Bath & North East Somerset Council

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14 June 2013
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Gabriel Batt, Katie Hall and Lisa Brett

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member), Steve Paines (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 21st June, 2013

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 21st June, 2013** at **2.00 pm** in the **Council Chamber - Riverside, Keynsham BS31 1LA**

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, 21st June, 2013

at 2.00 pm in the Council Chamber - Riverside, Keynsham BS31 1LA

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

   (a) the Item No in which they have an interest;
   (b) the nature of the interest; and
   (c) whether the interest is personal <u>or</u> 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: 22 MARCH 2013 (Pages 7 - 16)

STRATEGIC REPORTS

8. ROLES AND RESPONSIBILITIES OF COMMITTEE AND APPROVAL OF GOVERNANCE COMPLIANCE STATEMENT (Pages 17 - 30) *5 MINS*

9. APPROVAL OF DRAFT ACCOUNTS (Pages 31 - 84) *10 MINS*

10. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 85 - 142) *30 MINS*

11. ADMITTED BODIES AND NEW SCHEDULED BODIES (Pages 143 - 162) *15 MINS*

Before discussing exempt appendices 1-3, Members are invited to pass the following resolution:

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

12. INVESTMENT PANEL ACTIVITY AND MINUTES (Pages 163 - 176) *10 MINS*

Before discussing exempt appendix 2, the Committee is invited to pass the following resolution:

> The Committee having been satisfied that the public interest would be served by not disclosing relevant information, the public shall be excluded from the meeting for the duration of the discussion of exempt appendix 2, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

13. APPROVAL OF STATEMENT OF INVESTMENT PRINCIPLES, REBALANCING AND CASH MANAGEMENT POLICIES (Pages 177 - 218) *5 MINS*

14. APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL (Pages 219 - 228) *5 MINS*

MONITORING REPORTS

15. REVIEW OF INVESTMENT PERFORMANCE (Pages 229 - 276) *20 MINS*

16. PENSION FUND ADMINISTRATION (Pages 277 - 308) *20 MINS*

FOR INFORMATION

17. LGPS 2014 UPDATE INCLUDING RESPONSES TO DCLG CONSULTATIONS (Pages 309 - 326) *5 MINS*

18. WORKPLANS (Pages 327 - 338) *5 MINS*

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, 22nd March, 2013, 2.00 pm

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

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Carolan Dobson (Independent Member), William Liew (HFE Employers) and Richard Orton (Trade Unions)

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

Advisors: 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), Matt Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

57 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised Members of the procedure.

58 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mike Drew. Cllr Katie Hall had communicated that she was caught in traffic in Bath and would be late.

59 DECLARATIONS OF INTEREST

There were none.

60 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair reminded Members that this was Carolan Dobson’s last meeting as a Member of the Committee. He paid tribute to her contributions to the work of the Committee during her term of appointment.

The Chair welcomed William Liew to his first meeting of an ordinary meeting of the Committee.

61 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS,

PETITIONS OR QUESTIONS

There were none.

62 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

63 MINUTES: 14 DECEMBER 2012 AND 6 MARCH 2013

The minutes of 14 December 2012 and the public and exempt minutes of the meeting of 6 March 2013 were approved as a correct record and signed by the Chair.

64 BUDGET AND SERVICE PLAN 2013/16

The Head of Business and Finance and Pensions presented the report. He said that Members would be aware of the significant programme of work facing the Administration and Investments Teams in 2013-14. These included the introduction of the new scheme, the 2013 valuation, implementation of the new investment strategy, the roll out of electronic information services and the increased level of employer and employee engagement that would be required. He drew attention to the table in Appendix 3B (agenda page 35) setting out additional recurring costs for staff salaries and the one-off costs to be incurred during the next three years, mostly attributable to implementation of the new investment strategy. In reply to a question from a Member as to whether the projected increased fees for external investment managers were conditional on them achieving their targets, he replied that it was standard practice for their fees to be calculated as a percentage of the value of the assets. The Investments Manager said that in some years there had been underspend on managers' fees because assets had fallen in value and that certain assumptions about the impact of the new investment strategy had been incorporated in the projections for fees.

The Chair asked whether it would be possible to charge primary schools which became Academies a one-off fee for becoming members of the Fund. The Investments Manager replied that this was under review. At present administration fees were charged on the basis of actuarial calculations; one issue being researched was whether the Fund could set standard fees.

RESOLVED to approve the 3-year Service Plan and Budget for 2013-16 for the Avon Pension Fund.

65 LGPS 2014 CONSULTATION

The Technical and Compliance Manager presented the report. He said that there had been repeated slippage in the Government's timetable. The draft Regulations had been issued 4 days before Christmas and an 18-week consultation launched. The Fund's response (given in the appendix to report) had been sent on 8 February 2013. It had highlighted areas requiring further clarification. Information from the

Government on the transition process, originally expected at the end of February, was now expected “before Easter”. The final Regulations were now expected in May/June. There would also be a consultation document on cost controls.

RESOLVED to note the response submission by Bath and North East Somerset Council. as the administering authority of the Avon Pension Fund sent to DCLG on 8 February 2013.

66 REVISED TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He said that it was proposed to amend the Fund’s Treasury Management Policy in line with changes to the Council’s Treasury management Policy. The principal change related to overnight deposits with National Westminster Bank.

A Member asked why it was necessary to state in the Policy that the Fund’s monies would be invested separately from the Council’s and that the Fund would receive the actual interest earned. This should be self-evident. The Chair explained that this because of past history; at one time the Fund’s cash had at one time been pooled with the Council’s for administration purposes, though the Fund had always received the interest earned by its own monies.

RESOLVED to approve the revised Treasury Management Policy as set out in Appendix 2.

67 INVESTMENT PANEL MINUTES AND RECOMMENDATIONS

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

68 HEDGE FUND PORTFOLIO

RESOLVED unanimously that

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

After discussion it was **RESOLVED** to delegate the actions agreed on the hedge fund portfolio to the Investment Panel.

69 PROJECTS ARISING FROM THE STRATEGIC REVIEW - COMMITTEE TERMS OF REFERENCE

The Committee returned to open session.

The Investments Manager presented the report. She said that Committee was being asked to formally endorse the amended terms of reference agreed at the Committee's special meeting on 6 March, so that they could be submitted for approval by the Annual General Meeting of Bath and North East Somerset Council in May. The amendments were required to implement changes in governance required by the new investments strategy.

A Member suggested that "delegate decisions to Officers" at item 9 on agenda page 85 should be amended to "delegate specific decisions to Officers". The Committee agreed this amendment.

Another Member proposed that the quorum of the Committee should be increased from 3 voting members to 5 voting members, one of whom shall not be a member of Bath and North East Somerset Council. The Committee agreed this amendment.

A Member asked what would happen in the event of a tied vote on the Committee. The Chair explained that the Council's constitution gave the Chair a second or casting vote.

RESOLVED to approve the Terms of Reference as set out in Appendix 1, subject to the two amendments agreed the Committee, for submission to the Council's AGM in May 2013.

70 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report and the headline performance figures. He drew attention to the change to the LGPS Investment Regulations described in section 9. The limit to investments in partnerships had been increased from 15% to 30%. At present the Fund was well below this limit.

Mr Finch presented the JLT investment report. He said that since the preparation of the report the financial crisis in Cyprus had sent many of the positives into reverse. The funding position had fallen slightly because of Cyprus and Italy. Gilt yields had fallen, which would impact on the valuation. He drew attention to the statement that changes introduced to the Man fund of hedge funds portfolio had as yet failed to improve Man's investment performance. Other managers would be reviewed as part of the new investment strategy.

A Member asked how realistic manager's targets were in such difficult market conditions. Mr Finch said this was a very good question. Performance over time should be considered and the extent to which a manager's stock selection had contributed to underperformance.

[Councillor Katie Hall joined the meeting at this point.]

A Member asked why page 17 of the JLT report (agenda page 115) indicated that Stenham had underperformed over 3 years, whereas the covering report did not identify any major concerns with this manager. The Investments Manager replied that Stenham were restructuring and becoming slightly more proactive in how they were allocating the portfolio. However, Officers were meeting Stenham in April to review performance.

[Clive Fricker joined the meeting at this point.]

In reply to a question from the Chair, the Investments Manager said that the Fund had no specific investments in Cyprus, Greece or Portugal.

Members noted the Local Authority Pension Fund Forum Quarterly Engagement Report. The Investments Manager reported that Councillor Mike Drew and the Assistant Investments Manager had attended the meeting of LAPFF that week.

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

71 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the financial report. The forecast for the year to 31 March 2013 was for net expenditure to be £107,000 under budget. This was largely because of reduced expenditure on salaries due to delayed appointments.

Avon Pension Fund ("APF") Performance

The Pensions Manager presented the administration report. In the quarter to December 31st 2012 more cases than received in the period were cleared and an additional 703 old cases were also cleared, giving a performance figure against the target of 113%.The four new benefits staff who had been recruited last year had completed their learning curve and were now having an impact on improving performance.

Opt Outs

Figures for opt-outs were extremely encouraging; only 46 staff with more than 4 months service had decided to opt out of the Scheme, which represented a mere 0.2% of the total Fund membership.

A Member asked why the graph on agenda page 181 showed peaks in two months. The Pensions Manager replied that this might be connected with large numbers joining the education sector in September, or, given that the second peak seemed to be in Novembers, might be because employers had been late submitting data.

A Member commented that the Balanced Scorecard had been first introduced several years ago and that gradually more and more information had been added to it, which made it quite difficult to interpret now. She suggested it might be rationalised and simplified. The Pensions Manager agreed to review it.

Employer Performance

Employers' performance providing information about *retirees* (agenda page 183) had improved, which was quite encouraging, though there was still room for further improvement. Performance with *deferred* cases (agenda page 185) was a different story, though not so bad as appeared at first sight, because, as explained in the report, once older backlog cases had been cleared the performance figures in this area should improve. There were almost no instances of late payment of contributions. The introduction of *i-Connect* software should lead to improved performance. In future notification of staff changes by employers would only be accepted electronically, and those continuing to send paper would be charged an additional administration charge; it was hoped that being aware of this would be enough to encourage their improved performance.

New additional charges for employer non-compliance in meeting SLA agreed performance targets on submission of member data changes

The Pensions Manager said that the approval of the Committee was sought to the principle of charging employers who fail to send information on member data changes on time (as specified in the Service Level Agreements) additional administration charges and for the scale of charges contained in Appendix 8. The Chair asked how the Committee could decide whether the level of charges was reasonable. The Pensions Manager replied that the level of charges was in line with that adopted by other pension funds around the country.

The Pensions Manager drew attention to the information on *i-Connect* and Employer Self-Service given in section 9 of the report. *i-Connect* allows employers to monitor their payroll on a monthly basis, identify staff who qualify for auto-enrolment and provide monthly updates to the Fund. The four unitaries, who were by far the largest employers in the Fund, signed contracts to take *i-Connect* last December. Other Fund employers might adopt *i-Connect. i-Connect* did not cover leavers. All employers had Employer Self-Service and could notify changes on-line.

Cyprus situation

The Pensions Manager reported that some pension funds and also DWP (UK State Pension) had suspended payments to banks in Cyprus. There were pensioners of the Fund resident in Cyprus, about half of whom had bank accounts in the UK. The Fund also decided to stop payments for the time being. However, it had made contact with 2 of its pensioners in Cyprus to establish if it might cause them financial hardship if they did not receive their pension payments in Cyprus. They had asked them to get in touch about their situation. Members congratulated the Pensions Manager for this proactive approach.

RESOLVED

1. To note administration and management expenditure incurred for 10 months to 31/01/2013.

2. To note performance indicators and customer satisfaction feedback for 3 months to 31/01/13.

3. To note the Summary Performance Report for period from 1/04/2012 to 31/01/2013.

4. To APPROVE the Schedule of Additional Charges for employer non-compliance in meeting SLA agreed performance targets on submission of member data and the application of these charges.

72 AUDIT FEES 2012-13

The Finance and Systems Manager (Pensions) presented the report. Grant Thornton had been appointed the Fund's external auditors for 2013/14. They would supply the same service the Audit Commission had. They had not yet prepared their audit plan, which would be presented at the June meeting.

RESOLVED to note the planned audit fees for 2012/2013.

73 WORKPLANS

Members agreed that in order to use their time as efficiently as possible, it would be sensible to schedule training sessions for the same days as meeting of the Committee.

RESOLVED to note the workplans for the period to 31 March 2014.

The meeting ended at 3.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 JUNE 2013**	**AGENDA ITEM NUMBER** 8
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement		

1 THE ISSUE

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

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. These Terms of Reference were approved by the Council at its meeting on 16 May 2013.

1.3 As the Terms of Reference have been amended, the Committee is required to approve the revised Governance Compliance Statement. The level i=of compliance is unchanged.

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

2 RECOMMENDATION

The Committee:

2.1 Notes the:

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

b) Terms of Reference of the Committee and Investment Panel

2.2 Approves the Governance Compliance Statement

2.3 Agrees the membership of the Investment Panel

3 FINANCIAL IMPLICATIONS

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

4 ROLES & RESPONSIBLITIES

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

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

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

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

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

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

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

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

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

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

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

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

5 GOVERNANCE COMPLIANCE STATEMENT

5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change**. Since the Terms of Reference has been revised the Committee is asked to approve the statement. The level of compliance is unchanged.**

5.2 The Statement to be approved is in Appendix 2.

6 NOMINATIONS TO INVESTMENT PANEL

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

6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 16 May 2013.

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

7 RISK MANAGEMENT

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

8 EQUALITIES

8.1 For information only.

9 CONSULTATION

9.1 For information only

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 For Information only.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (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

TERMS OF REFERENCE (May 2013)

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

Function and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy.
4. Monitoring the performance of investments, investment managers, scheme administration, and external advisors.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
8. Considering requests from organisations wishing to join the Fund as admitted bodies.
9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

Membership of the Committee

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

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

The quorum of the Committee shall be 5 voting members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.
5. Approve investments in emerging opportunities within strategic allocations.
6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
7. Approve amendments to investment mandates within existing return and risk parameters.

8. Monitor investment managers’ investment performance and make decision to terminate mandates on performance grounds.
9. Delegate specific decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
3. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount

4. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

APPENDIX 2

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	Compliance status and justification of non-compliance
A - Structure	**Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The APFC consists of 12 voting members, viz: - 5 elected members from Bath & North East Somerset Council - 3 elected members from the other West Of England unitary councils - 1 nominated by the trades unions - 1 nominated by the Higher/Further education bodies - 2 independent members and 4 non-voting members, viz: - 3 nominated by the trades unions - 1 nominated by the Parish/Town Councils
c) That where a secondary committee or panel has been established, the structure ensures effective	The Avon Pension Fund has a sub-committee, the Investment Panel, to consider matters relating to the management and investment of the assets of the Fund in

communication across both levels.	greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Every member of the Investment Panel is a member of the main committee.
B – Representation	**Partial Compliance**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:	
i) employing authorities (including non-scheme employers , e.g. admission bodies);	There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders. There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.
ii) scheme members (including deferred and pensioner scheme members);	There are 4 trades union representatives (1 with voting rights and 3 non-voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.

iii) where appropriate, independent professional observers;	The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process. The Fund has an external Independent Investment Advisor who attends all committee and panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, two members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.
iv) expert advisors.	The Fund's independent investment advisor attends all meetings. The Fund's investment consultant attends all committee and panel meetings and other expert advisors attend on an adhoc basis when appropriate.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.
C – Selection and role of lay members	**Compliant**
a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Declarations of interest is a standing item on every committee agenda.

D – Voting	**Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
E – Training/Facility time/ Expenses	**Compliant**
a) That in relation to the way in which statutory and related decisions are taken by the administrating authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.
F – Meetings (frequency/quorum)	**Compliant**
a) That an administering authority's main committee or committees meet at least quarterly.	The committee meetings are held quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.

c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.
G – Access	**Compliant**
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
H - Scope	**Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
I – Publicity	**Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

Approved by Avon Pension Fund Committee on 21 June 2013

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**21 JUNE 2013**	**AGENDA ITEM NUMBER**	**9**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2012 / 2013**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2013** **Appendix 2 Audit Plan**			

1. THE ISSUE

1.1. The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2013 is attached as **Appendix 1.**

Note: This is the latest draft available at the time of publishing these papers. The draft is completed apart from the Financial Risk Management Disclosure (Note 25) that is shown in italics.

1.2. The Draft Statement of Accounts for the year to 31 March 2013 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.3. In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2013 must be signed off by the Council's Section 151 Officer by the 30 June. The Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 27 September 2013. The Pension Fund Committee will be asked to approve The Final Statement of Accounts at its September meeting.

1.4. The Pension Fund Audit Plan, attached as **Appendix 2** was prepared by the external auditors Grant Thornton and approved by the Corporate Audit Committee at its meeting on 20 May 2013 (as the Audit Committee is charged with the governance of the pension fund).

2. RECOMMENDATION

That the Committee notes

2.1 The Draft Statement of Accounts for the year to 31 March 2013 for audit.

2.2 The Audit Plan for the accounts for the year ended 31 March 2013.

3. FINANCIAL IMPLICATIONS

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

3.2. The financial implications of the audit report are primarily related to the fees for the external audit. The reduction in fees has previously been reported to the Committee and is noted again below.

4. COMMENT ON THE DRAFT FINAL ACCOUNTS

4.1. The accounts show an increase in the total net assets of the Fund from just under £2.8bn to just over £3.1bn. This increase was almost entirely due to the rise in market value of investments and to a lesser extent to receipts of investment income.

4.2. The highlights of the Draft Final accounts are:

a) Total net assets of the fund are valued at £3,145m made up of investment assets of £3,135m and net debtors and creditors of £10m.

b) The £10m of net debtors at 31 March 2013 is mainly made up of contributions that relate to the year to 31 March 2013 but were not due for payment until April 2013.

c) Following the 2010 valuation Employer's contributions have been split between normal contributions in regard to current service and deficit contributions in regard to past service. Compared with 2011/12 employer's normal contributions fell by £0.7m in 2012/13 reflecting the reduction in payroll across scheme employers. This was offset by the £1m rise in deficit contributions that was in line with the annual increases scheduled in the 2010 valuation (deficit contributions are now set as a monetary sum, not a per cent of payroll).

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

e) Investment Income has risen by £1.4m. Within this, dividends from equities have increased by £3.1m while interest from fixed interest securities has decreased by £1.9m. This reflects the rebalancing of the asset allocation during the year which led to a switch out of fixed interest gilt securities in to equities. The Investment Income figures do not include the income from pooled funds which accumulates income within the fund rather than distribute to investors.

f) The increase in Investment Management expenses reflects the increase in investment management fees due to the rise in asset values. This was partly offset by reductions in the fee rates charged by some of the managers.

5. Audit Plan

5.1 The audit plan sets out the work which Grant Thornton intend to carry out for the 2012/13 audit of the Pension Fund accounts. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on the auditors work and the dates for its completion.

5.2 The indicative fee for the 2012/13 audit is £28,804. The 2011/12 fee was originally set at £46,622 but was later reduced to £43,080.

6. RISK MANAGEMENT

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

7. EQUALITIES

7.1 An equalities impact assessment is not necessary.

8. CONSULTATION

8.1 N/a

9. ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are contained in the report.

10. ADVICE SOUGHT

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

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

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APPENDIX 1

PENSION FUND ACCOUNTS 2012/13

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2012 to 31 March 2013.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2012/13 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

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

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

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

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

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

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

1.8 The Actuary has estimated that the funding level as at 31 March 2013 has fallen slightly to 69% from 70% at 31 March 2012. This fall in the funding level is due to the increase in liabilities; the return on assets contributed positively to the funding position. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. During the year the yield on UK gilts continued to fall.

1.9 The 2013 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2013. This will set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

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

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2013 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2013.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2013.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.

vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.

viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.

ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2013

	Notes	2012/13	2011/12
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**134,713**	137,983
Transfers In		**5,615**	7,066
Other Income	5	**500**	341
		140,828	145,390
Benefits Payable	6	**136,655**	129,155
Payments to and on account of Leavers	7	**5,173**	5,325
Administrative Expenses	8	**2,585**	2,359
		144,413	136,839
Net Additions from dealings with members		**(3,585)**	8,551
Returns on Investments			
Investment Income	10	**29,025**	27,667
Profits and losses on disposal of investments and change in value of investments.	11	**363,595**	71,241
Investment Management Expenses	9	**(10,148)**	(9,228)
Net Returns on Investments		**382,472**	89,680
Net Increase in the net assets available for benefits during the year		**378,887**	98,231
Net Assets of the Fund			
At 1 April		**2,766,294**	2,668,063
At 31 March		**3,145,181**	2,766,294

Net Assets Statement at 31 March 2013

	Note	31 March 2013 £'000	%	31 March 2012 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**109,674**	**3.5**	104,920	3.8
Equities		**495,980**	**15.8**	390,014	14.1
Index Linked securities : Public Sector		**209,876**	**6.7**	189,659	6.9
Pooled investment vehicles :-					
- Property : Unit Trusts		**78,749**	**2.5**	75,708	2.8
: Unitised Insurance Policies		**47,863**	**1.5**	50,849	1.8
: Other Managed Funds		**95,729**	**3.0**	70,394	2.5
Property Pooled Investment Vehicles		**222,341**		196,951	
- Non Property : Unitised Insurance Policies		**811,938**	**25.8**	791,555	28.6
: Other Managed Funds		**1,203,448**	**38.3**	1,004,658	36.3
Non Property Pooled Investment Vehicles		**2,015,386**		1,796,213	
Derivative Contracts: FTSE Futures		**(226)**	**0.0**	(514)	0.0
Cash deposits		**85,895**	**2.7**	76,595	2.8
Other Investment balances		**12,864**	**0.4**	6,734	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**(2,912)**	**(0.1)**	441	0.0
Other Investment balances		**(13,502)**	**(0.4)**	(3,648)	(0.1)
TOTAL INVESTMENT ASSETS	12	**3,135,376**		2,757,365	
Net Current Assets					
Current Assets	14	**11,498**	**0.4**	10,881	0.4
Current Liabilities	14	**(1,693)**	**(0.1)**	(1,952)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**3,145,181**	**100**	2,766,294	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2013.

Notes to the Accounts - Year Ended 31 March 2013

1, GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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

2, MEMBERSHIP

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

	31 March 2013	31 March 2012
Employed Members	**33,561**	33,737
Pensioners	**24,545**	23,631
Members entitled to Deferred Benefits	**31,721**	28,657
TOTAL	**89,827**	86,025

3, TAXATION

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

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

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

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2012/13		2011/12
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**52,129**		52,749	
Administering Authority	**6,566**		7,137	
Admission Bodies	**5,677**	**64,372**	5,252	65,138
Employers' deficit Funding				
Scheduled Bodies	**26,598**		25,368	
Administering Authority	**4,021**		3,842	
Admission Bodies	**1,082**	**31,701**	1,463	30,673
Total Employer's normal & deficit funding		**96,073**		95,811
Employers' contributions- Augmentation				
Scheduled Bodies	**2,697**		4,941	
Administering Authority	**224**		815	
Admission Bodies	**457**	**3,378**	440	6,196
Members' normal contributions				
Scheduled Bodies	**28,617**		29,112	
Administering Authority	**3,495**		3,795	
Admission Bodies	**2,614**	**34,726**	2,481	35,388
Members' contributions towards additional benefits				
Scheduled Bodies	**418**		480	
Administering Authority	**97**		78	
Admission Bodies	**21**	**536**	30	588
Total		**134,713**		137,983

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

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

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

5, OTHER INCOME

	2012/13	2011/12
	£'000	£'000
Recoveries for services provided	492	330
Cost recoveries	8	11
	500	341

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2012/13	2011/12
	£'000	£'000
Retirement Pensions	106,097	97,229
Commutation of pensions and		
Lump Sum Retirement Benefits	27,815	29,416
Lump Sum Death Benefits	2,743	2,510
	136,655	129,155

Analysis of Benefits Payable by Employing Body:-

	2012/13	2011/12
	£'000	£'000
Scheduled & Designating Bodies	114,704	108,110
Administering Authority	11,938	12,277
Admission Bodies	10,013	8,768
	136,655	129,155

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2012/13	2011/12
Leavers	£'000	£'000
Refunds to members leaving service	17	19
Individual Cash Transfer Values to other schemes	5,028	5,306
Group Transfers	128	-
	5,173	5,325

8, ADMINISTRATION EXPENSES

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

	2012/13 £'000	2011/12 £'000
Administration and processing	1,818	1,612
Actuarial fees	356	278
Audit fees	19	43
Legal and professional fees	-	-
Central recharges from Administering Authority	392	426
	2,585	2,359

9, INVESTMENT EXPENSES

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

	2012/13 £'000	2011/12 £'000
Portfolio management	**9,827**	8,830
Global custody	**64**	127
Investment advisors	**167**	168
Performance measurement	**34**	35
Investment accounting	**3**	8
Investment Administration	**53**	60
	10,148	9,228

10, INVESTMENT INCOME

	2012/13 £'000	2011/12 £'000
Interest from fixed interest securities	**3,898**	5,762
Dividends from equities	**15,070**	12,010
Income from Index Linked securities	**5,703**	5,757
Income from pooled investment vehicles	**4,002**	3,751
Interest on cash deposits	**335**	370
Other - Stock lending	**17**	17
	29,025	27,667

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

terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.
The value of the stock on loan as at 31 March 2013 was £3.01 million (31 March 2012 £16.67 m), comprising entirely of equities. This was secured by collateral worth £3.15 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/12 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/13 £'000**
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	**109,674**
Equities	390,014	294,637	(251,080)	62,409	**495,980**
Index linked Securities	189,659	35,415	(31,467)	16,269	**209,876**
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	**222,341**
- Non Property	1,796,213	47,414	(96,172)	267,931	**2,015,386**
Derivatives	(73)	2,860	(5,522)	(403)	**(3,138)**
	2,677,684	434,738	(421,178)	358,875	**3,050,119**
Cash Deposits	76,595	235,134	(225,911)	77	**85,895**
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	**(638)**
Total Investment Assets	2,757,365			-	**3,135,376**
Current Assets	8,929			876	**9,805**
Less Net Revenue of Fund				(15,292)	
Total Net Assets	2,766,294			**363,595**	**3,145,181**

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

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

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

2011/12

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

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

	2012/13				**2011/12**			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	644	21		665	650	31	-	681
Commission	320	304	5	629	414	446	9	869
TOTAL	964	325	5	1,294	1,064	477	9	1,550

12, INVESTMENT ASSETS

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

		31 March 2013		31 March 2012
		£'000		£'000
UK Equities				
Quoted	258,957		224,418	
Pooled Investments	318,640		272,289	
FTSE Futures	(226)	577,371	(514)	496,193
Overseas Equities				
Quoted	237,022		165,597	
Pooled Investments	1,185,894	1,422,916	963,933	1,129,530
UK Fixed Interest Gilts				
Quoted	109,674		104,920	
Pooled Investments	14,668	124,342	27,676	132,596
UK Index Linked Gilts				
Quoted	209,876	209,876	189,658	189,658
Sterling Bonds (excluding Gilts)				
Pooled Investments	193,549	193,549	240,771	240,771
Non-Sterling Bonds				
Pooled Investments	81,488	81,488	77,973	77,973
Hedge Funds				
Pooled Investments	221,147	221,147	213,571	213,571
Property				
Pooled Investments	222,341	222,341	196,951	196,951
Cash Deposits				
Sterling	81,806		70,728	
Foreign Currencies	4,089	85,895	5,867	76,595
Investment Debtors/Creditors				
Investment Income	3,671		3,132	
Sales of Investments	9,194		3,602	
Foreign Exchange Hedge	(2,912)		441	
Purchases of Investments	(13,502)	(3,549)	(3,648)	3,527
TOTAL INVESTMENT ASSETS		3,135,376		2,757,365

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	4,257	CHF	(6,083)	24	
Up to one month	GBP	36,659	EUR	(44,234)		(762)
Up to one month	GBP	155,560	USD	(250,878)		(9,681)
Up to one month	GBP	18,509	JPY	(2,414,000)	1,594	
Up to one month	JPY	1,218,000	GBP	(9,418)		(884)
Up to one month	USD	249,200	GBP	(155,920)	8,217	
Up to one month	EUR	32,000	GBP	(26,432)	639	
Up to one month	EUR	5,709	USD	(7,300)	21	
Up to one month	USD	2,262	EUR	(1,766)		(4)
One to six months	GBP	168,038	EUR	(209,600)		(9,459)
One to six months	GBP	204,568	JPY	(26,368,000)	19,606	
One to six months	GBP	744,079	USD	(1,184,300)		(36,259)
One to six months	EUR	209,600	GBP	(169,248)	8,249	
One to six months	JPY	18,993,000	GBP	(148,501)		(15,277)
One to six months	USD	1,184,300	GBP	(748,864)	31,473	
Six to twelve months	EUR	90,800	GBP	(76,391)	650	
Six to twelve months	GBP	124,574	EUR	(147,800)		(867)
Six to twelve months	GBP	166,975	JPY	(23,355,000)	2,813	
Six to twelve months	GBP	150,693	USD	(231,300)		(1,765)
Six to twelve months	JPY	21,880,000	GBP	(156,255)		(2,453)
Six to twelve months	USD	164,000	GBP	(106,885)	1,213	
Total					**74,499**	**(77,411)**
					Net forward currency contracts at 31st March 2013	**(2,912)**

Open forward currency contracts at 31 March 2012	-	441
Net forward currency contracts at 31st March 2012		**441**

Exchange Traded Derivatives held at 31 March 2013:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2013	25,186	(226)

Exchange Traded Derivatives held at 31 March 2012:-

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

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

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

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

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

	31 March 2013 £'000	**%**	31 March 2012 £'000	%
Blackrock	**1,506,620**	**48.0**	1,297,622	47.1
Transition	**9**	**0**	1	0
Record	**4,893**	**0.2**	11,141	0.4
Jupiter Asset Management	**139,898**	**4.5**	115,721	4.2
Genesis Investment Management	**158,548**	**5.1**	140,717	5.1
Invesco Perpetual	**218,121**	**7.0**	173,237	6.3
State Street Global Advisors	**103,009**	**3.3**	86,241	3.1
Partners Group	**97,395**	**3.1**	71,011	2.5
Royal London Asset Management	**176,526**	**5.6**	227,558	8.3
TT International	**163,186**	**5.2**	134,334	4.9
Man Investments	**63,955**	**2.0**	63,099	2.3
Gottex Asset Management	**55,059**	**1.8**	52,820	1.9
Stenham Asset Management	**34,936**	**1.1**	33,272	1.2
Signet Capital Management	**67,197**	**2.1**	64,379	2.3
Lyster Watson Management	**-**	**0.0**	799	0.0
Schroder Investment Management	**327,563**	**10.4**	270,996	9.8
Bank of New York Mellon	**10,059**	**0.3**	7,369	0.3
Treasury Management	**8,402**	**0.3**	7,048	0.3
TOTAL INVESTMENT ASSETS	**3,135,376**	**100.0**	2,757,365	100.0

Assets held in Transition are assets in the process of being transferred from former Managers.

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2013 £'000	% of Net Assets	Value at 31st March 2012	% of Net Assets
Aquila Life UK Equity Index Fund (BlackRock)	315,092	10.05%	269,730	9.78%
BlackRock World Index Fund	310,707	9.91%	229,083	8.31%
Invesco Perpetual Global ex UK Enhanced Index Fund	218,121	6.96%	173,237	6.28%
RLPPC UK Corporate Bond Fund (Royal London)	176,526	5.63%	227,557	8.25%
Genesis Emerging Markets Investment Fund	158,549	5.06%	140,717	5.10%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2013. Debtors and creditors included in the accounts are analysed below:-

		31 March 2013 £'000		31 March 2012 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**7,626**		7,306	
- Members	**2,782**		2,783	
Discretionary Early Retirement Costs	**585**		640	
Other Debtors	**505**	**11,498**	152	10,881
CURRENT LIABILITIES				
Management Fees	**(911)**		(1,119)	
Lump Sum Retirement Benefits	**(547)**		(720)	
Other Creditors	**(235)**	**(1,693)**	(113)	(1,952)
NET CURRENT ASSETS		**9,805**		8,929

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2013 £'000		31 March 2012 £'000
CURRENT ASSETS				
Local Authorities	**8,050**		8,424	
NHS Bodies	**6**		-	
Other Public Bodies	**2,553**		1,764	
Non Public Sector	**889**	**11,498**	693	10,881
CURRENT LIABILITIES				
Other Public Bodies	**-**		(40)	
Non Public Sector	**(1,693)**	**(1,693)**	(1,912)	(1,952)
NET CURRENT ASSETS		**9,805**		8,929

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

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2013. (March 2012 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE
There have been no events after 31st March 2013 that require any adjustment to these accounts.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31st March 2012	31st March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum*	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £3,869 million. The effect of the changes in assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by *c*£456 million. Adding interest over the year increases the liabilities by a further *c*£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c*£4 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £4,519 million.

18, TRANSFERS IN
There were no group transfers in to the fund during the year ending 31st March 2013.

19, BENEFITS RECHARGED TO EMPLOYERS
The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. The Fund also

pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account or related notes.

	2012/13	2011/12
	£'000	£'000
Benefits Paid and Recharged	6,225	6,049

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2012/13 were £953 (2011/12 - £1,156). Additional Voluntary Contributions received from employees and paid to Friends Life during 2012/13 were £418,478 (2011/12 - £452,103).

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

	31 March 2013	31 March 2012
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**582**	678
Unit Linked Retirement Benefits	**306**	310
Building Society Benefits	**264**	279
	1,152	1,267
Death in Service Benefit	**150**	150
Friends Life		
With Profits Retirement Benefits	**197**	230
Unit Linked Retirement Benefits	**3,775**	3,700
Cash Fund	**402**	442
	4,374	4,372

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

21, RELATED PARTIES

Committee Member Related:-

In 2012/13 £37,071 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,926 in 2011/12)*. Seven voting members and one non- voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2012/2013. *(Six voting members and two non-voting members in 2011/2012, including five B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £7,102 and £12,778 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2012/13 the Fund paid B&NES Council £275,215 for administrative services *(£253,542 in 2011/12*) and B&NES Council paid the Fund £40,157 for administrative services (*£28,574 in 2011/12*). Various Employers paid the fund a total of £177,346 *(£136,921 in 2011/12)* for pension related services including pension's payroll and compiling data for submission to the actuary.

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

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

22, OUTSTANDING COMMITMENTS
As at the 31 March 2013 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £46,798,161.

23, KEY MANAGEMENT REMUNERATION
Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Strategic Director of Resources salary, fees and allowances (£17,393) and their employers' pension contributions (£3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances (£31,540) and their employers' pension contributions (£5,460).

24, FINANCIAL INSTRUMENTS
The net assets of the Fund are made up of the following categories of Financial Instruments:

	31/03/2013	31/03/2012
Financial Assets	**£'000**	£'000
Loans & Receivables	**97,393**	87,476
Financial assets at fair value through profit or loss	**3,063,209**	2,684,932
Total Financial Assets	**3,160,602**	2,772,408
Financial Liabilities		
Payables	**15,195**	5,600
Financial liabilities at fair value through profit or loss	**226**	514
Total Financial Liabilities	**15,421**	6,114
Total Net Assets	**3,145,181**	2,766,294
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-		

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2012/13	2011/12
	£'000	£'000
Losses on derecognition	**9,302**	19,427
Reductions in fair value	**10,079**	67,447
Total expense in Fund Account	**19,381**	86,874
Gains on derecognition	**53,216**	72,287
Increases in fair value	**325,040**	89,050
Total income in Fund Account	**378,256**	161,337
Net gain/(loss) for the year	**358,875**	74,463

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

The Fund's investments are managed by the external Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

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

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

(a) Market Risk

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

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Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Fund's strategy is to manage market price risk through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

A high proportion of the Fund is invested in equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets within the Fund during the 3 years to 31 March 2013, in consultation with the Fund's advisors. These movements in market prices have been judged as possible for the 2013/14 reporting period. The analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	577,597	13.1%	653,262	501,932
Overseas Equities	1,226,308	12.9%	1,384,502	1,068,115
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	286,200	6.7%	305,232	267,168
Overseas Bonds	98,511	7.6%	105,998	91,024
ILG	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,038,588**		**3,352,215**	**2,724,963**

The same analysis for the year ending 31 March 2012 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,600	936,840
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455
Total Assets	**2,679,001**		**2,980,935**	**2,377,067**

Interest Rate Risk

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

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

	31 March 2013 £'000	31 March 2012 £'000
Cash and Cash Equivalents	76,595	76,595
Fixed Interest Assets	640,998	640,998
Total	**717,593**	**717,593**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2013 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

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

	Value	Change in net assets	
As at 31 March 2013	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,773)	83,773
Total	**695,150**	**(83,773)**	**83,773**

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

The same analysis for the year ending 31 March 2012 is shown below:

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

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. To reduce the volatility associated with fluctuating currency prices the Fund dynamically hedges its exposure to the US Dollar, Yen and Euro. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used. The funds of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	*Asset value as at 31 March 2013 £'000*	*Asset value as at 31 March 2012 £'000*
Overseas Equities	*1,095,720*	*1,095,720*
Overseas Fixed Income	*77,934*	*77,934*
Overseas Property	*70,333*	*70,333*

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement I the currency and incorporates the impact of correlation across currencies (which dampens volatility). The analysis assumes a 50% hedge ratio on the US Dollar, Yen and Euro assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2013 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	*1,384,727*	*2.6%*	*1,420,730*	*1,348,724*
Overseas Fixed Income	*81,487*	*2.7%*	*83,687*	*79,287*
Overseas Property	*95,729*	*2.8%*	*98,409*	*93,049*
Total	***1,561,943***	***2.6%***	***1,602,826***	***1,521,060***

Currency Risk by Currency:

Currency	**Value (£,000)**	**% Change**	**Value on Increase**	**Value on Decrease**
EURO	*58,807*	*7.8%*	*63,394*	*54,220*
US Dollar	*36,922*	*8.8%*	*40,171*	*33,673*
*Global Basket**	*591,028*	*2.7%*	*606,749*	*575,306*
*Global ex UK Basket**	*218,121*	*2.9%*	*224,446*	*211,795*
*North America Basket**	*162,839*	*4.2%*	*169,597*	*156,081*
*Europe ex UK Basket**	*170,090*	*3.6%*	*176,179*	*164,001*
*Asia Pacific Basket**	*109,251*	*3.7%*	*113,282*	*105,220*
*Asia Pacific ex Japan Basket**	*56,337*	*3.2%*	*58,112*	*54,562*
Emerging Basket	*158,549*	*6.4%*	*168,759*	*148,338*
Total	***1,561,943***	***2.6%***	***1,602,267***	***1,521,619***

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

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

The same analysis for the year ending 31 March 2012 is shown below:

Currency Risk by Asset Type:

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

Currency Risk by Currency:

Currency	***Value (£)***	***% Change***	***Value on Increase £'000***	***Value on Decrease £'000***
Australian Dollar	*4,828*	*10.5%*	*5,335*	*4,321*
Brazilian Real	*5,521*	*12.8%*	*6,229*	*4,812*
Canadian Dollar	*4,075*	*9.6%*	*4,467*	*3,683*
Danish Krone	*486*	*8.3%*	*523*	*443*
EURO	*85,618*	*4.2%*	*89,197*	*82,039*
Hong Kong Dollar	*8,846*	*9.6%*	*9,695*	*7,997*
*Japanese Yen**	*34,035*	*6.6%*	*36,297*	*31,773*
Singapore Dollar	*2,354*	*7.5%*	*2,530*	*2,178*
South Korean Won	*4,576*	*10.3%*	*5,046*	*4,106*
Swedish Krona	*327*	*10.2%*	*360*	*294*
Swiss Franc	*9,124*	*10.2%*	*10,059*	*8,189*
US Dollar	*120,620*	*4.9%*	*126,503*	*114,739*
Global Basket	*229,083*	*3.3%*	*236,582*	*221,584*
Global ex UK Basket	*173,220*	*3.6%*	*179,411*	*167,029*
North America Basket	*136,466*	*4.6%*	*142,775*	*130,157*
Europe ex UK Basket	*144,759*	*3.9%*	*150,420*	*139,098*
Asia Pacific Basket	*92,333*	*4.4%*	*96,403*	*88,263*
Asia Pacific ex Japan Basket	*47,043*	*3.6%*	*48,733*	*45,353*
Emerging Basket	*140,675*	*7.8%*	*151,699*	*129,651*
Total	***1,243,987***	***4.7%***	***1,302,267***	***1,185,707***

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. In addition, the market values of investments will reflect an assessment of credit in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on over-the-counter derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the *probability of default (the yield of a bond will include a premium that will compensate for the risk of default).*

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

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

	31 March 2013		***31 March 2012***	
	Rating	***£'000***	***Rating***	***£'000***
Custodian's Liquidity Fund				
Bank of New York Mellon	*AAA*	*7,357*	*AAA*	*7,357*
Bank Call Accounts				
Barclays Platinum Account	*A*	*3,000*	*A*	*3,000*
Bank of Scotland Corporate Deposit Account	*A*	*3,000*	*A*	*3,000*
Clydesdale Business Account	*BBB+*	*-*	*BBB+*	*-*
NatWest Special Interest Bearing Account	*A*	*1,020*	*A*	*1,020*
Bank Current Accounts				
NatWest	*A*	*14*	*A*	*14*

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

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

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

	31 March 2013 £'000	31 March 2012 £'000
Equities	1,626,235	1,626,235
Fixed Interest – Quoted	104,920	104,920
Fixed Interest – Pooled	346,420	346,420
Index Linked - Quoted	189,659	189,659
Fund of Hedge Funds	213,571	213,571
Property	196,951	196,951
Cash assets	76,595	76,595
Derivatives FTSE Futures	(514)	(514)
Forward Foreign Exchange hedge	441	441
Investment Debtors/Creditors	3,087	3,087
	2,757,365	2,757,365

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2013 is set out below.

