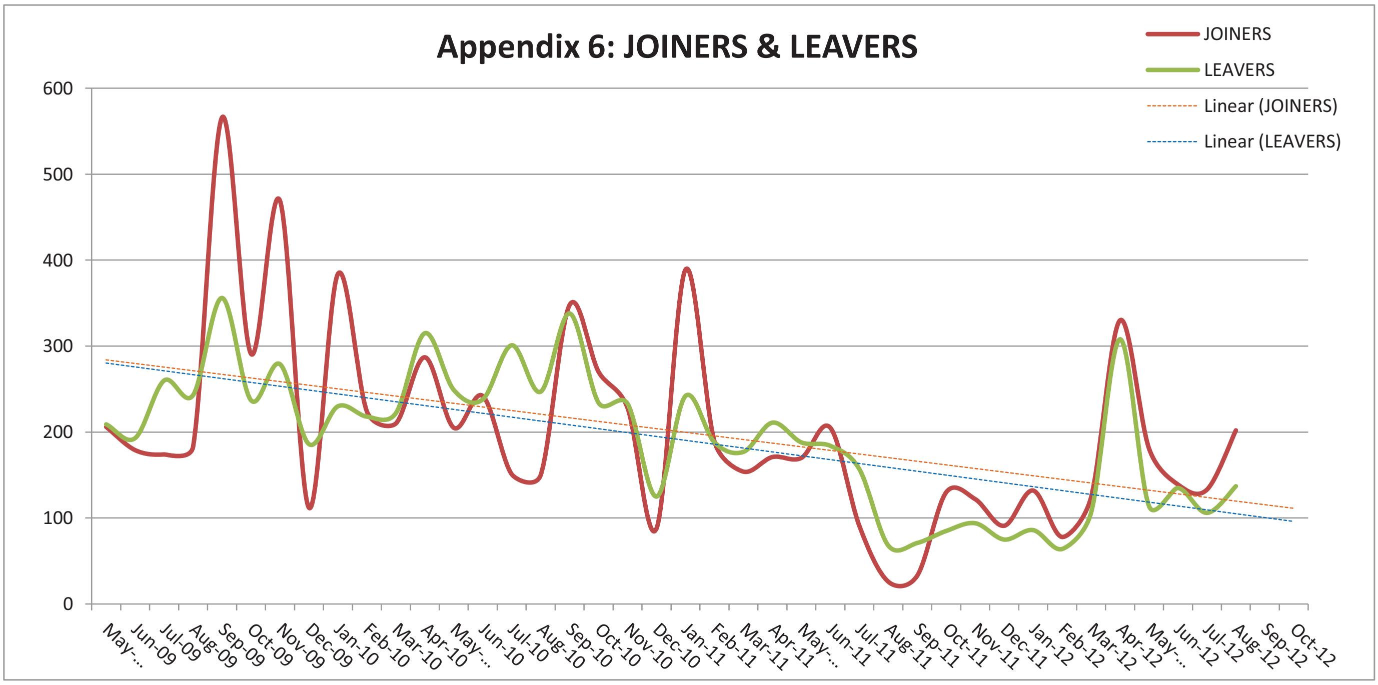


7. Were you treated with sensitivity & fairness?



PENSION FUND ADMINISTRATION (Opt Outs) Apendices 5 & 6





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APPENDIX 7
(to Pension Fund Administration report)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the fourth report on the performance of Fund employers and the Avon Pension Fund staff following the Pensions Administration Strategy coming into effect on 1st April 2011.

Included in the Report are the following:

1. Graphs for each of the **largest employers* (viz. 4 unitaries) showing performance** on processing leavers ***(retirements and deferred***). (Annexes 1 & 2) for the period 1 April 2011 to 30th September 2012

2. Report of late payers of **pension contributions** (employers)

3. Report on employers still to return some or all of their 2012 **Year-end information**

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

Any particular smaller employer's performance against target where there is cause for concern will be specifically reported to the Committee**. None are reported** in this period other than the 3 employers who have not yet completed their year-end return of pensions information (*see item 3*)

1. Performance on processing leavers

Graphs for each of the largest employers *(viz. 4 unitaries) showing their and APF performance on processing leavers (**Retirements and Deferred). (See Annexes 1) & 2) attached)** during the period 1 April 2011 and 31 October 2012

Deferreds Graph- Annex 2 (IMPORTANT explanatory note)

The graph showing performance figures for employers needs some explanation to put the information into context.