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Unrated £'000
UK Gilts	124,342	-	-	-	-	-
UK Index Linked	209,876	-	-	-	-	-
Overseas Government Bonds	41,543	30,713	799	8,214	-	220
Corporate Bonds	20,261	11,426	67,873	69,553	6,914	17,524
	396,021	42,139	68,671	77,767	6,913	17,744
% of Fixed Interest Portfolios	65%	7%	11%	13%	1%	3%

The same analysis for the year ending 31 March 2012 is shown below:

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

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer. The reduction in AAA assets and increase in AA assets as at 31 March 2013 reflects downgrading of UK Government bonds from AAA during the year. The current credit ratings are AAA from S&P, Aa1 from Moody's, and AA+ from Fitch.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows.

The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2013 the value of the illiquid assets was £410m, which represented 14.9% of the total Fund assets (31 March 2012: £140m which represented 14.9% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	488,593			488,593
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,801,625		1,801,625
Fund of Hedge Funds			221,147	221,147
Property			222,341	222,341
Cash	85,895			85,895
Derivatives	-3,138			-3,138
Investment Debtors /Creditors	-638			-638
	890,263	1,801,625	443,488	3,135,376

The fair value hierarchy as at 31 March 2012 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	389,501			389,501
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Investment Debtors /Creditors	3,527			3,527
	764,201	1,582,642	410,522	2,757,365

26, EMPLOYING BODIES

As at 31 March 2013 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies: *Principal Councils and Service Providers*	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
Scheduled Bodies: *Education Establishments*	
Abbeywood Community School Academy	Heron's Moor Community School
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School	Kings Oak Academy
Bannerman Road Community Academy	Little Mead Primary School
Bath Community Academy	Merchant's Academy
Bath Spa University	Midsomer Norton Schools Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Academy	Norton Radstock College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Church Academies Trust	Oasis Academy Brightstowe
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Connaught
Broadlands Academy	Oasis Academy New Oak
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation	Olympus Trust
Castle School Education Trust	One World Learning Trust
Chew Stoke Church School	Orchard Academy
Christ Church Primary School C of E	Parson Street Primary School
Churchill Academy & Sixth Form	Priory Community School Academy
City of Bath College	Ralph Allen Academy
City of Bristol College	Redland Green School Academy
Clevedon School Academy	South Gloucestershire and Stroud College
Colston Girl's School Trust	St Bede's School Academy
Colston's Primary School Academy	St. Brendan's College
Cotham School Academy	St. Nicholas of Tolentine Catholic Primary School
The Dolphin Academy	St. Patrick's Academy
Downend School	St. Teresa's Catholic Primary School
EACT (St Ursula's Academy)	Summerhill Academy
Elmlea Junior School Academy	Trust in Learning
Filton Avenue Infants Academy	University of the West of England
Fosseway Special School	Waycroft School Academy
Frome Vale Academy	Wellsway School Academy
Gordano School Academy	West Town Lane Primary School
Greenfield Primary School Academy	Westbury Park Primary School Academy
Hans Price Academy	Westbury-on-Trym C of E Academy
Hareclive Academy	Weston College
Hayesfield Girl's School Academy	Winterbourne International Academy
Henbury School Academy	Writhlington School Academy
Henleaze Junior School Academy	Yate International Academy

Designating Bodies	Nailsea Town Council
Almondsbury Parish Council	Oldland Parish Council
Backwell Parish Council	Patchway Town Council
Bath Tourism Plus	Paulton Parish Council
Bradley Stoke Town Council	Peasedown St John Parish Council
Charter Trustees of the City of Bath	Portishead Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend & Bromley Heath Parish Council	Thornbury Town Council
Easton in Gordano Parish Council	Vista SWP Ltd
Filton Town Council	Westerleigh Parish Council
Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Parish Council	Weston-Super-Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Mangotsfield Parish Council	Yatton Parish Council
Midsomer Norton Town Council	Yate Town Council
Admitted Bodies	
Active Community Engagement Ltd *	Keeping Kids Company *
Agilisys *	Keir Facilities Services Ltd *
Agincare Ltd *	Liberata UK Limited *
Alliance Homes	Learning Partnership West Ltd *
Aquaterra Leisure *	Merlin Housing Society Ltd
Aramark Ltd *	Merlin Housing Society (SG)
Ashley House Hostel	Mouchel *
BAM Construct UK Ltd *	Mouchel Business Services Ltd *
Bath &NE Somerset Racial Equality Council	Mouchel Business Services Ltd (Nailsea IT)*
Bristol Disability Equality Forum	The Park Community Trust *
Bristol Drugs Project *	Quadron Services Ltd*
Bespoke Cleaning Services Ltd *	Tone Leisure Trust *
Bristol Music Trust	Off The Record Bath & Nrth East Somerset
The Brandon Trust *	Prospect Services Ltd *
The Care Quality Commission	Shaw Healthcare (North Somerset) Ltd*
Cater Link *	Sirona Care & Health CIC *
Centre For Deaf People	SITA Holdings UK Ltd. *
Churchill Contract Services Ltd *	Skanska (Cabot Learning Federation)*
Churchill Team Clean *	Skanska Rashleigh Westerfoil*
Circadian Trust	SLM Community Leisure *
Circadian Trust No 2	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Sodexo Ltd *
Creative Youth Networks *	Somer Community Housing Trust
CT Plus (CIC) *	Somer Housing Group
Direct Cleaning (SW) Ltd *	Southern Brooks Community Partnership
Eden Food Services *	Southwest Grid for Learning Trust
English Landscapes*	University of Bath
Holburne Museum of Art	UPP Residential Services Ltd *
ISS Mediclean Ltd (Bristol)*	Vision North Somerset
ISS Mediclean Cabot Learning Federation*	West of England Sports Trust

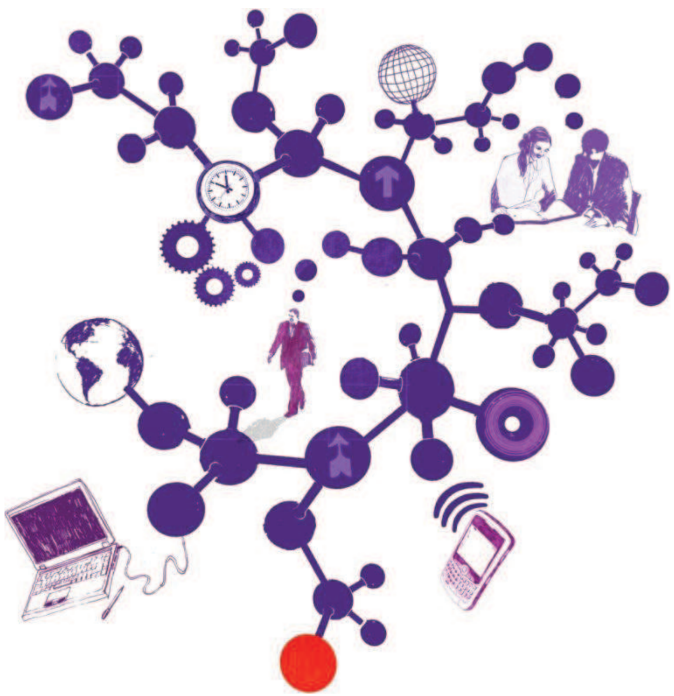
*Transferee Admission Body: A body that provides, by means of contract, a service in connection with the exercise of a function of a scheme employer.	

Grant Thornton

The Audit Plan for Avon Pension Scheme

Year ended 31 March 2013

15th April 2013



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Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial Pressures – Pension fund

- Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

2. Local Government Pension Scheme (LGPS) 2014

- Planning for the impact of the implementation of the changes to the LGPS from 1st April 2014, including the introduction of career average re-valued earnings scheme (CARE) and the option for members to pay 50% of normal contributions for a reduced 50% pension.

3. Increasing number of member bodies

- The growth in the number of academy schools and the continuing outsourcing of functions by existing member bodies is continuing to increase the number of member bodies. This requires officers to administer and value transfers between admitted bodies.

Our response

1.

- We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

2.

- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

3.

- We will review arrangements for setting up new bodies.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1.Financial reporting

- Chartered Institute of Public Finance Accountancy (CIPFA) publication of a revised set of example accounts for pension funds in 2013. Additional disclosures are required including comparative data. Further disclosures may be required around processes for dealing with conflicts of interest.

3. Financial Pressures – scheduled and admitted bodies

- Managing pensions administration where contributing bodies are restructuring for example offering early retirement and redundancies. These changes place additional workload on the pension fund admin team.

5. Triennial valuation

- Demands on pension funds' staff time in terms of administrating the information to pass to the actuary and regular dialogue with the actuary.

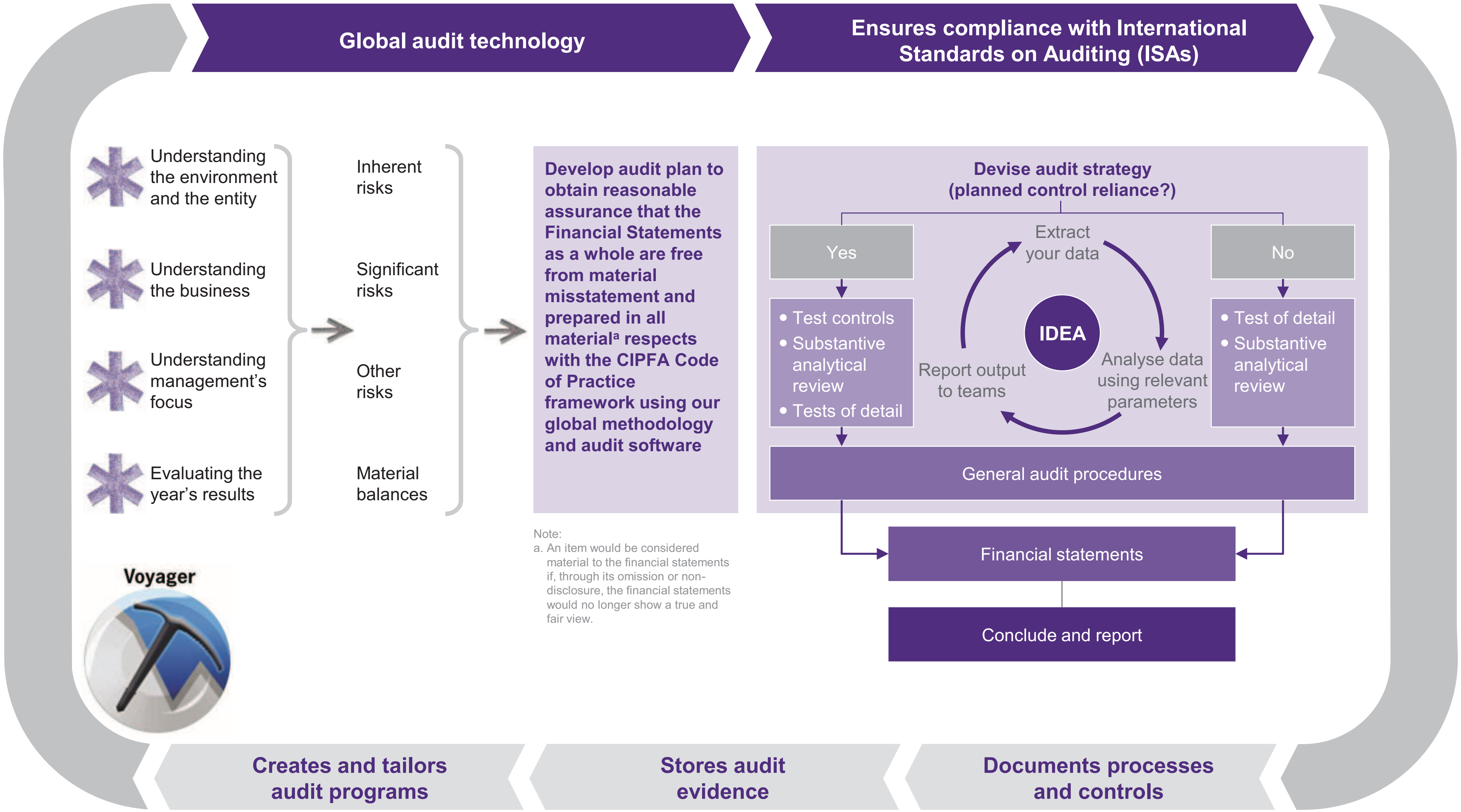
Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our testing.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	X
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	×
Investment management expenses	No	Investments	Low	None		No	X
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	X
Current liabilities	No	Benefit payments, investments	Low	None		No	x

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Avon Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	We have rebutted this presumption and therefore do not consider this to be a significant risk for Avon Pension Fund since: • The nature of the pension fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investment Income Profit and loss on disposal of investments and changes in the value of investments	Investments not valid Investments activity not valid Fair value measurement not correct	We will review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances. We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.
Pensions payable	Benefits improperly computed / claims liability understated	We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Avon Pension Fund have been followed. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. The movements on membership statistics will also be compared to transactions in the accounting records
Contributions receivable	Recorded contributions not correct	We will test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies. We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. We will liaise with the auditors of a sample of admitted bodies to confirm deductions are correctly made on their respective payroll systems.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- review of journals

	Work performed	Conclusion/ Summary
Internal audit	We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council including the Pension Fund and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Pension Fund.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Journal entry controls	We have reviewed the Pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension fund's control environment or financial statements.	Our testing is on-going.

Logistics and our team

The audit cycle

Our team

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Date	Activity
December 2012	Planning meeting
April 2013	Interim site work
May 2013	The audit plan presented to Corporate Audit Committee
June 2013	The audit plan presented to the Pensions Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Pensions Committee meeting to report our findings
September 2013	Corporate Audit Committee meeting to report our findings
September 2013	Issue opinion of the financial statement s and annual report

Fees and independence

Fees

	2011/12 fee £	2012/13 fee £
Pension fund audit	46,622	28,804

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management / those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	None identified at end of interim visit			

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 JUNE 2013**	**AGENDA ITEM NUMBER** **10**
TITLE:	**ANNUAL RESPONSIBLE INVESTMENT REPORT**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Responsible Investment Report: Policy and Activities 2012/13

Appendix 2 – Appendix to Responsible Investment Report: Policy and Activities 2012/13

1 THE ISSUE

1.1 The Fund's Responsible Investment (RI) Policy agreed in June 2012 proposed that a responsible investing report be published annually from 2013 to include the Fund's RI Policy, the Fund's compliance with the FRC Stewardship Code and the voting report.

1.2 The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor.

1.3 The report for 2012/13 is at Appendix 1. The report includes a revised Statement of Compliance with the FRC Stewardship Code which reflects minor changes made to the Code in 2012 and the annual report on Voting Activity from Manifest. The report will be published on the Fund's website once it has been approved by the Committee.

1.4 Manifest will present their report at the Committee meeting.

2 RECOMMENDATION

The Committee:

2.1 Approves the Annual Responsible Investment Report for 2012/13 at Appendix 1

2.2 Approves the revised Statement of Compliance with FRC Stewardship Code at Section 3 of Appendix 1.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial considerations.

4 RESPONSIBLE INVESTMENT REPORT

4.1 This is the first annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that deliver its responsible investing objectives.

4.2 During the year the Committee reviewed the investment strategy. The report sets out how RI issues were taken into consideration during this review, in particular when assessing the characteristics of the various asset classes and whether the Environmental, Social & Governance (ESG) risks could be managed. It also sets out the corporate governance issues the Investment Panel discussed with investment managers during the period. In addition, it includes the revised Statement of Compliance with the FRC Stewardship Code which explains how the Fund, as a shareholder, meets its responsibilities.

4.3 Key ways in which the Fund sought to manage RI/ESG risks during the year were as follows:

a) Identified and strategically addressed RI/ESG risks by embedding analysis of the RI risks of asset classes in the review of the Fund's investment strategy

b) Sought to ensure investment managers implemented RI/ESG aspects of their approach as per their stated policy

c) Held managers to account and queried ESG / RI factors in investment process where appropriate and reviewed whether engagement activity of managers was in line with their policies

d) Analysed voting behaviour and actively sought explanations of voting behaviour from managers to evidence preferences and seek to influence

e) Increased participation in collaboration and engagement activities of Local Authority Pension Fund Forum (LAPFF)

5 RISK MANAGEMENT

5.1 Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment Policy seeks to ensure the long term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor and shareholder.

6 EQUALITIES

6.1 For information only.

7 CONSULTATION

7.1 For information only

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 For Information only.

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	Matt Betts, Assistant Investments Manager, 01225 395420
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Responsible Investment Report: Policy and Activities 2012/13

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor.

This report re-iterates the Fund's policy on Responsible Investment and reports on the activities undertaken during the year to meet and support the policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The report comprises the following sections:

Section 1 Responsible Investment Policy

Section 2 Responsible Investment Activity in 2012/13
- 2.1 Strategic Investment Review
- 2.2 Investment Managers
- 2.3 Voting
- 2.4 Collaboration

Section 3 Compliance with FRC Stewardship Code **(draft updated version for approval)**

Appendix: Voting Report

Executive Summary

As a responsible investor, the Fund sought to manage RI risks through the following activity during the year:

- **Identified and strategically addressed RI risks by embedding analysis of the RI risks of asset classes in the review of the Fund's investment strategy**
- **Sought to ensure investment managers implemented RI / ESG policies or approach as per their stated policy:**
    - **Held managers to account and queried RI / ESG factors in investment process where appropriate**
    - **Reviewed whether engagement activity of managers was in line with their policies**
- **Analysed voting behaviour and actively sought explanations of voting behaviour from managers to evidence preferences and seek to influence**
- **Increased participation in collaboration and engagement activities of Local Authority Pension Fund Forum (LAPFF)**

Section 1 - Avon Pension Fund, Responsible Investment Policy

The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

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

The policy demonstrates how the Fund will implement these beliefs within the strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

- The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes This is evidenced by evaluating the following as part of the strategic investment review process:
    - The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing
    - Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value.
    - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that exclude or positively select investments could be appropriate for particular mandates.
- The Fund requires its investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles.
- When appointing external investment managers, the Fund:
    - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.

    - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
    - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.
- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets.
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role.
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible.
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives.
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles.
- The Fund encourages its external investment managers to become UNPRI signatories.
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.
- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

Approved by the Avon Pension Fund Committee on 22 June 2012.

Section 2 - Avon Pension Fund, Responsible Investing Activity in 2012/13

2.1Strategic Investment Review

The Fund undertook a review of the investment strategy which was finalised in March 2013. In determining the appropriate asset allocation the Fund analysed the characteristics of each asset class with regard to the RI risks to which each asset class is exposed, and evaluated the potential impact and materiality of RI risks on the asset class investment decision. The analysis then evaluated how such risks could be managed through various means such as investment approach or good governance practice.

In addition the review sought to identify opportunities arising from ESG factors and created an 'other' categorisation in the asset allocation ranges to allow for future opportunities to be incorporated in the asset allocation. This was in anticipation of future opportunities to (among other things) benefit from evolving opportunities to address or exploit ESG factors.

The following tables summarises the Committee's evaluation of RI characteristics of the asset classes allocated to:

Asset Class	**Can ESG Risks be Managed?**	**Notes**
Growth Assets		
Equities	✓	ESG risks can be managed through shareholder voting rights and engagement with company management, either via investment managers or collaborative organisations. In addition active managers can take into account a company's ESG policy in determining opportunities and risks for future share value.
Emerging market Equities	✓	There are sometimes issues around corruption and human rights at the government level and the regulatory and legal framework will often not be as developed or robust as for developed markets. In addition, in many markets, the limited rights of minority shareholders mean that investors have less ability to influence corporate behaviour. As a consequence, the potential risk of poor ESG practice amongst companies based in the emerging economies is higher than for multinational companies operating in these countries - multinational companies have to adhere to the standards of best practice in their home country.
DGF	Limited	There is less scope to reflect the Fund's ESG policy through a DGF investment compared to equities.
Hedge Funds	Limited	There is little scope to reflect the Fund's ESG policy in this area of investment due to the nature of the investments.
Illiquid Assets		
Property	✓	There has been an increase in the level of activity to make properties more environmentally sustainable as fund managers believe this can lead to superior returns over the longer term. New buildings are expected to have a strong focus on environmental sustainability.
Infrastructure	✓	An investment in infrastructure can support environmental and social projects, although whether a sufficient return is achievable for risks taken on needs to be carefully considered. The risks of disposal of assets that are no longer useful must be carefully considered, as must any environmental impact of building work, both of which could have financial implications for any investment.

Stabilising Assets		
Gilts	n/a	An allocation to gilts does not impact the Fund’s ESG policy.
Index-linked Gilts	n/a	An allocation to index-linked gilts does not impact the Fund’s ESG policy.
Corporate Bonds	Limited	There is limited relevance to ESG factors for corporate bond investment, although active managers are expected to have regard to possible risks in making their investment decision.
Absolute Return Bonds	n/a	An allocation to overseas bonds does not impact the Fund’s ESG policy.
LDI	n/a	An allocation to LDI does not impact the Fund’s ESG policy.
Cash	n/a	An allocation to Cash does not impact the Fund’s ESG policy.

2.2 Investment Managers

Officers and the Investment Panel seek to monitor, understand and where appropriate challenge investment managers activity to gain assurance that policies and practices are being followed and also as a way of influencing managers to take such risks into account.

All managers provided a statement on how they take ESG factors into account in their investment decision making processes. These can be found in an appendix to the SIP.

At meetings between the Investment Panel and Investment Managers the following specific RI issues were raised by Panel members and Officers:

- Schroder Global Equity – As this is a relatively new mandate, discussed in detail how they identify RI risks and quantify the impact they could have on investment returns when constructing the portfolio.

- TT UK Equity – Asked to explain the most important factors they assess when voting on remuneration/board independence, their process for coming to a voting decision and whether it has changed (using voting history on Barclays voting as an example).

- Jupiter UK Equity - Discussed their approach to banking bonuses and BP spill and how they quantified the financial impact /risks. Also asked how they measure the impact of their engagement activities and how their engagement strategy has developed to effect change at investee companies (for example at what point does engagement cease to become effective and what further options are feasible to pursue).

Manager updates for 2012/13:

- No new Investment Manager appointments were made in 2012/13.
- SSgA gained UNPRI signatory status during the year.
- Invesco put an engagement overlay service in place to focus and prioritise engagement activity

2.3 Voting

Analysis of the proxy voting activity carried out by investment managers on the Fund's behalf was undertaken by Manifest Information Services. Their report is included in the Appendix and was reported to Committee. The key points were as follows:

- Managers are actively voting on the Fund's behalf.
- The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio – for example Jupiter incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore less reason to vote against management.
- The Fund's managers are marginally more active in expressing concerns through voting than the average shareholder.
- The most contentious and material issues were Board balance and remuneration.
- Focus for coming year should be remain on Remuneration policy and how this relates to corporate performance and objectives, and whether governance structures provide adequate independence to the decision making process and draw experience and knowledge from a diverse selection of individuals.

Officers monitored voting activity and undertook further analysis of the managers' voting activity on remuneration at various times during the year.

The Fund is a member of the LAPFF who issue voting alerts (see section below for summary of full LAPFF activity) to help focus member voting on issues at widely held stocks. This year, alerts included Cookson and Barclays on executive pay, ConocoPhillips regarding greenhouse gas emissions targets, and News Corp and BskyB regarding director elections. Full list of alerts in 2012 were as follows:

Barclays (April 2012)
ConocoPhillips (April 2012)
Flir Systems (April 2012)
RBS Group (May 2012)
HSBC Holdings (May 2012)
Intesa Sanpaolo (May 2012)
ExxonMobil (May 2012)
Cookson Group (May 2012)
Société Générale (May 2012)
News Corporation (Sept 2012)

The Fund communicated these alerts to the relevant managers and received explanations where the recommendation was not followed.
Officers identified that although managers make use of proxy advisory research services, they do not outsource the voting decision to such agencies.

2.4 Engagement and Collaboration

Engagement and collaboration activity is undertaken on the Fund's behalf by the Fund's external investment managers and by LAPFF.

Managers Activity

The extent to which managers undertake engagement with companies (if at all) depends largely upon their investment approach. The Panel and Officers focus on gaining assurance that managers are undertaking engagement activity in line with their policy and tested this at meetings through specific questioning on voting and engagement.

During the year, engagement by managers was enhanced by Invesco implementing an engagement overlay over their portfolio. Jupiter maintained their comprehensive engagement activity, along with programmes undertaken by BlackRock and SSgA. TT and Genesis do not have specific RI engagement programmes but as active investors who put a lot of value in quality of management, they are meeting management continually and where RI issues are impacting performance these will be raised with management as part of the investment process.

The Fund encourages managers to actively participate in industry collaborative bodies where appropriate.

LAPFF Activity

The Fund has increased its participation in LAPFF (an organisation that promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest). Committee members and Officers attended three of the four LAPFF business meetings in 2012/13. Activity and achievements are reported quarterly to Committee via the LAPFF quarterly engagement report. Highlights this year include:

- Shareholder resolutions were filed at News Corporation and Société Générale on the issues of appointing an independent Chair and establishing a two-tier board structure (respectively).
- Reached more than 650 companies through collaborative investor initiatives on issues such as climate change, water management, forests and biodiversity, hydraulic fracturing, and environmental risks.
- Engaged with 15 companies on governance issues that comprised the annual Global Focus List. Goldman Sachs agreed to increase its dividend following concerns raised by LAPFF regarding the distribution of profits. Heineken and Afren agreed to revise their remuneration practices after concerns were raised by LAPFF.
- Met with companies in the transport sector to discuss climate change risks. Companies included Rolls-Royce, Renault, Fiat, Daimler, Stobart, easyJet and International Consolidated Airlines Group.
- Continued LAPFF's long-standing engagement with BP to discuss health and safety, and with Shell to discuss environmental management in Nigeria.

- Issues related to labour rights were addressed in meetings and correspondence with several companies, including Lonmin, National Express, Deutsche Telekom and Carnival.
- LAPFF also discussed sustainable supply chain management with Kingfisher, Reckitt Benckiser and Marks & Spencer.
- Met with the UK banks to discuss international financial reporting standards and raise concerns regarding the over-valuation of assets and the under-statement of liabilities.

Section 3: Avon Pension Fund, Statement of Compliance with Stewardship Code

This is an updated draft following small amendments made to the Code in 2012. The changes to the Code with relevance to the Fund were as follows, with references to changes made in the Fund's revised draft statement in brackets:

- Principle 1
  – Guidance advised clarifying the scope of application of the Code within the investment portfolio (have stated it applies mainly to the Fund's equity portfolio)

- Principle 5
  – Guidance advised that to aid collaboration the Fund should include a contact for Stewardship issues (contact inserted)

- Principle 6
  - Guidance increased emphasis that investors should publicly disclose voting records (inserted explanation as to why undertake and publish aggregate voting data)
  - Guidance advised improved disclosure on use of proxy voting advisers (inserted confirmation that the Fund does not use proxy advisory services itself)
  - Guidance advised that Investors should disclose approach to stock lending and recalling lent stock (comments inserted explaining position on stock lending)

- Principle 7
  – Guidance advised that Funds should ask asset managers whether assurance on their voting and engagement activity has been covered as part of internal control report – (added comment that this is included as part of the Funds annual review of managers' internal control reports)

The revised draft statement for approval is as follows:

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Avon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund focuses on applying this code to its equity portfolios.

The Fund's policy in this area is set out in its Statement of Investment Principles (SIP).

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. Nine managers have published a statement of commitment to the Stewardship Code. In the case of the remaining four, three are hedge fund managers who are not long term holders of stock, and one is a property manager where the opportunity for stewardship activity is limited.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code (formerly the Combined Code). The overseas equity managers are required to vote at all overseas company meetings where practical.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.

In respect of conflicts of interest within the Fund, pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to external asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from the active equity managers on voting and engagement activity are received by the pensions committee on a quarterly basis.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However on occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

In respect of shareholder voting, the Fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the Fund's appointed asset managers. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from asset managers on how votes have been cast.

Aggregate voting records of managers are reported to the Committee at the quarterly meeting. Detailed monitoring analysis of managers voting activity is undertaken and reported on an annual basis in a Review of Proxy Voting report that is publically available. Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide a summary report of voting taken on the Fund's behalf and benchmark the voting activity against their view of best practice – this analysis forms the basis for the annual report on voting activity.

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled funds is determined by the individual investment managers.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on stewardship and voting activity in its annual report. The Fund also annually reviews and updates it's SIP, which sets out the Fund's approach to responsible investing and assess compliance with governance best practice. The activity undertaken by LAPFF is reported to the Committee on a quarterly basis.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area it would expect to be tested within the controls environment.

Avon Pension Fund
For approval, June 2013

Appendix: Avon Pension Fund, Review of Proxy Voting 2012/13

(This document is included as Appendix 2 to the covering report).

Bath & North East Somerset Council

Monitoring Review of Proxy Voting 2012

Avon Pension Fund

Prepared by:

manifest
the proxy voting agency

June 2013

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Table of Contents

Bath & North East Somerset Council

Table of Tables

1 Introduction

1.1 Aim of Vote Monitoring

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

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

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

As an ongoing annual report, the report lays a foundation for assessment of progress in terms of company's governance standards versus best practice, and in terms of assessing fund managers' use of votes in putting their investment governance preferences, including relating to governance issues, across to companies.

Importantly, this report looks at the full picture of how Avon's fund managers are making use of the Fund's voting rights and will therefore enable Avon to better understand and challenge fund managers about the role their voting activity plays in ownership strategy. The report enables Avon to fulfil the objectives of the Stewardship Code in constructively challenging external fund managers in their stewardship activities.

1.2 Voting in Context

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

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

1.3 Scope of Analysis

The period covered by this report encompasses the period between the 1st January 2012 to the 31st December 2012. It represents a full years' voting.

Manifest analyses the issues at hand to provide a 'Template Guidance' for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a voting template framed upon corporate governance best practice developed by Manifest for Avon. Members should consider the template itself as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of voting decisions by investors. The precise tactical use of voting rights is in itself a strategic investment consideration.

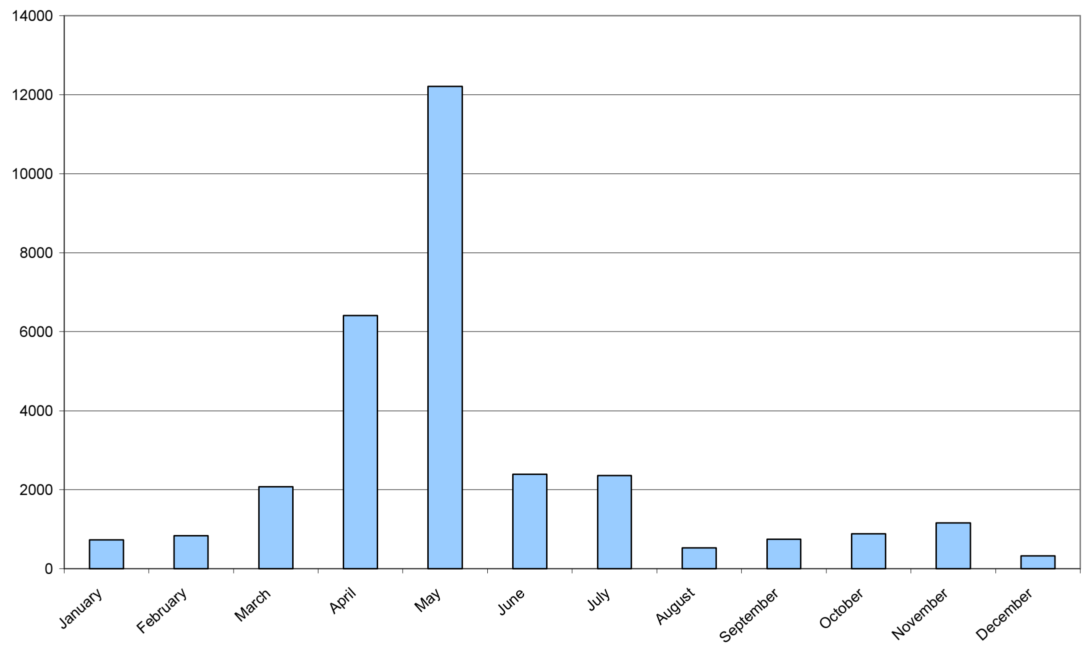
Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution, is more significant than whether the template suggests an 'Abstain', 'Against'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

1.4 Peak workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, there is a resultant surge in the number of annual meetings relating to that year end during quarter 2 of the calendar year, especially in April and May. Figure 1: Resolutions Voted Per Month below shows the total number of resolutions voted by Avon's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year.

Asset owners like the Avon Pension Fund should be aware that such a high concentration of work inevitably leads to the commoditisation of voting decisions and especially the likelihood of outsourcing voting decision-making responsibility to outside consultants. This dynamic is becoming the focus of regulatory scrutiny in the UK, France, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions.

Figure 1: Resolutions Voted Per Month



1.5 Governance Hot Topics

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

2 Executive Summary

Section 3 ("Explanation of Voting Activity and Monitoring Approach") explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It will also identify the number of meetings voted by Avon's fund managers in 2012, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings of companies in mainstream markets (the UK, Europe and North America). The research brought a total of 1,804 meetings in the UK, Europe and the US. These 1,804 meetings presented a total of 23,255 resolutions for voting, a number of which were voted by more than one manager, resulting in 30,657 resolution analyses. Of these:

- 21,966 were voted by BlackRock, representing the largest proportion of the report data;
- 15,121 were resolutions where best practice template highlighted potential governance concerns and fund managers supported management.
- 1,426 were voted against management.

The "Common Policy Issues At Investee Companies" section 4 examines the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for. Board balance and remuneration issues are the most frequently identified concerns. As was the case in 2011, the most common specific best practice governance criteria against which manifest found Avon's portfolio companies to fall short were gender diversity, committee independence, board size, overall board independence, the proportion of executive directors on the board, length of tenure of non-executive positions, lack of ESG considerations in performance pay, and lack of performance pay caps. These are the substantial issues on which investors should focus, more than the black and white of whether resolutions were opposed or otherwise.

The next step of the analysis is to study patterns of voting behaviour, both in terms of Avon's fund managers as well as shareholders in general (Section 5), as well as to examine which types of resolution were the most contentious (Section 6). None of Avon's fund managers voted with management consistently more than shareholders in general; Invesco and Genesis supported management noticeably less.

As we noted in the 2011 voting report was likely to be the case, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. Common issues were the quantum of incentive pay and the absence of provisions to claw back incentive pay. It should be noted that key themes such as remuneration practices and board independence should be assessed over the longer term when looking for changes in company practices and considered to be an evolution process over time.

Overall, Avon's managers were a little more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent stands at a little over 4% on average, Avon's fund managers opposed management on 4.68% of resolutions, slightly above the institutional ‘norm’. Specific observations regarding individual investment managers’ approaches can be found in Section 10.

3 Explanation of Voting Activity and Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Avon's fund managers in 2012, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

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

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

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

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

Meeting Types

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

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

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

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

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

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,804 meetings in the full monitoring sample Avon Fund Managers voted at, 85.9% were AGMs (79.2% in 2011), with the majority of the rest constituting GMs (5.93%, 5.96%) and EGMs (4.38%, 9.8%). The remaining were nearly all Special General Meetings (1.88%, 3.51%) or Court Meetings (1.16%, 1.41%). There were 13 Class meetings in 2012 (0.72%, 0 during 2011).

This is broken down per manager as follows. The total number of meetings voted by managers (2,257) exceeds the total number voted at for the fund (1,804) because of instances where more than one fund manager voted at the same meeting:

Fund Manager	Companies	AGM	EGM	GM	SGM	Court	Class	Total
BlackRock	1506	1481	101	69	29	21	12	1713
Jupiter	252	243	0	20	8	0	1	272
TT International	78	73	0	4	5	0	1	83
State Street	61	60	8	1	0	4	0	73
Schroder	53	50	8	2	0	3	0	63
INVESCO	40	38	0	1	1	0	0	40
Genesis	11	8	1	3	1	0	0	13
Total	**1585***	**1953**	**118**	**100**	**44**	**28**	**14**	**2257**

* Represents the total number of unique companies, not the sum total of companies voted at by each manager

The very small number of meetings voted by Genesis in this sample of 'full' monitored meetings means that full detailed analysis is not meaningful. This is in large part due to their Emerging Market mandate.

3.2 Monitoring Approach

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

Manifest seeks to monitor companies using the best practice governance template to identify issues, and also to monitor the voting behaviour of investment managers compared to the average shareholder and to the best practice template for company governance. It is understood that investment managers voting will differ from the template, due to variances in views on governance and voting issues, investment strategy and the role of voting within ongoing engagement strategy.

4 Common Policy Issues At Investee Companies

This section picks up on the previous chapter, by examining the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive of the company and its owners. Without appropriate levels of independence, accountability, remuneration, experience and oversight, corporate governance would offer shareholders little protection from the risk that their investment in the company is badly managed.

Table 1: Most Common Policy Issues

Flags	Description
4048	The percentage of female directors on the (Supervisory) Board is less than 1-50%
3409	Less than 50-100% of the Nomination Committee are independent of management
3333	Less than 50-100% of the Audit Committee are independent of management
3172	Less than 50-100% of the Remuneration Committee are independent directors
2504	Less than 33-50% of the Board is comprised of independent directors.
1532	Nominee is not considered to be independent by the Board
1269	The percentage of the Remuneration Committee (excluding the Board Chairman) considered to be independent is less than 100%
1229	Nominee has served for more than 84-144 months on the board
1130	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
861	The (Supervisory) Board will exceed 15-21 members following the meeting.
837	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee are independent
809	Nominee represents a major shareholder
730	The upper bonus cap, where set and disclosed, exceeds 100-150% of salary
673	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100-250% of salary (on a market value basis, based on maximum possible vesting).
671	The Company disclosures do not provide any evidence of clawback measures in place in respect of the long-term incentives.

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

Overall, Manifest flagged 47,889 governance related concerns across the 30,657 resolution analyses (which includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution) undertaken for this report. Some resolutions were subject to multiple concerns hence the greater number of flagged concerns compared to the number of resolutions. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the Operation of Best Practice Governance Analysis

Readers should note that Manifest's voting guidance system allows for an individual issue to be taken into consideration in the context of more than one resolution at a company. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – Board resolutions, and specifically, Director Elections.

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted).

4.2 Audit & Reporting

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

4.2.1 Audit Fees Exceed Non-Audit Fees

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

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

4.2.2 Overall Board independence

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

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

4.2.3 Overall board size

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

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

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

4.2.4 Auditors - Audit Committee independence

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

4.2.5 Auditor pay for non-audit work

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

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

4.3 Board

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

4.3.1 Percentage of Female Directors on the board

A number of Manifest customers ask us to track the issue of female representation on the board as a part of the wider debate on board diversity.

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

4.3.2 Nomination Committee Independence

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

4.3.3 Board Considers the Nominee is Not Independent

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

4.3.4 Independence Criterion: Tenure

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

Whilst tenure is frequently one of the independence criteria set out in the governance codes, it is perhaps the least critical of the criteria in terms of strict application. The Financial Reporting Council (FRC) is the guardian of the UK Corporate Governance Code and their research has witnessed a visible relaxation of investors' attitudes towards holding issuers responsible to the letter on this specific issue.

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

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

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

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

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

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

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

4.3.7 Independence Criterion: Represents a Major Shareholder

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

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

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

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

4.3.9 Audit Committee Size

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

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

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

4.4 Remuneration

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

4.4.1 Remuneration Committee independence

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

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

4.4.2 Consideration of ESG Issues When Setting Performance Targets

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

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

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

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

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

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

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

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

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

4.5 Capital

4.5.1 The Authority sought exceeds 5-50% of issued share capital

Although it does not feature in Table 1 above, the most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6 Corporate Actions

The Corporate Actions category covers a fairly narrow and specific set of considerations. As a result, none of the governance concerns typically associated with this category featured in our analysis of the most common concerns identified by the policy, simply because the issues to which they relate don’t come up on a typical corporate agenda very regularly.

However, of those times when they did come up, the two most common flags concerned were to identify that a proposal was about a related party transaction, or that it is a Scheme of Arrangement.

4.7 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

4.8 Sustainability

4.8.1 Political Donations

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

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

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

4.9 Conclusions on common policy issues identified

Taken as a whole, the analysis above shows just how many different considerations there are that go into assessing the governance of a typical company.

Although the volume (in absolute terms) of the most common governance concerns Manifest identifies is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board (direct election) related considerations.

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly, and that a wide number of considerations are taken into account. Therefore, 7 of the top 8 concerns (indeed, 10 of the top 15) relate to director independence and the effect that has on the functioning of the boar and its committees. Of the top 8, the only exception to this is the question of gender diversity which should be treated more as a proxy for the likelihood of general diversity of input available to the board.