Some employers' performance shows as poor and in some cases getting worse. The reason for this is that the standard measure for performance is 20 working days from date of leaving and failure to meet this target adversely affects the figures shown.

Reconciliation of the information sent by employers in their 2011 year-end return revealed that some of the employers had not sent leavers forms to APF for leavers during 2011/12 or even earlier. Employers have now started to send these forms in to remedy their earlier missions and the figures on which the attached statistics are based **will include these late notifications** which, will have resulted in bringing down the number achieved within target and for some employers significantly adversely affected the employer's achievement against meeting the standard 20 days target. **Once these older "backlog" cases are cleared we expect to see the employer performance figures improve.**

The introduction of i-*Connect* software from early next year with automatic updating of information and the production of monthly employee movement reports by employer payrolls will allow APF to pick up on leavers much more quickly than at present and press employers to send leaver information more expediently avoiding or at least reducing late notifications and improving overall performance and the service APF can give to Scheme members.

Processing of older cases should be seen in context and appreciated for the effect it will have. The clearance of older non-reported cases will of course significantly improve the quality of member data held on which the forthcoming actuarial valuation will be based. It is a key component of the valuation and will have a significant effect on employers' pension costs. Inclusion of members as active will result in the actuary including the built up of future pension benefits and resulting in unnecessary and incorrect employer costs. The removal of members who have let the scheme is therefore very important and I the employers interests.

2. Late payers of Pension contributions

Late payment of contributions due in 3 months to 31 October 2012.

This report gives details of all payments (now paid or still outstanding) during the period, that relate to employers whose total aggregate late days during the period exceeded nine and whose value of one month's contributions exceeded £3,000. Late payments are not netted down by early payments. The report does not include new employers making their first payments who may experience delays in setting up their systems.

	Payroll month	Days late	Payment £
Bristol City Council	August 2012	51 to 31/10/12	£111,444 estimate
Bristol City Council	September 2012	21 to 31/10/12	£111,444 estimate

It should be noted that on average Bristol City Council pay £3 million per month in contributions on time. The late payments relate to the contributions from Bristol City Council's Local Authority schools ***(not academies)*** that have outsourced their payroll provision. A system for administering these contributions was agreed with Bristol City Council and used successfully up to July 2012. However in August a significant increase in the number of schools involved caused some disruption to the system within Bristol City Council. We have worked closely with Bristol City Council and these problems have now been addressed. We will charge interest on these contributions in accordance with the 2008 regulations.

Summary of contributions received in the period and percentage late

Total number of employers = 168

Total contributions received in period = £33,892,000

Total late contributions = £231,352 (0.68% of total contributions in period)

All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment.

Where material, interest will be charged on late payments at Base rate plus 1% in accordance with the 2008 regulations.

3. 2012 Year-end information overdue returns due from Employers

Returns of information from all Scheme employers for the Scheme year 2011/12 were due to be sent to APF by the end of April 2012. The last report to Committee included the names of 17 employers that were still to send their returns at that time. This position has improved and only 3 employers have still to send in their returns of either the required contribution and/or salary information. These employers are:

- Liberata *(45 active members)*
- Mangotsfield Parish Council *(2 active members)*
- Southern Brooks *(5 active members)*

This represents less than 2% of employers representing 0.15% of overall Scheme membership. Officers are continuing to chase the delivery of this information from these three defaulting employers.