The second most common group of issues identified relate to remuneration. This is again in part due to some of their association with director elections (executive director elections demand consideration of whether the proposed remuneration and incentive structure for the individual being proposed for (re)-election is appropriate. The remuneration related issues most commonly flagged relate to the level at which the potential for excessive incentive pay might be capped, and the lack of provision for claw-back on bonus pay where necessary.

These two general themes, taken together, raise questions about the significance with which many companies view the quality of board input, as well as their approach and attitude towards pay for performance. These questions are on-going general concerns which are as prevalent today as they were 5 years ago (although commentators would argue that they are higher profile now than then).

5 Aggregate Voting Behaviour

Having discussed above the general themes of the most frequent contentious issues in each resolution category, the next step is to consider how Avon's fund managers voted. This section sets out and compares how Avon's fund managers voted, as compared to general shareholder voting patterns (as shown by the meeting results data collected by Manifest as a part of the monitoring service), in the context of different categories of resolution.

None of Avon's fund managers voted with management consistently more than shareholders in general; Invesco and Genesis supported management noticeably less.

5.1 Fund Manager Voting compared to general shareholder voting and best practice template

Table 2 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice voting template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In many jurisdictions, provision of such information by companies is not guaranteed. However, of the 30,657 resolutions analysed in this report, Manifest obtained poll data for 25,011 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Voted With Management	Template For Management	General Shareholders Supported Management
BlackRock	21966	95.91%	44.01%	95.50%
State Street	4458	93.70%	60.88%	96.04%
Invesco	1334	89.43%	55.70%	95.42%
Jupiter	1130	97.79%	61.33%	97.47%
TT International	1010	98.61%	57.72%	96.43%
Schroders	602	92.69%	30.90%	94.36%
Genesis	157	85.35%	32.48%	95.83%
Total	**30,657**	**95.35%**	**47.74%**	**95.65%**

Firstly it should be noted that the data within Table 2 cannot be compared to the voting data from last year's report as the majority of voting data in 2011 took place after the voting season where most activity takes place. Therefore a lack of meaningful data is available for comparison at this stage, however we do have meaningful comparisons between our fund managers this year which we can use to fully benchmark for next year.

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

The companies in the Jupiter, State Street, TT and Invesco portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of BlackRock, Genesis and Schroder's portfolios, which show lower levels of governance best practice.

This reflects Jupiter's practice of accommodating a company's governance characteristics in their investment buying decision making, whereas BlackRock, for example, as a passive investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder and Genesis portfolios are global and therefore are subject to a much higher potential variance of general governance standards.

We can compare each fund manager's average overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the poll data (where made available by companies)). Table 2 shows that, overall, Avon's fund managers oppose management to almost exactly the same degree as all shareholders in general do. However, there are some variances between the respective fund managers.

As was the case in the 2011 monitoring report, TT have again supported management more than most shareholders. Conversely, Blackrock's levels of support for management are almost exactly in line with those of shareholders in general. Jupiter's support of management is again almost exactly the same as other shareholders, but notably higher than the general average. It is likely that Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with.

State Street, Schroders, Genesis and Invesco's support for management is all notably lower than general shareholder support, though in Genesis' case especially, statistical insignificance is a concern. At an aggregate level it is difficult to make thematic observations about why State Street, Schroders and Invesco have supported management less than shareholders in general, other than to say that as overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

It is interesting to note here the general differences in shareholder support for management. The fact that shareholders in general supported management at company meetings in the BlackRock portfolio rather less often than at TT and Jupiter is indicative that in general, there are perhaps more concerns at companies in the BlackRock portfolio which is of course a passive investor for Avon. It is also noteworthy that the level of opposition to management by shareholders of Jupiter's portfolio companies is less than half that of BlackRock.

6 Voting Behaviour By Resolution Category

Using the vote outcome data collected in respect of the significant majority of meetings at which Avon fund managers have voted, we have combined the meeting results with our classification of meeting business, so as to identify which were the most contentious resolutions and the reasons for them being contentious.

6.1.1 Dissent By Resolution Category

Where we use the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and 'For' plus 'Abstain' votes where Management recommended 'Against').

Where there was no clear recommendation from company Management, we have not counted any votes cast on those resolutions as dissent.

In respect of shareholder resolutions, dissent is measured by 'For' votes, being in support of the shareholder rather than management.

Table 3: General Dissent By Resolution Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Sustainability	392	364	11.90%
Remuneration	2,674	2,337	9.98%
Shareholder Rights	1,654	1,308	5.89%
Corporate Actions	427	364	5.80%
Board	16,493	12,917	3.93%
Capital	4,794	4,168	3.45%
Audit & Reporting	4,035	3,424	1.65%
Other	188	129	4.39%
Grand Total	**30,657**	**25,011**	**4.35%**

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

Table 3 above shows the most common categories of resolutions at meetings voted at by Avon's fund managers. When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions was 4.35% (3.69% last year) - in other words, an approval rating of more than 95% despite showing more dissent than 2011.

Avon's fund managers in 2012 were not significantly more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 1,426 occasions out of 30,657 resolutions, constituting an overall average opposition level of 4.65% (4.22% in 2011). Some patterns within this are demonstrated and explored more fully below.

As we noted in the 2011 voting report was likely to be the case, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. The following section analyses the above categories in more detail, by exploring patterns of opposition to the resolution sub-categories in each.

6.1.2 Dissent on Shareholder Proposed Resolutions

Table 4: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Resolutions	Average Dissent
Board	330	2.00%	30.97%
Capital	11	0.23%	No Data
Audit & Reporting	12	0.30%	52.91%
Remuneration	117	4.38%	14.90%
Shareholder Rights	77	4.66%	36.63%
Corporate Actions	9	2.11%	20.39%
Sustainability	163	41.58%	23.00%
Other	14	7.45%	8.89%
Grand Total	**733**	**2.39%**	**26.74%**

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

Board – Director Elections (143), Election Rules (93) and Board Composition (55). The latter two are much more likely to be shareholder resolutions than not (Board Composition resolutions almost entirely so).

Remuneration – 100 of them were miscellaneous shareholder requests, many of them requests for stronger share retention requirements for executives, and some say on pay requests.

Shareholder Rights – nearly half were requesting changes to meeting procedures such as removal of supermajority voting provisions from the articles of association or lowering the threshold required for shareholders to call a shareholder meeting.

Sustainability – nearly half of them were requesting disclosure of political donations, all in the US. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals such as the Statoil resolution to withdraw from (extracting oil from) tar sands in Canada.

Avon's managers voted with Management on over 95% of all shareholder proposed resolutions.

6.2 Board

Board related resolutions constitute over half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 5 below.

Table 5: Board Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Elect Directors	13,218	30.72%	95.49%	96.31%
Discharge Directors	2,749	84.90%	98.18%	98.26%
Election Rules	152	38.82%	62.50%	70.06%
Other Board/Director related	117	54.70%	92.31%	97.76%
Board Size & Structure	100	89.00%	95.00%	95.80%
Board Committee	93	81.72%	83.87%	98.17%
Board Composition	56	0.00%	78.57%	73.66%
Nomination & Succession	3	0.00%	66.67%	82.32%
Remove Directors	3	33.33%	100.00%	68.43%
Insurance & Indemnification	2	100.00%	50.00%	100.00%
Grand Total	**16,493**	**40.53%**	**95.48%**	**96.07%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Consistent with the pattern of voting on resolutions overall, Jupiter and TT were the only Avon fund managers to support management more frequently than shareholders generally.

Nearly all of the top 10 or 15 governance issues listed in Table 1: Most Common Policy Issues are considerations relevant to the re-election of a director, and therefore to a very large extent explain the low levels of alignment between the governance best practice template and company management recommendations on director elections in Table 5.

Of those resolutions where the fund managers also opposed management on Director Elections (596 resolutions) the most frequent governance issues Manifest identified were:
- The percentage of female directors on the Board (192)
- Nomination Committee independence levels (177)
- Nominee is not considered to be independent by the Board (168)
- Overall board independence levels(157)
- Audit Committee independence levels(150)
- Remuneration Committee independence levels (125)
- Nominee represents a major shareholder (122)
- Tenure (106)

On the vast majority of occasions, there were multiple concerns with each resolution, and it is likely that the quantum of governance concerns, rather than the substance of each individual concern *per se*, is what drives the fund managers to register opposition to their re-election.

6.3 Capital

Resolutions relating to the capital structure of a company frequently pertain to investment specific considerations. For that reason, governance best practice considerations are less frequently relevant, other than the extent to which proposals directly affect shareholders rights, where often the rules are well defined and relatively infrequently breached (such as the UK Pre-Emption Guidelines).

Therefore, many of the issues the policy template identifies are flagged as 'Case-by-Case' rather than as governance concerns *per se*, resulting in a much higher level of template support for management than Board related resolutions because 'Case-by-Case' is not counted as template being against management.

On all of the three main resolution sub-categories, Avon's fund managers voted against management marginally more often than shareholders in general, and in the case of share issues and pre-emption rights more than their own average dissent levels as well.

Table 6: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Issue of Shares & Pre-emption Rights	2,277	83.00%	93.76%	94.38%
Share Buybacks & Return of Capital	1,153	74.93%	97.57%	98.27%
Dividends	1,030	79.51%	98.74%	99.55%
Treasury Shares	208	88.94%	97.12%	97.24%
Capital Structure	83	85.54%	97.59%	97.74%
Bonds & Debt	22	72.73%	90.91%	98.77%
Equity Fundraising	18	11.11%	100.00%	97.77%
Authorised Share Capital	3	0.00%	100.00%	95.29%
Grand Total	**4,794**	**80.25%**	**95.97%**	**96.55%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Nearly half of the resolutions in this category related to the issue of shares and pre-emption rights, which often form part of routine business at company AGMs, giving them the on-going permission to issue new shares up to a certain agreed level for the forthcoming year.

The most frequent issues on resolutions where there was a concern highlighted (as opposed to a 'Case by Case' flag) were:
- New share issue authority exceeds 5-50% of existing share capital (310)
- Ordinary dividends exceed profits (158)
- Authority to buy or issue shares being sought is greater than 12-60 months (121)
- Lack of assurance that the proposed buy-back is intended to increase EPS/ NAV for current shareholders or is in the interests of shareholders (82)

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were the least contentious resolution category of all. However, because it includes resolutions which pertain to questions which are routine AGM meeting business in many countries, it nevertheless merits some analysis.

Table 7: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Auditor Election	1,738	45.17%	99.25%	98.09%
Report & Accounts	1,446	22.06%	98.96%	98.55%
Auditor Remuneration	604	51.82%	99.50%	98.45%
Appropriate Profits	165	89.09%	100.00%	99.21%
Other A&R related	60	86.67%	98.33%	98.26%
Auditor Discharge	15	100.00%	100.00%	99.29%
Special Audit	6	83.33%	66.67%	99.61%
Auditor Liability/Indemnification	1	0.00%	100.00%	N/A
Grand Total	**4,035**	**40.55%**	**99.16%**	**98.35%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

2,296 resolutions had at least one concern highlighted. Some of the most common concerns that Manifest identified on audit and reporting related resolutions are indicated in the table below. The very high degree to which Avon's fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns for which the fund managers wish to oppose these types of resolutions, or that they are concerns they were unaware of.

Table 8: Common Concerns Identified On Audit & Reporting Resolutions

Concern	Instances
Less than 50-100% of the Audit Committee are independent of management	1170
There is no independent verification of the Company's ESG reporting.	355
No meetings held by the non-executives without the executives present	283
There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration	249
Less than 25-66% of the Board is comprised of independent directors.	245
The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	227
The roles of Chairman and CEO are combined	220
The aggregate non-audit fees exceed the aggregate audit fees	216
The auditors have provided statutory audit services to the Company for over 10 years	187
Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	186
The Chairman sits on the Audit Committee	155

6.5 Remuneration

As noted above, Remuneration related resolutions continue to be the most contentious, attracting the highest average level of dissent of all of the resolution types routinely proposed by management as well as the lowest level of alignment with the governance best practice analysis.

Table 9: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Remuneration Report	1,529	13.87%	92.28%	90.39%
Long Term Incentives	486	29.63%	93.00%	90.79%
Non-executive Remuneration	245	63.67%	95.10%	96.91%
Remuneration - Other	198	29.29%	66.67%	80.63%
Short Term Incentives	79	27.85%	96.20%	94.64%
Termination Provisions & Payments	72	65.28%	56.94%	73.61%
All Employee Share Plans	65	98.46%	98.46%	97.20%
Grand Total	**2,674**	**26.29%**	**90.09%**	**90.02%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

However, readers will note the very high differential between the proportion of all resolutions where the governance best practice analysis raised concerns, and the proportion of all resolutions where Avon's managers (and shareholders in general) supported management. Also, readers will note that termination payments and provisions have attracted a much higher level of opposition from Avon's managers, one of the most controversial aspects of remuneration considerations.

Table 10: Common Concerns On Remuneration Resolutions

Concern	Instances
No indication of consideration of ESG issues in performance targets for incentive pay	881
The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	727
The largest aggregate LTIP award during the year exceeded 100-250% of salary of the director (on a market value basis, based on maximum possible vesting)	673
No evidence of clawback measures in place in respect of the long-term incentives.	671
No evidence of clawback measures in place in respect of the short-term incentives.	619
Less than 50-100% of the Remuneration Committee are independent directors	556
The exercise of options/ vesting of awards is not subject to performance conditions	484
The minimum performance measurement or options/share awards holding period is less than 2-3 years	442
The maximum potential severance payment exceeds 12 months' salary	380
Accelerated vesting of LTIP awards on termination is permitted (i.e. vesting of awards not pro-rated down on termination following a change of control)	305
The authorised dilution for share plans exceeds 10% of the issued share capital	276

Table 10 shows the most common governance best practice concerns identified by Manifest over the year. Despite the fact that the most frequent concern highlighted (a lack of linkage between incentive pay targets and sustainability considerations) may not be 'headline-grabbing', many of the other most prominent concerns certainly are.

The quantum of bonus and long term incentive payments is possibly the most widely debated contentious issue in the corporate governance of public listed companies. Not far behind (indeed, as a part of the same debate) is the question of whether bonus and incentive pay should be clawed back, in the event that performance for which bonuses have previously been paid turns out not to have been actually realised.

Frequently, such considerations are all associated with the Remuneration Report resolutions, which showed the highest divergence between the governance best practice policy and fund manager voting.

The absence of performance conditions for the exercise of awards or options is also noteworthy, especially alongside accelerated vesting of awards in the event of a change of control in the company. Both of these concerns suggest an element of payment of incentive pay without setting down substantive performance targets in order to obtain it.

6.6 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

They are important because they essentially relate to the extent to which investors are able to mitigate themselves against the risk of third parties making decisions which affect their investment in the company.

Table 11: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
General Meeting Procedures	651	87.10%	97.08%	93.00%
Other Articles of Association	602	88.70%	93.85%	97.28%
Meeting Formalities	330	93.94%	97.27%	98.87%
Shareholder Rights	37	5.41%	75.68%	69.97%
Takeover Governance	20	10.00%	60.00%	62.10%
Anti-takeover Provision	14	64.29%	50.00%	84.81%
Grand Total	**1,654**	**86.09%**	**94.62%**	**94.11%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Frequently, many of the issues in this category are relatively straight forward, and many of the resolutions where there is complexity it is down to the proposal being made by shareholders, therefore inevitably likely to introduce some question that is comparatively out of the ordinary.

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 day's notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it.

Because of this, the vast majority of the issues that Manifest research identified were to do with the nature of the resolution, rather than the substance - for example that the resolution is proposed by shareholders, or that the board does not make a recommendation on the resolution (common in US 'Say on Pay' frequency resolutions).

Some concerns related to the technicalities of shareholders rights were identified on a small number of resolutions, including instances where not all shareholders are given access to electronic voting, or where the company has made use of the right to call a meeting at 14 days notice in the preceding year (a valid consideration when deciding whether to approve permission to retain the right to call meetings at 14 days notice in future).

Of the 41 resolutions where fund managers opposed management on Shareholder Rights related considerations, 27 were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Avon's managers are well motivated to protect their interests and those of their clients.

6.7 Corporate Actions

Whilst far less numerous, some statistical significance can be attributed to some of the Resolution Sub-Categories pertaining to Corporate Actions, which can be put to effect to explore why it is the most contentious resolution category for Avon's fund managers.

Table 12: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Related Party Transactions	161	68.32%	77.02%	91.80%
Significant Transactions	104	8.65%	98.08%	96.36%
Transactions - Other	69	47.83%	89.86%	96.61%
Other Corporate Action	28	35.71%	96.43%	91.17%
Change of Name	26	96.15%	88.46%	97.31%
Company Purpose & Strategy	24	62.50%	79.17%	98.47%
Investment Trusts & Funds	15	80.00%	93.33%	89.87%
Grand Total	**427**	**50.12%**	**86.89%**	**94.20%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The majority of Corporate Actions resolutions trigger 'Case by Case' assessments, because of the nature of the issue at hand often being investment or company specific, such as related party transactions, schemes of arrangement, disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions or perspectives in this context becomes decidedly subjective, as do comparisons of fund manager voting with management recommendations.

What can be observed is that Avon's fund managers are much more likely to oppose approvals of related party transactions (commercial transactions between the company and related parties such as other companies for whom officers or directors of the company work). This is because related party transactions may well entail significant potential conflicts of interest.

6.8 Sustainability

Sustainability related resolutions are characterised by being formed by a high percentage of shareholder proposals. With the exception of political donations and sustainability reports, nearly all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, routine categorisation of these issues is night on impossible, because the specific content of proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

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Table 13: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Political Donations & Expenditure	279	12.46%	96.19%	90.76%
ESG Reporting	31	0.00%	100.00%	75.67%
Other ESG	20	10.00%	76.67%	83.23%
Sustainability Report	11	23.08%	92.31%	81.71%
Human Rights & Equality	10	8.33%	75.00%	75.40%
Charitable Donations	6	42.86%	100.00%	92.62%
Animal Welfare	4	0.00%	100.00%	83.15%
Environmental Practices	3	0.00%	100.00%	78.79%
Grand Total	**364**	**11.73%**	**94.39%**	**88.10%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

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

7 Aggregate Analyses

Manifest has also assessed the aggregate voting patterns undertaken by the fund managers mainly in respect of voting in emerging or developing markets (including Far Eastern and African markets). Aggregate analysis does not drill down to identifying governance concerns on individual resolutions, but does look at the aggregate patterns of voting decisions taken by the fund managers. This is largely due to the fact the disclosure practices in these markets is traditionally not as high as we are used to in Europe and the US in particular, thereby hindering the statistical reliability of detailed analysis.

7.1 Genesis

Table 14 below shows the number of resolutions in each category type voted by Genesis, as well as their average support of management on each.

It shows overall a slightly lower level of support for management than the fund managers in the detailed analysis above, which might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Genesis was voting. This shows that Genesis has taken a more active approach as required in these markets.

Table 14: Genesis Voting By Category

Category	Total Resolutions	Voted with Management
Board	682	96.19%
Audit & Reporting	284	95.42%
Capital	246	87.40%
Shareholder Rights	199	87.94%
Remuneration	132	94.70%
Corporate Actions	120	71.67%
Other	16	25.00%
Sustainability	10	60.00%
Grand Total	**1689**	**91.06%**

What is interesting is the breakdown of the average support of management by resolution category. Whilst Board (including director elections) and Audit & Reporting are roughly in line with the patterns shown in section 6 above, the level of support on remuneration issues is comparatively higher than in comparison with Section 6 which might be explained by Genesis's focus on Capital Structure and Shareholder Rights which in Emerging Markets is considered crucial.

By contrast, the markedly lower level of support for management on Corporate Actions resolutions were largely accounted for by Russian companies seeking ratification of Related Party transactions – a feature of Russian corporate meetings.

Table 15 shows a list of all of the countries in which Genesis reported voting, as well as how many resolutions were voted in each. As mentioned above, with so few resolutions in developed markets, a detailed statistical analysis including Genesis was not possible in the sections above.

Furthermore, given the high proportion of resolutions voted by Genesis which were in developing and eastern markets (with Brazil, India, China, and Mexico 4 of the top 6 countries in which Genesis voted), analysis of Genesis' voting patterns sits most comfortably in this aggregate analysis section.

Table 15: Genesis Resolutions Voted By Country

Country	Total Resolutions	Voted With Management
Russia	269	88.48%
Brazil	151	97.35%
India	145	94.48%
United Kingdom	111	98.20%
China	96	96.88%
Mexico	95	95.79%
Cayman Islands	81	85.19%
Turkey	76	65.79%
Nigeria	71	100.00%
South Africa	69	95.65%
Chile	68	88.24%
Egypt	65	100.00%
Indonesia	55	85.45%
South Korea	49	97.96%
USA	47	82.98%
Taiwan	41	87.80%
Thailand	37	91.89%
Hong Kong	35	74.29%
Malaysia	26	100.00%
Hungary	24	87.50%
Bermuda	20	70.00%
Colombia	13	76.92%
Greece	13	92.31%
Canada	10	100.00%
Jersey	10	80.00%
Zimbabwe	6	100.00%
Austria	6	83.33%
Grand Total	**1689**	**91.06%**

Readers should consider that a typical AGM normally consists of an average 10 resolutions (though this can vary from market to market), and that therefore markets where there are fewer than 150 resolutions voted constituted a very small number of meetings.

7.2 BlackRock

The aggregate analysis for the other fund managers relates to those markets where no detailed meeting analysis was carried out.

In the case of BlackRock, the total number of resolutions voted by market is shown in Table 16 below.

The majority of the resolutions in question related to Japanese meetings. What is particularly noteworthy is the much lower average level of voting with management in all of these markets (Liberia was just one single meeting, so can be discounted as a statistical pattern), especially in Hong Kong and South Korea, in comparison to BlackRock's average of 95% support for management in the detailed analysis.

Table 16: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Japan	5824	88.51%
Hong Kong	1196	76.59%
South Korea	721	78.78%
Singapore	507	93.49%
Liberia	7	100.00%
Grand Total	**8255**	**86.25%**

Table 17 shows the overall patterns of support for Management shown by BlackRock broken down by resolution category across all of the resolutions in the aggregate analysis.

Table 17: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	6008	88.58%
Audit & Reporting	936	77.88%
Capital	539	83.67%
Shareholder Rights	370	80.27%
Remuneration	218	71.10%
Corporate Actions	129	93.80%
Other	10	10.00%
Sustainability	45	97.78%
Grand Total	**8255**	**86.25%**

Consistent with the detailed analysis section, the most contentious resolutions in terms of BlackRock's voting decisions are remuneration related resolutions. It is also notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form a much smaller percentage than the detailed analysis. This is strong evidence that a shareholder say on pay is much less well established in these markets.

Also consistent with the detailed analysis is the high proportion of resolutions which are to do with Board considerations. This is again due to the very high proportion of resolutions which are director elections.

The level of support for management on Audit and Reporting issues is comparatively very low.

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally. However, a large proportion of the sustainability themed resolutions in 2011 were in Japan, which was subject to some very specific circumstances. With Japan relying so comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. This explains the higher level of support for management from BlackRock on sustainability issues in this section.

7.3 State Street

State Street's voting in the aggregate analysis markets is also relatively statistically significant, especially in Japan. Table 18 shows a higher level of support for management than BlackRock, but still slightly lower than the average level for Schroder voted events in the detailed analysis.

Table 18: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Japan	3007	95.18%
Hong Kong	732	82.10%
South Korea	453	90.51%
Singapore	338	94.67%
Grand Total	**4530**	**92.56%**

Similar to BlackRock, State Street's support for management at meetings of Hong Kong companies is noticeably lower than for Japan or Singapore, though this is far less the case for voting at South Korean meetings.

Table 19: State Street Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	3204	95.47%
Capital	550	76.73%
Remuneration	295	94.58%
Audit & Reporting	223	97.76%
Shareholder Rights	138	78.26%
Corporate Actions	61	93.44%
Sustainability	47	93.62%
Other	12	50.00%
Grand Total	**4530**	**92.56%**

The breakdown of the resolutions voted by State Street in the aggregate analysis by category in Table 19 shows that the majority of resolutions were board-related, due to the large number of director elections.

Of those with a sufficient number of examples to draw patterns from, Capital (equity and debt structures in particular) and Shareholder Rights (including many shareholder proposals) are the two resolution types where the fund manager is most likely to oppose management.

It is again noteworthy that the proportion of the resolutions which were remuneration related is comparatively small compared to the detailed analysis section.

7.4 Schroders

The number of resolutions voted by Schroders in this part of the analysis is comparatively very small, with only a few hundred resolutions voted. This means that analysis of any potential patterns in the data is not really possible, especially given the wider number of markets in which meetings were voted by Schroders.

Table 20: Schroders Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Hong Kong	61	73.77%
Brazil	58	67.24%
Japan	49	93.88%
Russia	32	40.63%
Singapore	15	80.00%
South Korea	11	36.36%
Israel	8	100.00%
Grand Total	**234**	**71.37%**

However, two observations can be made. Firstly, support for management on resolutions in the aggregate analysis is much lower than in the detailed analysis. Secondly, voting on Japanese meeting resolutions also shows a higher level of support for management than in all other countries in this part of the analysis for Schroder's voting (Israel was a single meeting and may be discounted as a 'pattern'), just as was the case for other fund managers.

Analysis of Schroders voting on resolutions broken down by category again show a high proportion of board related proposals, again due to director elections.

However, despite the cautionary note about drawing patterns from a small data set, it is difficult to ignore the

It can be noted that Schroders voted in support of management a significantly lower percentage of the time compared to other fund managers on the topic of Board related resolutions. This can be explained in part due to particularly low levels of support for Board related proposals at companies in Brazil (65%) and Russia (34%) which shows that managers take a more active approach on voting topics that are considered to be most influential to company value and where there are particular governance concerns in specific geographical regions.

Table 21: Schroders Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	128	74.22%
Capital	42	50.00%
Audit & Reporting	28	78.57%
Remuneration	16	87.50%
Shareholder Rights	13	84.62%
Corporate Actions	7	57.14%
Grand Total	**234**	**71.37%**

7.5 Invesco, Jupiter & TT International

Invesco, Jupiter and TT international didn't have any events to vote in the markets for which the aggregate analysis is undertaken.

8 Conclusions

The report on the 2012 voting of Avon's fund managers is the first year of complete analysis. By comparison with the partial analysis carried out on 2011 voting, there are certainly common themes. This can be explained by the fact that the broad pattern of corporate governance practices evolves over the long term. Whilst individual companies may have made positive adjustments to their governance arrangements since last year, others may have lapsed and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.

For this reason, readers should not expect to see a discernible change in governance standards from year to year. What is more important to understand is how the fund's managers respond and react to identified concerns, which is why fund manager vote monitoring plays a central role in understanding this question.

The debate on corporate governance continues to grow in importance, illustrated recently by the high profile debate on the position of joint chair and CEO held by JP Morgan's Jamie Dimon. This, and other examples of high profile governance issues making the news (such as board remuneration practices, risk management and arrangements regarding professional audit services), show that the quality of governance scrutiny is on the increase. It is up to asset owners like the Avon Pension Fund to ensure that the quality and focus of this scrutiny is maintained by professional investors.

The way in which fund managers use their voting rights is an important part of this. However, one should avoid falling into the trap of using voting records as a proxy for understanding whether a fund manager is an 'active' owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement by the fund manager.

For 2013, whilst remuneration remains a high profile question, the notion of holding individual directors (especially chairs) to account for governance arrangements (including independence) is likely to rise in prominence, as is the question of audit rotation.

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9 Appendix - Hot Governance Topics

9.1 Changes To The UK Corporate Governance Code in 2012

As an institutional investor from the UK, developments in corporate governance soft regulation in the UK are of prime importance to Avon. It goes a long way to defining the business environment within which the expectations of investors such as Avon are set.

Furthermore, given the prominent position of the UK market as a global centre for investment, and the leading role that the UK corporate governance codes have played in spearheading developments globally, new developments in the UK Corporate Governance Code are also of general importance.

In September 2012, the Financial Reporting Council (FRC) published a revision of the UK Corporate Governance Code.

It incorporated the results of a consultation which had taken place earlier in the year. The consultation results included the following adjustments:

- With regard to the statement made by the board, it should confirm that it considers the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy. It also states that the board should establish arrangements that will enable it to make this assessment. It will be left to boards to decide what role the audit committee should play in these arrangements.
- Provisions for public reporting by the audit committee have been slightly strengthened so that the committee should give an account of how they have arrived at their assessment of the external audit, rather than simply state whether they are satisfied with it.
- Companies should put their external audit out to tender at least once every ten years. The purpose of holding a tender is not to achieve mandatory rotation of auditors, but is for companies to benchmark the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit. Audit appointment remains subject to shareholder approval.
- Companies should disclose who their executive search, board evaluation and remuneration advisors are, and whether they have any other links with the company.

In addition, new provisions relating to board diversity were also included, as the FRC said would be the case in October 2011 when they were announced. These provisions require the board to set out their policy on diversity, including gender, and to state what targets the policy includes and what progress has been made towards achieving them. Boards should also consider the full range of skillsets required for the achievement of the boards aims and objectives, including diversity, as a part of the board evaluation process.

During 2012 there was also the publication of the final report of the Sharman Inquiry onto Going Concern. The FRC will therefore be amending the 'Guidance of Audit Committees' in order to adopt the recommendations of the report, following consultation which was due to begin in the latter stages of 2012, through revision of the 'Going Concern and Liquidity Risk: Guidance for Directors'. In addition, the FRC intends to update the 'Turnbull Guidance' on internal controls, again consultation to begin by December 2012.

9.2 The EU Corporate Governance Action Plan

As a follow up to the EU Green Paper on Corporate governance outlined in last year's report, in December 2012, the European Commission set out its 16 priorities for promoting sustainable and competitive companies in the EU. After two years of investigation, the Commission has decided to focus its workplan on three main areas:

- Transparency
- Long-Term Shareholder Engagement
- Company Law Reforms

Each area has identified within it a number of objectives which further develop the broad theme.

Transparency

- Increasing transparency on board diversity and risk management;
- Improving corporate governance reporting;
- Better shareholder identification;
- Strengthening transparency rules for institutional investors on their voting and engagement policies.

Shareholder Engagement

- More transparency on remuneration policies and individual remuneration of directors, as well as a shareholders' right to vote on remuneration policy and the remuneration report;
- Better shareholders' oversight on related party transactions;
- Possibly transparency and conflicts of interest rules for proxy advisors;
- Clarification of the 'acting in concert' rules to facilitate co-operative engagement;
- Further encouragement of employee share ownership.

Company Law Reform

- Further investigation on a possible initiative on the cross-border transfer of seats for companies;
- Facilitating cross-border mergers;
- Clear EU rules for cross-border divisions;
- Targeted measures on groups of companies, i.e. recognition of the concept of the interest of the group and more transparency regarding the group structure.
- Follow-up of the European Private Company statute proposal with a view to enhancing cross-border opportunities for SMEs;
- An information campaign on the European Company/European Cooperative Society Statute;
- The likely codification of all EU company law rules into a single instrument.

At the time of writing we have no indication from the Commission of the timetable for implementation or further consultations.

EU Action Plan - Main Initiatives

<table>
<tr><th>Initiative</th><th>Instrument/Expected Timing</th></tr>
<tr><td>Disclosure of board diversity policy and of risk management arrangements</td><td>Amendment of the Accounting Directive, 2013</td></tr>
<tr><td>Improving the visibility of shareholdings in listed companies in Europe</td><td>Securities legislation, 2013</td></tr>
<tr><td>Improving the quality of corporate governance reports and in particular the quality of explanations which should be provided by listed companies that depart from the corporate governance code provisions</td><td>Possibly non-legislative initiative, 2013</td></tr>
<tr><td>Disclosure of voting and engagement policies as well as voting records by institutional investors</td><td rowspan="4">Possibly Shareholders’ Rights Directive, 2013</td></tr>
<tr><td>Improving transparency on remuneration policies and individual remuneration of directors, and granting shareholders the right to vote on the remuneration policy</td></tr>
<tr><td>Improving shareholder control over related party transactions</td></tr>
<tr><td>Improving the transparency and the conflict of interest frameworks applicable to proxy advisors</td></tr>
<tr><td>Working closely with competent national authorities and the European Securities and Markets Authority (ESMA) with a view to developing guidance to increase legal certainty as regards the relationship between investor cooperation on corporate governance issues and the rules on acting in concert</td><td>Guidance, 2013</td></tr>
<tr><td>Increasing awareness of the European Company (SE) Statute (including employees’ involvement) and possibly of the European Cooperative (SCE) Statute.</td><td>Information campaign, 2013</td></tr>
<tr><td>The Commission will continue to work on the follow-up to the SPE proposal with a view to enhancing cross-border opportunities for SMEs</td><td>Further exploration</td></tr>
<tr><td>Identification of obstacles to employee share ownership in Member States</td><td>On-going analysis</td></tr>
</table>

Rules on cross-border transfer of registered office	Further investigation, 2013
Revision of the rules on cross-border mergers Rules on cross-border divisions	Study, 2013 and possibly amending the cross-border mergers Directive
Codification of major company law Directives	Proposal for a codified company law Directive, 2013
Improving the information available on groups and recognition of the concept of 'group interest'	Initiative to be determined, 2014

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**21 June 2013**	**AGENDA ITEM NUMBER**	**11**
TITLE:	**ADMISSION BODIES & ACADEMIES**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Exempt Appendix 1 – Community Admission Bodies Exempt Appendix 2 – Transferee Admission Bodies Exempt Appendix 3 – Academies			

1 THE ISSUE

1.1 There are a significant number of “admitted” bodies including Transferee Admission Bodies and Community Admission Bodies in the Fund. In addition, since 2010 a significant number of academies have joined the scheme as scheduled bodies.

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

1.3 The Fund now has c. 79 academies, which are scheduled bodies within the scheme. When new employers join the Fund the costs incurred on entering the scheme are charged to the new employer. The report explains the basis of the fees charged to new employers (with specific reference to academies) on joining the scheme.

2 RECOMMENDATION

That the Committee:-

2.1 Agrees the policy for recovering outstanding liabilities and on-going assessment of employer covenants

2.2 Agrees to retain the current charging structure for new bodies when joining the scheme.

3 FINANCIAL IMPLICATIONS

3.1 The last actuarial valuation of the Fund as at 31 March 2010 disclosed a funding deficit of £552m. The next actuarial valuation is due as at 31 March 2013 and the funding position will have deteriorated since the 2012 valuation. There is a significant risk that a few of the CABs may not be able to meet their full liability especially as many of these bodies are primarily funded by local authorities and central government. Where a scheme employer cannot meet their full liability the Regulations allow for the outstanding sum to be recovered from the other bodies in the Fund.

3.2 To put this into perspective, the aggregate deficit of the CABs at the 2010 actuarial valuation was £23m or 4.1% of the total deficit. Nearly half of this (£11.2m) related to one relatively secure entity and a number of the larger CABs have relatively secure income streams underpinning the deficit.

3.3 The pension liabilities of the TABs are guaranteed by the outsourcing scheme employer (normally local councils) so pose no direct risk to the Fund.

3.4 Academies are scheduled bodies and do not have an explicit guarantee from the government. To date the government has supported failing academies.

4 BACKGROUND

4.1 There are various employers in the scheme: scheduled bodies such as local authorities and education bodies including academies (staff have a right to join the scheme); designating bodies such as town and parish councils (the body can pass a resolution to allow staff to join the scheme); and admitted bodies (where the admission agreement between the Fund and admitted body will determine the employees permitted to join the scheme).

4.2 There are presently 25 Community Admission Bodies ("CABs") in the Fund. In general terms, a CAB is a body "which provides a public service in the United Kingdom otherwise than for the purposes of gain" or a body to the funds of which a Scheme Employer contributes. These bodies can take various forms, as will be seen from Exempt Appendix 1, but one common feature is that their funding generally comes from the public sector. The security of the funding sources varies, which means that, in terms of being able to meet their pension liabilities, some bodies pose a greater risk to the Fund than others. All CAB admissions to the Fund must be approved by the Committee.

4.3 **Since December 2005 the Fund's policy is to only admit a body seeking admission to the Fund as a CAB if it is guaranteed by a Scheme Employer or a bond is put in place to protect the Fund.** Before the Local Government Act 2000 ("LGA 2000") there was uncertainty as to whether local authorities could provide guarantees to such bodies and as many of the CABs were admitted to the Fund some years ago they represent a legacy issue when Scheme Employer guarantees were not permitted.

4.4 The actuarial position of the CABs is affected in the same way as the other scheme employers. However, the reduction in funding from public sector bodies has exacerbated the financial situation for many of these bodies, making it more difficult for them to increase contributions to the Fund. The policy towards ensuring the sustainability and solvency of these bodies within the Fund will be addressed in the Funding Strategy for the 2013 valuation.

4.5 There are 39 Transferee Admission Bodies ("TABs") in the scheme whose pension liabilities are guaranteed by the outsourcing scheme employer. TABs are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer. Some TABs have a bond in place and the Fund encourages outsourcing employers to obtain a bond or parent company guarantee to protect the outsourcing employer in the event of insolvency of the TAB.

4.6 Exempt Appendices 1 & 2 summarises key financial and actuarial data of each admitted body showing the actuarial position at the 2010 valuation.

5 FUND POLICY FOR RECOVERING OUTSTANDING LIABILITIES & ON-GOING ASSESSMENT OF EMPLOYER COVENANTS

5.1 To manage the Fund equitably, the Administering Authority will seek to recover a shortfall in assets from the employing body to which it is attributable. Any shortfall that is not met by the employer, the employer's guarantor or bond will be charged to the Fund as a whole. The Administering Authority's funding objective aims to protect the financial interests of all employing bodies in the Fund and therefore, ultimately, the tax payer.

5.2 When a Transferee Admission Agreement or a Community Admission Agreement (with a guarantee) is terminated, the assets and liabilities of the admission body will, in accordance with the Funding Strategy Statement, normally transfer to the scheme employer's guarantor. The only exception will be where, in respect of Admission Agreements pre-dating 16 March 2012, the Scheme Employer elects to leave the assets and liabilities with Fund. In this case, discussions between the Scheme Employer and the Fund will need to take place to determine the mechanism by which any net liability is to be discharged.

5.3 The LGPS Regulations are clear in the responsibility of the Administering Authority to recover outstanding liabilities when an employing body exits the Fund. They provide for the Administering Authority to obtain an actuarial valuation and revised rates and adjustments certificate for the outgoing body. Where for any reason it is not possible to obtain the revised contributions from the outgoing body, or from an insurer or body providing an indemnity or bond on behalf of that body, the Administering Authority may obtain a further revision of any rates and adjustments certificate for the fund, showing

(i) in the case of a TAB, contributions due from the body which is the Scheme employer in relation to that admission body; and

(ii) in the case of a CAB with a guarantee, the contributions from the scheme employer guaranteeing the CAB

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

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

5.5 As indicated in paragraph 5.1, any outstanding liability that is not recovered from an employing body that does not have a guarantee is met by the other employing bodies in the Fund. In the event that a body fails and the recovery of liabilities is not economic or possible to pursue, under the LGPS Regulations, the Section 151 Officer will instruct the actuary to revise the contribution rates payable by the other employing bodies in the Fund as necessary and notify the Committee of such action.

5.6 There is an on-going assessment of the employers' covenants to ensure that the risks to the Fund are identified, quantified and action taken where possible to mitigate them as early as possible. The aim of the assessment is to:

(1) provide information to enable the Fund to proactively engage with scheme employers regarding the financial planning of their pension liabilities

(2) enable the Fund to alter the funding plan if there are changes to the employer's funding profile or income streams to protect the solvency of the Fund

(3) provide a consistent framework for use within the actuarial valuation process to agree individual employer's contribution rates and deficit funding plans.

5.7 Given the number of employers within the Fund it is not feasible or a good use of limited resources to assess each individual body. The Fund's approach is to group employers by similar characteristics e.g. by funding streams, tax-raising powers, provision of service, and initially assess each group, in order that priority is given to those employers that pose, or could pose, more risk to the Fund or are less able to meet their future payments.

6 ACADEMIES

6.1 The Fund now has c. 79 academies (listed with relevant financial information in Exempt Appendix 3). As scheduled bodies these employers have the right to join the scheme. Despite attempts by the Fund (and other LGPS funds) the Department of Education has not provided adequate assurance or clarity as to the treatment of the pension liabilities in the event that an academy fails. To date, failing academies have been taken over by another. Therefore the Fund's position is to assume that failing academies will be "supported" by central or local government and therefore on joining the scheme they are treated in same way as the authority from which it has left. This policy will change in response to government support not materialising should such an event occur.

6.2 At subsequent valuations the treatment in terms of actuarial assumptions and recovery periods will depend on how the Fund assesses on-going the risk at that point in time. With the number of these bodies increasing, the aggregate risk to the Fund of these non-tax raising scheduled bodies is increasing. As a result, the Committee may decide that, in the 2013 valuation, the treatment of academies in terms of the actuarial assumptions and deficit recovery plans should differ from the local authorities if the covenant risk is deemed higher. This issue will be considered by the Committee when drafting the Funding Strategy Statement (at the Valuation workshop on 21 June 2013).