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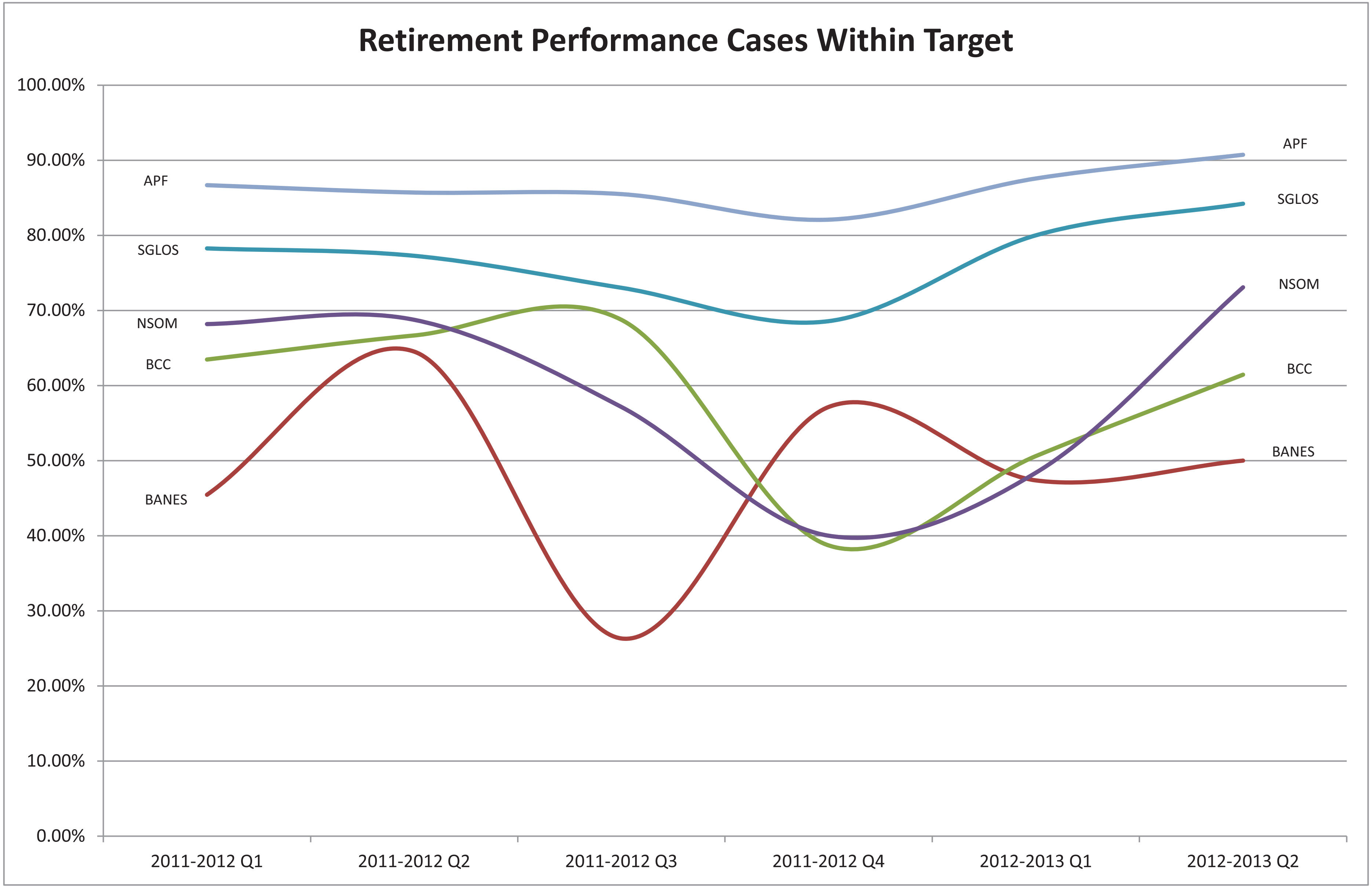
PENSION FUND ADMINISTRATION APPENDIX 7 Annex 1 (Retirements)



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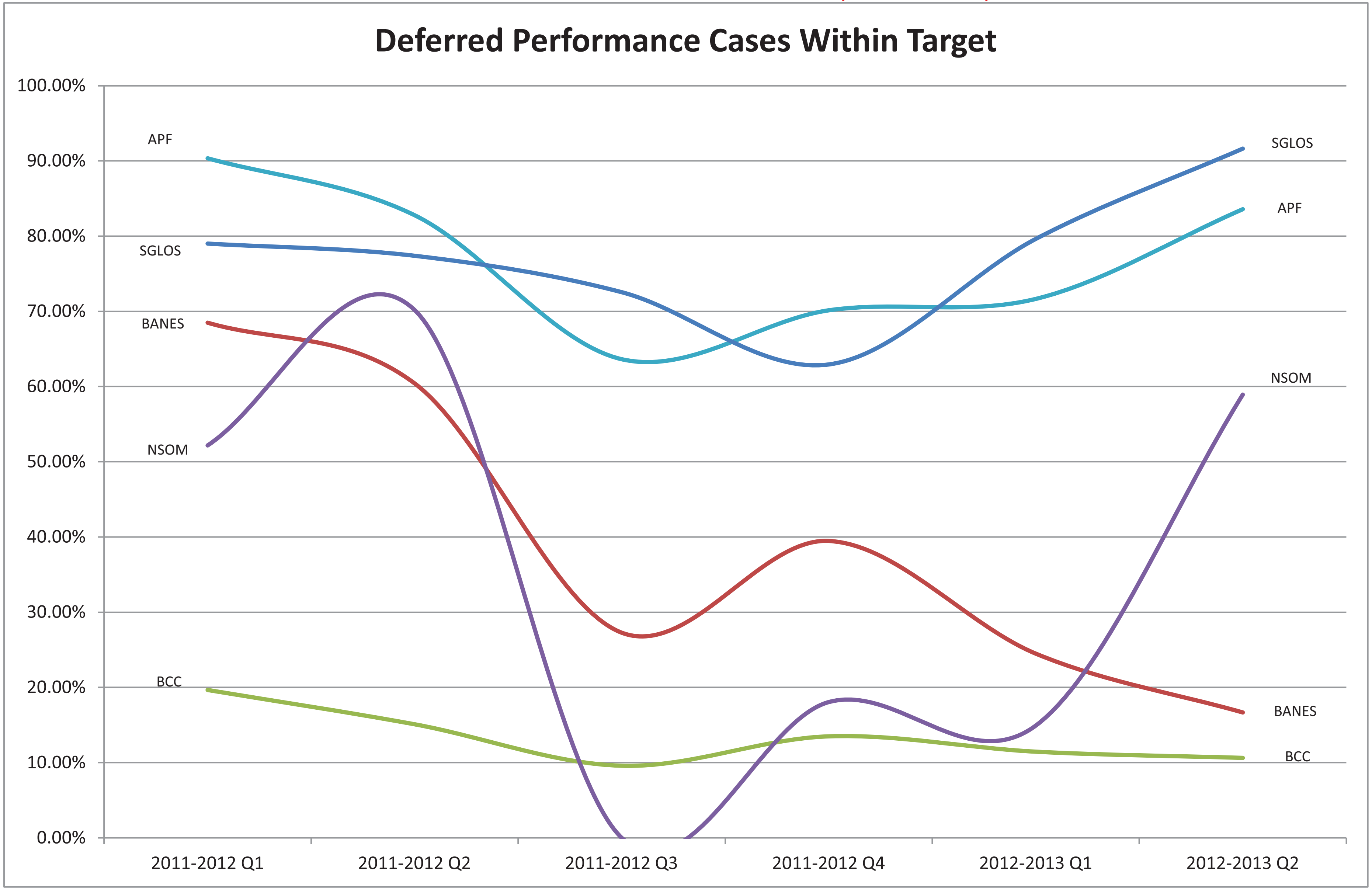
PENSION FUND ADMINISTRATION APPENDIX 7 Annex 2 (Deferreds)



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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**14 DECEMBER 2012**
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 are updated quarterly.

2. RECOMMENDATION

2.1. That the workplans for the period to 31 March 2013 be noted.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial considerations to consider.

4. THE REPORT

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. An Equalities Impact Assessment has not been completed as the 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 and 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 Woodyard, Investments Manager; 01225 395306 Steve McMillan, Pensions Manager, 01225 395254
Background papers	None
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.	Special meeting March 2013
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
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
Investment Forum		Next due late spring 2013

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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 and the expected roll out to employers is early 2012 to use for submission of all information* by 31 March 2013. * *except for those using i-Connect (see below)*	N/A
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. Purchase of *i-Connect* middleware to provide monthly update to APF pension database of the main four unitaries approved by Committee at last meeting. Contract terms agreed and contract to be signed in November. Start testing in December and go live for updates in early 2012 prior to unitaries staging dates..	
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	2013

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Appendix 3

Committee Workplan to 31 March 2013

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
Projects arising from Strategic Review and review of policies
Workplans
Planned Workshops **Special Meeting – Investment Review, 6 March 2013** **2013 Actuarial valuation assumptions and New Scheme, 2Q13**

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2013

Panel meeting / workshop	Proposed reports	Outcome
22 Feb 2013	• Review mangers performance to December 2012 • Meet the managers workshop (Schroder Global Equity, MAN)	• Agree any recommendations to Committee

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Avon Pension Fund Committee Training Programme 2012-14

General Topics

Topic	Content	Timing

Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority
	  - How AA exercises its powers (delegation, role of statutory 151 Officer)
	  - Governance Policy Statement
	• Members duties and responsibilities
	  - LGPS specific – duties under regulatory framework
	    ○ Admin regulations (including discretions), admin strategy, communications strategy
	    ○ Investment regulations
	    ○ Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report
	  - Wider Pensions context
	• Assurance framework
	  - S 151 Officer
	  - Council Solicitor
	  - Freedom of Information Officer/Data Protection
	  - Internal Audit
	  - External Audit
	  - Risk Register
		June 2013

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 / 1Q13 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 2Q13 Actuarial assumptions and New Scheme

Planned Committee Workshops 2012-14

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	2Q13