6.3 The Committee has asked the officers to consider charging the academies a flat fee to cover the costs of entering the scheme including:

i. the cost of setting the contribution rate by the actuary

ii. setting up the new employer in the administration system

iii. training the staff of the new employer

The actuary's fee (i) is a fixed costs plus a charge per member (charge per member on a sliding scale). The cost charged to each body to cover the Fund's costs is a percentage of the actuary's fees.

6.4 Having analysed the charges over the last 24 months, officers do not intend to alter the charging structure as the current system ensures there is no cross subsidy between new employers or the Fund and new employers. All prospective employers are given an estimate of these charges when they contact the Fund to discuss joining. At the same time they are informed of the actuarial fees for the annual pension liabilities disclosure in their Statement of Accounts (IAS19).

7 RISK MANAGEMENT

7.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and to support the Investments Manager in managing the financial and liability risk.

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

In recognition of the risk posed by the liabilities to the Fund, the officers have increased the on-going dialogue with all employers about the risk posed to their operations by the pension deficit.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained in the report.

11 ADVICE SOUGHT

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

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

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-674-13

Meeting / Decision: Avon Pension Fund Committee
Date: 21 June 2013

Author: Liz Woodyard
Report Title: Admission Bodies and Academies Exempt Appendix Title: Appendix 1 – Community Admission Bodies Appendix 2 – Transferee Admission Bodies Appendix 3 – Academies

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

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

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

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

Weighed against this is the fact that the exempt appendices contain financial information about the organisations which is commercially sensitive and could prejudice the commercial interests of the organisations if released. The exempt appendices also include the observations and opinions of officers on the financial strength of these organisations.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the performance of the fund has been made available on these issues – by way of the main report.

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

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of the Local Government Act 1972.

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<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>21 JUNE 2013</td><td>AGENDA ITEM NUMBER 12</td></tr>
<tr><td>TITLE:</td><td colspan="2">INVESTMENT PANEL ACTIVITY</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Draft minutes from Investment Panel meeting held 4 June 2013
EXEMPT Appendix 2 – Draft EXEMPT minutes from Investment Panel meeting held 4 June 2013</td></tr>
</table>

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. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has held one meeting since the March 2013 committee meeting, on 4 June 2013. The draft minutes of the Investment Panel meeting provide a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in at Appendix 1.

1.3 There are no recommendations from the Panel. The Panel made the decisions as set out in paragraph 4.2

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meeting held on 4 June 2013

2.2 the decisions made by the Panel at the meeting on 4 June 2013

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for tin the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 There are no recommendations to Committee arising from the meeting held on 4 June 2013.

4.2 Decisions were made as follows:

(1) To terminate fund of hedge fund mandate managed by Man on the basis of on-going concerns regarding performance.

(2) Agreed to fund the new Diversified Growth Fund and Emerging markets mandates from the BlackRock passive equity portfolio in two stages and use the opportunity to restructure the BlackRock passive equity portfolio to deliver appropriate regional allocations and options to take income (the regional allocation for the passive equity portfolio will be agreed at a later meeting).

(3) Agreed the Diversified Growth Mandate specification and appointment process.

(4) Agreed the performance reporting policy to strengthen the monitoring and reporting framework.

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 to carry out responsibilities delegated by the Committee.

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.

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	

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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Tuesday, 4th June, 2013, 2.00 pm

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Cllr Coombes announced that he was resigning from the Pensions Committee in the middle of June because of other commitments, and that he would not be attending further meetings of the Panel or Committee. The Chair paid tribute to Cllr Coombes' contributions to the work of the Panel and the Committee over the last three ? 2? years.

7 MINUTES: 22 FEBRUARY 2013

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

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2013

The Assistant Investments Manger introduced the report. He drew attention to the new section contained in the individual manager reports contained in the JLT report, which stated why each particular mandate was included in the portfolio and the reasons each manager was selected.

Mr Finch summarised the market background. As shown on page 19 of the agenda, recovery had been strong in equities in all regions except emerging markets, yet the latter were those where growth was strongest. This apparent paradox was explained by the way the indices were constructed; the indices recorded exports, which were depressed, but economic growth was in the domestic economies. Most bond markets had had a poor quarter, with concerns about inflation still remaining. In the latest quarter, every investment manager had had a positive return. This was because all the managers in the portfolio did well in rising markets. The only manager whose relative performance had fallen short of the benchmark over three years was MAN. It was the hedge funds which had struggled most over the past three years.

The Chair noted that Schroder Global Equity had underperformed over the year and had only just outperformed in the quarter. Mr Finch replied that Schroder's philosophy emphasised value. They had been hit in the past year, but he was comfortable with their current progress. He agreed that Schroder tended not to perform so well in rising markets, but the value approach tended to work better when markets were less strong.

A Member asked about Schroder's property portfolio. Mr Finch said that the property sector was struggling, with no significant rental or capital growth and he does not have concerns with this manager.

The Chair asked whether the economic situation had improved since March. Mr Finch replied that since the end of the previous quarter bond yields had increased, reflecting concerns about the situation in Europe. Markets were also waiting to see what the new Governor of the Bank of England would do. There were encouraging signs in the US economy and there was even some inflation in Japan. Even so, there were plenty of potential shocks in the system.

In response to a question from a Member, Officers confirmed that no rebalancing of the Equity:Bond allocation had taken place and was not required at present.

RESOLVED to note the report.

9 MAN MANDATE

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

Following discussion, the Panel **RESOLVED** on a course of action in relation to this matter.

10 CHANGES TO LIQUID GROWTH PORTFOLIO

The Investments Manager presented the report.

Following discussion, the Panel RESOLVED on a course of action in relation to this matter.

11 DIVERSIFIED GROWTH MANDATE

The Assistant Investments Manager presented the report. Members were invited to approve the mandate specification contained in exempt Appendix 1 and to agree one of the options for the selection meeting given in paragraph 5.4 of the report.

A Member suggested it would be helpful to seek information about fees and to ask those tendering for the mandate to justify their fees.

Two Members expressed a preference for the selection meeting to comprise the full Panel.

RESOLVED:

1. To agree the proposed mandate specification in exempt Appendix 1.

2. That the selection meeting should be arranged as a meeting of the full Panel.

12 INVESTMENT PERFORMANCE MONITORING AND REPORTING

The Assistant Investments Manager presented the report. He said that recent changes to the Fund's structure and delegation arrangements heightened the importance of a robust monitoring and reporting framework. There were two things to be monitored: strategic performance and the performance of individual managers. It was proposed that quarterly reports to the Committee would focus more on strategic performance and that an annual report to Committee on all aspects of investment strategy would be introduced. The monitoring of individual managers had been delegated to the Panel. It was proposed that the normal quarterly reports on manager performance would be supplemented by Red Amber Green (RAG) reporting as described in Appendix 1.

Members agreed that it was essential to know the direction of travel of managers as well as their current RAG rating.

A Member wondered whether managers should be given more time to state their case at meet the manager meetings. Another Member suggested they should not; it was useful to test whether managers could explain what they were doing and why they were doing it simply and concisely.

RESOLVED:

1. To agree the new monitoring policy and reporting arrangements by Officers to Panel and by Panel to Committee as set out in section 6 of the report.

2. To note the new arrangements for investment performance monitoring by Officers to support the RAG reporting process, as set out in Appendix 1.

13 WORKPLAN

RESOLVED to note the workplan to be included in Committee papers.

The meeting ended at 3.35 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-675-13

Meeting / Decision: Avon Pension Fund Committee
Date: 21 June 2013

Author: Matt Betts
Report Title: Investment Panel Activity Appendix 1 – Draft minutes from Investment Panel meeting held 4 June 2013 EXEMPT Appendix 2 – Draft EXEMPT minutes from Investment Panel meeting held 4 June 2013

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

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

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

PUBLIC INTEREST TEST

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

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

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

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

Weighed against this is the fact that the exempt appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also contains details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report.

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

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<table>
<tr><td colspan="3">Bath & North East Somerset Council</td></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>21 June 2013</td><td>AGENDA ITEM NUMBER 13</td></tr>
<tr><td>TITLE:</td><td colspan="2">REVISED INVESTMENT POLICY STATEMENTS</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Statement of Investment Principles
Appendices 2 - 6 – Appendices 1- 5 of the SIP: Manager Statements on their SRI Principles (not included)
Appendix 7 – Appendix 6 of the SIP: Compliance with Myners Principles
Appendix 8 – Rebalancing Policy
Appendix 9 – Cash Management Policies</td></tr>
</table>

1 THE ISSUE

1.1 Following the changes made to the investment strategy a number of policy statements need to be revised in order that they are aligned with the new strategy. This report asks the Committee to approve the revised Statement of Investment Principles (SIP), rebalancing policy and cash management policy.

1.2 The SIP is a statutory document that sets out the Fund’s investment strategy and policies and states how the Fund complies with the Myners Principles for Effective Decision Making.

1.3 The rebalancing and cash management policies ensure the Fund’s investment strategy is efficiently implemented.

2 RECOMMENDATION

That the Committee approves:

2.1 **The Statement of Investment Principles**

2.2 **The rebalancing policy**

2.3 **The cash management policy**

3 FINANCIAL IMPLICATIONS

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

4 REPORT

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

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

4.3 The SIP was last revised in September 2012. Since then the main developments have been:

(1) Revised investment strategy (section 3)

The revised strategy and asset allocation has been set out in the SIP. However, the actual asset allocation will deviate from the new target allocation until the new strategy is fully implemented during 2013-14.

4.4 The revised SIP can be found in Appendices 1-7 to this report.

4.5 The SIP consists of the following:

(1) The Statement

(2) Appendices 1-5 of the SIP - are the Socially Responsible Investing statements from the Fund’s active investment mandates. Note that Invesco now provide a Responsible Investment Policy statement.

(3) Appendix 6 of the SIP - the Fund’s compliance with the Myners Principles.

4.6 The Fund has explicit rebalancing and cash management policies to ensure efficient management of the Fund’s assets within the strategic framework. These policies are being updated to take into account the new strategy and changes to the investment management structure. The policies are set out in Appendices 8 and 9.

4.7 The Committee is asked to approve the revised SIP, rebalancing policy and cash management policy.

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a.

9 ADVICE SOUGHT

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

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

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Appendix 1

AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

This statement sets out the principles that will guide the Avon Pension Fund Committee ("the Committee") when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets and is consistent with the Fund specific funding strategy as set out in the Funding Strategy Statement.

The Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 ("the regulations") require the Avon Pension Fund ("the Fund") to prepare, publish and maintain a statement of the principles governing its investment of the Fund's monies. As required by the regulations, the Committee will review this statement periodically to ensure it is consistent with the Fund's funding strategy.

This statement is required to cover the following:

- Types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of voting rights (if there is any such policy)
- Stock lending
- Statement of compliance with the Myners Principles

1 Investment Objective

The investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long term as well as reflect the balance between maximising returns consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a longer term strategy.

Implementation: The Fund has a strategic benchmark which reflects the Fund's liability profile. The expected return of the current strategy is equivalent to 2.8% p.a. over the expected return on long dated gilts and the expected volatility of the returns relative to liabilities is 10.0% p.a. (source: JLT). This investment objective is consistent with the investment return assumptions in the funding strategy used in the actuarial valuation.

2 Types of Investment Held

The Fund may invest in any type of investment permitted under the regulations. Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

Implementation: The Fund invests in equities (both UK and overseas), diversified growth funds, index-linked and fixed interest stocks, Fund of Hedge Funds and property funds. The strategic benchmark includes an allocation to infrastructure which has yet to be invested. Some of these investments are in segregated portfolios but the majority are in pooled funds. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

3 Asset Allocation and Expected Long Term Returns on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the longer-term it provides a framework within which de-risking strategies could be implemented.

For each portfolio managed on an active basis, the manager has an outperformance target which means that the Fund should outperform its strategic benchmark, everything else being equal. The outperformance target will reflect the level of risk and approach to investing taken by each active manager. The strategic benchmark does not assume any outperformance from the investment managers.

Implementation: The strategic asset allocation along with assumptions for expected return and volatility for each asset class is set out in the table below. This strategy was agreed in 2013 and will be implemented during 2013 and 2014.

Asset Class	% of Fund	Range	Expected return*	Expected Volatility
Growth assets	**80%**	**65 -85%**		
Equities	*50%*	*45 - 55%*		
Developed	*40%*	*35 - 45%*	*+3.75%*	*15 - 20%*
Emerging	*10%*	*5 - 15%*	*+4.25%*	*15 - 25%*
Diversified Growth Funds	*10%*	*5 - 15%*	*+3.75%*	*10 - 15%*
Illiquid Growth	*20%*	*15 - 25%*		
Hedge Funds	*5%*	*0 - 7.5%*	*+1.5%*	*6 - 15%*

Property	*10%*	*5 - 15 %*	*+2.5%*	*5 - 10%*
Infrastructure	*5%*	*0 - 7.5%*	*+2.5%*	*5 - 10%*
Other Growth	*0%*	*0 - 5%*	*+2.5%*	
Stabilising Assets	**20%**	**15 - 35%**		
Government Bonds	*3%*	*0 - 10%*	*0%*	*5 - 10%*
Index linked bonds	*6%*	*3 - 10%*	*-0.25%*	*5 - 10%*
Corporate Bonds	*8%*	*4 - 20%*	*+1.0%*	*5 - 10%*
Other Bonds	*3%*	*0 - 5%*	*+1.0%*	*5 - 10%*
Cash	**0%**	**0 - 5%**		

** Expected return is expressed as an excess return over UK gilt yields or the "premium over gilts" to reflect the extra risk being taken. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.*

The inclusion of diversified growth funds (DGFs), property and hedge funds in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. The reduction in volatility results from these assets and investment approaches having a lower correlation to both bond and equity returns over the long term. In addition the Fund expects to benefit from the "illiquidity premium" from investing in property and infrastructure, and to a lesser extent, hedge funds.

The Fund takes an active approach to hedging its US dollar, Yen and Euro developed market equity exposure. This is managed on a segregated basis. Foreign currency exposure is expected to be an unrewarded risk over the longer term, thus the currency hedging is to protect the sterling value of the hedged portfolios and to reduce the volatility that arises from currency. The active approach attempts to reduce the cash outflows associated with currency hedging during times of sterling weakening, by reducing the hedge when sterling weakens.

A dynamic rebalancing policy is triggered when the proportions invested in bonds and liquid growth assets (equities and DGFs) deviates by more than permitted. The rebalancing policy will ensure that the allocations remain within the strategic ranges.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The cash held internally is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

The strategic policy and the medium term performance of the managers are monitored at quarterly Panel and Committee meetings.

4 The balance between different types of investment and the Investment Management Structure

The Fund will at all times invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing. Whilst the

Fund experiences a deficit in its funding position, there will be a significant allocation to "return generating" assets such as equities and diversified growth funds. The equity portfolio will be diversified by manager, geography and investment style.

The Fund will invest via segregated and pooled portfolios based on the appropriateness for each portfolio (namely, cost, liquidity, impact on voting rights, flexibility and speed of implementation). The Fund will invest across a combination of passive, enhanced indexation, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Implementation: A significant proportion of the Fund is invested in passive mandates (across equity and bonds markets only) which rely solely on market returns to generate the investment return. The rest of the Fund is invested in active mandates (across equities, bonds, DGFs, hedge funds, and property) where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent.

Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner. These are suitable for equity and bond portfolios managed on a pooled or segregated basis. An "enhanced indexation" approach to managing equity portfolios aim to provide an incrementally higher return than the index but at a low risk relative to the index. This approach utilises quantitative models to generate portfolios. Active managers seek to outperform the index or benchmark through the selection of the underlying investments. Such portfolios are usually more concentrated and can be more or less volatile than the index/benchmark depending on the investment approach. Within the Fund, the active equity mandates tend to be more volatile than the index whereas the DGFs target a lower volatility through active management.

Each mandate has a portfolio specific outperformance and risk target. Absolute return portfolios seek to provide a positive return in all market environments. These managers use a wide range of investment techniques to generate returns. An active currency hedging mandate aims to manage the currency exposure so that the Fund benefits from favourable foreign currency movements but that adverse movements (i.e. when sterling strengthens) are hedged against.

The investment structure is detailed in the table below. As the Fund is transitioning to the strategic benchmark set out in 3 above the allocations per manager will not be consistent with the strategic benchmark allocations and will exceed 100% as new mandates yet to be awarded are included:

Manager	***Mandate***	***Performance Objective***	***% of Fund***	***Inception date***
BlackRock	*Passive multi-asset*	*In line with customised benchmark*	*44%*	*01/04/03*
Jupiter Asset Management	*UK Equities (Socially Responsible Investing active)*	*FTSE All Share +2% p.a.*	*5%*	*01/04/01*
TT International	*UK Equities (unconstrained active)*	*FTSE All Share +3-4% p.a.*	*5%*	*11/07/07*
Invesco Perpetual	*Global ex-UK Equities (Enhanced Indexation)*	*MSCI Global ex-UK Index +0.5% p.a.*	*6.5%*	*19/12/06*
State Street Global Advisors	*Europe ex-UK Equities (Enhanced Indexation)*	*FTSE World Europe ex-UK Index +0.5% p.a.*		*14/12/06*
State Street Global	*Pacific inc. Japan Equities*	*FTSE Developed Asia Pacific*	*3.5%*	*14/12/06*

Advisors	*(Enhanced Indexation)*	*Index +0.5% p.a.*		
Schroders Investment Management	*Global Equities (unconstrained active)*	*MSCI All World Index +2-4%*	*6%*	*01/04/11*
Genesis Investment Management	*Emerging Market Equities (unconstrained active)*	*MSCI Emerging Markets Index*	*5%*	*13/12/06*
Royal London Asset Management (RLAM)	*UK Corporate Bond Fund (active)*	*iBoxx £ non-Gilt Index +0.8% p.a.*	*5%*	*11/07/07*
MAN Investments	*Fund of Hedge Funds*	*LIBOR +5.75% p.a.*	*3%*	*01/08/07*
Gottex Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*2.5%*	*01/08/07*
Signet Capital Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*3%*	*01/08/07*
Stenham Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*1.5%*	*01/08/07*
Schroders Investment Management	*UK Property (active)*	*IPD UK Pooled Property Fund Index +1% p.a.*	*5%*	*01/02/09*
Partners Group	*Overseas Property (active)*	*IPD Global Property Index +2% p.a.*	*5%*	*18/09/09*
Record Currency Management	*Currency hedge (US$, Yen and Euro equity exposure)*	*N / A*	*n/a*	*26/07/11*
Current Structure			**100%**	
New mandates				
New Mandate	*Diversified Growth Funds*	*To be agreed*	*5%*	*To be appointed*
New Mandate	*Diversified Growth Funds*	*To be agreed*	*5%*	*To be appointed*
New Mandate	*Infrastructure*	*To be agreed*	*5%*	*To be appointed*
New Mandate	*Emerging Market Equities (active)*	*To be agreed*	*5%*	*To be appointed*

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

5 Risk

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is partially offset through diversification.

Investment by its very nature is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in the section "Responsible Investment Policy".

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The

Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. An independent custodian safe keeps the assets on behalf of the Fund.

Implementation: Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit (and counterparty) risk arises in the bond portfolios, the currency hedging programme, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

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

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds and infrastructure.

Risk and return of the overall Fund and the individual portfolios is monitored closely to ensure the managers are investing in line with their expected long term risk return parameters and that the Fund overall is achieving its investment objectives.

The investment strategy provides some protection against the liability risks, mainly interest rates and inflation. The gilt, corporate bond and other bonds (14% of the Fund) provides an interest rate hedge. Infrastructure could also provide some interest rate protection depending on the structure of the mandate. Index Linked bonds provide a direct hedge against inflation and changes to inflation expectations whilst property and infrastructure, and to a lesser extent, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

6 Regulatory Investment Limits

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

Implementation: Currently all the "normal" prudential investment limits apply to the Fund, except for the following:

- *Investments in Life Funds - following a Committee resolution in March 2006, this has been increased to the maximum limit of 35% to accommodate the life fund investments managed by Blackrock.*

- *Investments in single partnerships - following a Committee resolution in December 2008, this has been increased to the maximum limit of 5% to accommodate the property investments managed by Partners.*

7 Realisation of Investments

The Fund must be able to realise its investments within a reasonable period appropriate for its cash flow and maturity profile. Therefore the investment strategy must reflect the need to realise assets or use of investment income to meet projected cash flow requirements.

Implementation: The Fund's investment policy is structured so that the majority of its investments (70% in quoted equities and bonds, 10% in DGFs) which it holds can, except in the most extreme market conditions, be readily realised. However, the growth in indirect investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Property and infrastructure are long term investments which the Fund will not be able to realise in a short period. "Lock-up" periods are normal practice in Fund of Hedge Funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realised. However, the Fund has sought to minimise the length of these "lock-up" periods when selecting managers and investment vehicles.

The Fund is transitioning to a more mature membership profile as the monthly payment of pensions is no longer met by pension contributions, thus there is a need to realise assets or utilise investment income on an on-going basis within the investment strategy. Based on projected cash flow, investment income from the segregated portfolios will be used to meet any shortfall in cash inflows prior to divesting of assets.

8 Responsible Investing Policy

The Avon Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee has a Responsible Investing Policy that sets out the framework for considering such issues throughout the investment decision-making process.

Implementation: The Committee approved its Responsible Investing Policy in June 2012. The full policy can be accessed via www.avon.avonpensionfund.org.uk .

The policy includes:

- *analysis of the impact of RI issues on each asset class as part of strategic reviews*
- *evaluation of an investment manager's approach for assessing RI risks within their investment process in mandate tenders*
- *monitoring of the decisions by its investment managers regarding RI issues that have a material financial impact on the Fund*
- *voting and engagement policy*
- *participation in collaborative groups to influence corporate behaviour*

Although the investment structure means that some parts of the policy are more relevant to some mandates than others, the strategic aspects will apply across the entire Fund.

The managers of actively managed portfolios have provided a statement setting out the extent to which they take social, environmental and ethical considerations into account in their investment processes, which are included as Appendices to this Statement.

The Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, Jupiter manages a UK equity portfolio in accordance with Socially Responsible Investment (SRI) criteria (within this context SRI means investing in companies which contribute to, or benefit from, more environmentally and socially sustainable economic activity), justified by the argument that superior performance could be achieved over time from a portfolio constructed on this basis. Given the mandate objective, this SRI portfolio has a bias towards mid-sized / smaller companies and this, together with the concentrated nature of the portfolio, means that the volatility of investment returns is high. The portfolio includes companies providing products/services which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

At the strategic level, a manager's approach to identifying and managing SRI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

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

9 Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

Implementation: The Fund requires its managers to vote their UK company shares in line with their internal voting policy. The Fund has appointed an independent proxy voting agent to monitor the voting activity of the managers which will be reported to the Committee at least annually. The Fund will also publish an annual summary of its voting activity and trends (provided by the proxy voting agent).

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

10 Stock Lending

The Fund allows stock held by the Fund to be lent out to market participants.

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

The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

11 Myners Principles

The Myners Principles sets out a code of best practice in pension fund governance, investment decision making and disclosure. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

Implementation: The Fund fully complies with the principles. Appendix 6 sets out the Fund's compliance.

To be Approved by Avon Pension Fund Committee on 21 June 2013

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Genesis: Environmental, Social and Governance Policy

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

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

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

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

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

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

   There may be less clear-cut situations where strong rules do not exist but certain companies have had a history of respecting minority shareholder rights. In these situations potential investments may exist – but with a need to apply an appropriate amount of caution before investing.

   Where companies in client portfolios start behaving in a manner detrimental to minority shareholders' interests, it is often possible to enter into a constructive dialogue with them to bring about positive change. An example of this would be the frequent discussions Genesis has held with a number of Korean companies. Equally, where appropriate, Genesis has been prepared to make its views known in public.

2. ***Labour Practices:*** Ideally, countries in which we invest for our clients would have ratified the conventions of the International Labour Organization Declaration on Fundamental Principles and Rights at Work. (This Declaration allows workers the right to associate, strike, and bargain collectively, prohibits forced labour and provides standards for acceptable working pay and conditions.) That said, the absence of formal ratification of the convention does not preclude that local practice may meet the standard intended by the convention. For example, a vigorous and effective trade union movement exists in South Korea, even though the country has not ratified the conventions on freedom of association and collective bargaining.

   Child labour undeniably occurs in a number of developing economies, but in the majority of countries legal protections exist and these are more or less enforced depending on the country.

   However distinction then needs to be drawn between practices in the overall economy and the practice at the individual company level. To the extent that illegal child labour and other labour abuses take place, experience indicates to us that it does so in small-scale, labour-intensive enterprises, such as the textile industry. These companies are not of interest to Genesis nor its institutional clients. Apart from the obvious social objections, they do not feature any manufacturing economies of scale and have no discernible competitive advantage other than cheap labour.

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

How our Investment Process Identifies these Companies

A focus on company-level analysis and management visits: We are a bottom-up investor, which is to say that a portfolio is assembled on a stock-by-stock basis, and its weighting in a particular country depends on the number of attractive ideas we can find there. Accordingly, because we are making decisions about individual securities, the Genesis investment approach lends itself naturally to the assessment of socially responsible factors at each particular company.

The distinctive feature of our research process is its independence: views are formed by visiting countries and meeting companies. As an integral part of its bottom-up investment approach, Genesis does not make an investment without interviewing a company's management (often several times).

Given the extensive travel programme undertaken by our analysts a great many of these interviews take place at the company's own offices and Genesis is usually insistent (sometimes aggressively so) that such an interview involves a full plant visit – that is, not just the modern 'showcase' part of the facility: the manoeuvring necessary to get a revealing plant inspection may be neither easy nor friendly, but is often of significant importance for assessing the true quality and social credentials of the company.

As an aside, we would note that of course companies operate within the economic, political and social context of their country, and in order to properly quantify the opportunities and risks facing a company, an investor must be able to evaluate that context too. Social and ethical issues at a country level might include government transparency, a free press, political stability, democratic institutions and principles, and a strong and impartial legal system – all of which are normally difficult things for individual companies to influence. Consequently, where these problems are extreme we would simply avoid the countries in question: North Korea and Burma are two obvious current examples.

Multiple sources of information: In addition, when forming internal assessments, we use multiple information sources to complement what we ourselves see and hear (in emerging economies, information that is complete, objective, current and accurate is often difficult to obtain, and one is therefore more likely to come across matters of concern through the use of a variety of sources rather than exclusively using a single monitoring service). Among these are local and international publications, external directors, external consultants, and Genesis' legal and professional relationships. From a 'labour practices' standpoint, the most authoritative sources of information are the publications of the International Labour Organization (ILO) based in Geneva, and the Country Reports on Human Rights prepared by the US Department of State in accordance with the US Foreign Assistance Act.

Genesis Investment Management
February 2012

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Policy on Responsible Investment

Invesco Global Quantitative Equity (Frankfurt)

June 2012

Contents

1. Introduction

Invesco Global Quantitative Equity (IGQE) in Frankfurt, Germany is a division of Invesco Asset Management Deutschland GmbH, and is the investment adviser for a number of funds managed by Invesco Fund Managers Limited. IGQE has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of all investors in portfolios managed by them. As part of this policy, IGQE will take steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value in their companies and comply with local recommendations and practices, such as the UK Corporate Governance Code issued by the Financial Reporting Council and the U.S. Department of Labour Interpretive Bulletins.

As a core part of the investment process, IGQE's fund managers believe it is important to have access to company management to promote company decision making that is in the best interests of shareholders, and is in accordance with good corporate governance principles.

Given the nature of the IGQE's investment approach, which is largely quantitatively driven and benchmark index constrained, the team do not have any direct contact with company management divisions and therefore do not have a forum for pro-active engagement. Invesco Asset Management Deutschland GmbH has therefore appointed Ethical Investment Research Services Ltd. (EIRIS), to provide engagement services for IGQE. EIRIS was appointed on 24 May 2010 to monitor companies and initiate and assist with engagement practices with these companies on behalf of IGQE.

IGQE considers that shareholder activism is fundamental to good corporate governance. Although this does not entail intervening in daily management decisions, it does involve supporting general standards for corporate activity and, where necessary, taking the initiative to ensure those standards are met, with a view to protecting and enhancing value for investors in the portfolios.

2. Scope

The scope of this policy covers all portfolios that are managed by the IGQE investment team located in Frankfurt, Germany and specifically excludes portfolios that are managed by other investment teams within the wider IGQE group which have their own voting, corporate governance and stewardship policies.

3. Responsible voting

IGQE always attends to the interest of the client, especially for fund-related voting rights and corporate governance issues. IGQE has responsibility for making investment decisions that are in the best interests of its clients. As part of the investment management services it provides to clients, IGQE may be authorised by clients to vote proxies pertaining to the shares of which the clients are beneficial owners. IGQE believes that it has a duty to manage clients' assets in the best economic interests of the clients and that the ability to vote proxies is a client asset. IGQE reserves the right to amend its proxy policies and procedures from time to time without prior notice to its clients.

4. Voting procedures

Voting of proxies

IGQE will, on a fund by fund basis, decide whether it will vote proxies and if so, for which parts of the portfolio it will vote. If IGQE decides to vote proxies, it will do so in accordance with the procedures set forth below. If the client retains in writing the right to vote or, if IGQE determines that any benefit the client might gain from voting a proxy would be outweighed by the costs associated therewith, it will refrain from voting.

Best economic interests of clients
In voting proxies, IGQE will take into consideration those factors that may affect the value of the security and will vote proxies in a manner in which, in its opinion, is in the best economic interests of clients. IGQE endeavours to resolve any conflicts of interest exclusively in the best economic interests of clients.

Certain proxy votes may not be cast
In some cases, IGQE may determine that it is not in the best economic interests of clients to vote proxies. For example, proxy voting in certain countries outside the United States requires share blocking. Shareholders who wish to vote their proxies must deposit their shares 7 to 21 days before the date of the meeting with a designated depositary. During the blocked period, shares to be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to the custodian/sub-custodian bank. In addition, voting certain international securities may involve unusual costs to clients. In other cases, it may not be possible to vote certain proxies despite good faith efforts to do so, for instance when inadequate notice of the matter is provided. In the instance of securities lending, voting of proxies typically requires termination of the lending arrangement, so it is not usually in the best economic interests of clients to vote proxies on securities within a securities lending programme.

IGQE typically will not, but reserves the right to, vote where share blocking restrictions, unusual costs or other barriers to efficient voting apply. If IGQE does not vote, it would have made the determination that the cost of voting exceeds the expected benefit to the client.

Risk Metrics Group Services
On behalf of IGQE, Invesco Asset Management Deutschland GmbH has contracted with Risk Metrics Group (RMG), previously known as Institutional Shareholder Services, an independent third party service provider, to vote clients' proxies according to RMG's proxy voting recommendations. In addition, RMG will provide proxy analyses, vote recommendations, vote execution and record-keeping services for clients for which IGQE has proxy voting responsibility. On an annual basis, IGQE will review information obtained from RMG to ascertain whether RMG:

- has the capacity and competency to adequately analyse proxy issues, and
- can make such recommendations in an impartial manner and in the best economic interest of IGQE's clients.

This may include a review of RMG's policies, procedures and practices regarding potential conflicts of interest and obtaining information about the work RMG does for corporate issuers and the payments RMG receives from such issuers.

Custodians forward proxy materials for clients who rely on IGQE to vote proxies to RMG. RMG is responsible for exercising the voting rights in accordance with its proxy voting guidelines. If IGQE receives proxy materials in connection with a client's account where the client has, in writing, communicated to IGQE that the client, plan fiduciary or other third party has reserved the right to vote proxies, IGQE will forward to the party appointed by the client, any proxy materials it receives with respect to the account.

5. Non-routine resolutions and other topics

In order to avoid voting proxies in circumstances where IGQE, or any of its affiliates have or may have any conflict of interest, real or perceived, IGQE has engaged RMG to provide the proxy analyses, vote recommendations and voting of proxies.

In the event that:

- RMG recuses itself on a proxy voting matter and makes no recommendation or
- IGQE decides to override the RMG vote recommendation

IGQE team's Proxy Voting Committee (PVC), together with an Invesco Compliance Officer, will review the issue and direct RMG how to vote the proxies as described below.

RMG recusal

When RMG makes no recommendation on a proxy voting issue or is recused due to a conflict of interest, the PVC and the Compliance Officer will review the issue and, if IGQE does not have a conflict of interest, will direct RMG how to vote the proxies. In such cases where IGQE has a conflict of interest, IGQE, in its sole discretion, shall either:

- vote the proxies pursuant to RMG's general proxy voting guidelines
- engage an independent third party to provide a vote recommendation
- contact its client(s) for direction as to how to vote the proxies

Override of RMG recommendation

There may be occasions where IGQE's investment personnel or senior officers seek to override RMG's recommendations if they believe that the RMG's recommendations are not in accordance with the best economic interests of clients. In the event that an individual listed above in this section disagrees with an RMG recommendation on a particular voting issue, the individual shall document in writing the reasons that he/she believes that the RMG recommendation is not in accordance with clients' best economic interests and submit such written documentation to the PVC. Upon review of the documentation and consultation with the individual and others as the PVC deems appropriate, the PVC together with the Compliance Officer may make a determination to override the RMG voting recommendation, if they determine that it is in the best economic interests of clients.

6. Engagement with companies

Engagement enables investors to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and governance issues.

IGQE will endeavour, where practicable in accordance with its investment approach, to engage with companies based on the mutual understanding of objectives. EIRIS facilitates this engagement and provides recommendations about methods of escalation. Engagement is likely to include written letters to company representatives to explore any concerns about corporate governance where these may impact on the best interests of clients. Following on from this initial step and where responses are not satisfactory, conference calls and further dialogue may be required. During these company discussions, IGQE will endeavour to cover any matters of particular relevance to shareholder value.

Those people on the inside of a company, most obviously its executives, know their businesses much more intimately. Therefore, it is usually appropriate to leave strategic matters in their hands.

Inevitably there are times when IGQE's views diverge from those of the company's executives but, where possible, it attempts to work with the company towards a practical solution. However, IGQE believes that its status as part-owner of a company means that it has both the right and the responsibility to make its views known. The option of selling out of that business is always open, but normally IGQE prefers to push for change, even if this can be a slow process.

The engagement service that EIRIS provides may include the following:

- Identify target companies for engagement using the EIRIS Principles for Responsible Investment tool to focus on UN Global Compact issues
- Consultation with IGQE to determine the sub-set of approximately 5 companies - focus on themes or by region
- Writing letters to companies with poorest performance on behalf of IGQE, including a report on the company outlining what the company needs to do
- Analysis of responses, feedback to IGQE and recommendations as to the escalation of engagement
- Support IGQE in conference calls with the company if necessary or required
- Setting up systems to log the companies engaged with, any commitments obtained and any subsequent change in corporate activity, including detailed reports
- Review success of engagement process and recommendations to improve process

7. Evaluation of companies environmental, social and governance arrangements (ESG)

EIRIS' engagement service offers the choice of two distinct engagement approaches, as follows:

- Theme-based engagement
- Controversy-led engagement

Both approaches can be used independently or in conjunction with one another. Following discussions with EIRIS regarding IGQE's requirements, the team have decided to adopt a combination of the two approaches.

The theme-based engagement objective is to drive improvements in corporate responses to ESG themes. This approach focuses on the quality of management response to specific ESG risks, the presence and quality of policies, management systems and reporting levels.

Themes under consideration for engagement include:

- Water
- Climate change
- Bribery & corruption
- Supply chain labour
- Human rights

The controversy-led engagement objective is to encourage companies to fully address allegations of corporate breaches of global norms and conventions, to implement better policies and management systems to prevent further similar occurrences.

8. Disclosure and reporting

Although IGQE does not report specific findings of company engagements for external use, regular illustrations will be provided to demonstrate that active engagement is a part of its investment process. For clients with individual mandates, (i.e. not invested in a fund), IGQE may discuss specific issues where it can share details of a client's portfolio with that specific client.

Clients may obtain information about how IGQE voted proxies on their behalf by contacting their client services representative. Alternatively, clients may make a written request for proxy voting information.

As at 30 June 2012.

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Telephone calls may be recorded.

Where Invesco has expressed views and opinions, these may change.

Issued by Invesco Asset Management Limited. Authorised and regulated by the Financial Services Authority.

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Royal London Asset Management

Our Commitment to Sustainable Investment

September 2012

RLAM is a fund management company that manages assets on behalf of a wide range of institutional, wholesale and private clients. As a large scale investor, currently managing over £45bn of assets, we believe we have a responsibility to use our investment strength to promote positive corporate behaviour to the benefit (in terms of long term performance) of our clients and the wider community.

The concept of sustainable investment is a key part of our product offering and we take a proactive approach to promoting best practice in the companies in which we invest.

Our detailed approach to the issue of corporate governance is covered in our Overall Corporate Governance Guidelines document. This reflects our belief that companies should be managed effectively in the best interests of shareholders. Central to this are sound governance structures which provide the power to management to manage, while at the same time allowing sufficient transparency in order for shareholder accountability.

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

RLAM is signatory to the United Nations Principles for Responsible Investment (UN PRI). "**The Principles** were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large." *(Source of quote: UN PRI website 08 2012)*

PRI

We participate in the central clearing house which helps managers to provide combined engagement on specific issues (for example, arms in countries of conflict). We sign up and contribute to those issues which are relevant to stocks and geographies in which we invest. There will be some issues such as in emerging markets which are not relevant as we do not invest in those areas.

RLAM believes that companies should develop appropriate policies and practices on corporate social responsibility. Where we ourselves identify significant risks from ESG issues we would expect discussion of them to form a part of our regular dialogue with company management.

We also include a full shareholder voting record on our website detailing how we have voted at the meetings convened by companies where we have a holding. At the same time, RLAM's Chief Investment Officer is a leading advocate of corporate governance and effective shareholder engagement is frequently quoted in the trade and national press on this subject.

RLAM is committed to using its clients' assets to engage with companies on all relevant ESG matters. RLAM exercises its "vote" on all resolutions that it is mandated to on behalf of clients and RLAM contacts companies following an abstention or vote being lodged against management.

Environmental, social and governance issues are fundamental drivers of long-term corporate performance, a principle that is central to RLAM's philosophy as an asset manager. Our portfolio managers integrate analysis of these issues into their overall approach to valuing companies.

RLAM manages specialist bond and equity ethical funds which have proved popular with clients. These funds employ a screening process managed by EIRiS (Ethical Investment Services Ltd), the leading global provider of independent research into social, environmental and ethical performance.

Furthermore, with around £2bn of property assets under management, RLAM's property team is keenly aware of its responsibilities as an active, long term property investor. Working with our agents and tenants, we have developed a comprehensive property sustainability strategy explaining the high environmental standards expected of the properties we own, available upon request.

Across the Royal London Group, CR is focused on four main areas: the environment, the community, the marketplace and our people, in accordance with the principles of Business in the Community (BiTC), a business-led charity that promotes responsible business practice.

We are proud to have been awarded a Silver rating in the Corporate Responsibility Index 2012 in-depth annual benchmarking by BiTC, which is indicative of the focus and commitment which the RL Group places on CR. For further details of BiTC benchmarking, please see the BiTC website at www.bitc.org.uk/cr_index.

Important Information

For professional investors and advisors only. This document may not be distributed to any unauthorised persons and is not suitable for retail clients.

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations.

Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

For funds that use derivatives, their use may be beneficial, however, they also involve specific risks. Derivatives may alter the economic exposure of the Fund over time, causing it to deviate from the performance of the broader market.

All confidential information relating to any Royal London Group company must be treated by you in the strictest confidence. It may only be used for the purposes of assessing the proposal to engage RLAM. Confidential information should not be disclosed to any third party and should only be disclosed to those of your employees and professional advisers who are required to see such information for the purpose set out above. You should ensure that these persons are made aware of the confidential nature of such information and treat it accordingly. You shall return and/ or destroy all confidential information at our written request.

Source: **rlam** as at September 2012 unless otherwise stated.

Our reference: 502-PRO-09/2012-CM

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Schroder Investment Management Limited
31 Gresham Street, London EC2V 7QA

Telephone 020 7658 6000
www.schroders.com

18 February 2011

Global Equities Responsible Investment Policy

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

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

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TT International – Position Statement on ESG Issues

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

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

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

High Alpha Manager

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

Voting

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

Stewardship Code

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

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

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Myners Principles (2009): Statement of Compliance

(Appendix 6 of SIP)

	Myners Principle	Compliance	Explanation
1	**Effective Decision Making** Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**FULL**	• A clear governance structure for decision-making across a wide scope of issues is in place • The Committee is supported by expert advisors and officers with clear responsibilities. • An Investment Panel has responsibility for specific investment decisions and implementation of strategic decisions • The role and responsibilities of all Committee members is set out in job descriptions. • Committee members are required to undertake training and a training log is maintained. • The Fund uses the CIPFA Knowledge and Skills Framework as the basis for its training programme. • The Fund has a forward looking three-year business plan which is monitored annually
2	**Clear Objectives** An overall investments objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	**FULL**	• A clear investment objective and strategy is set out in the Statement of Investment Principles. • The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. • The funding strategy reflects the differing covenants of scheme employers • The Fund has a customised benchmark reflecting the Fund's own liability profile. • The impact on return and risk of different asset classes is considered when devising the investment strategy. • The investment managers have individual performance targets and their performance against target is monitored by the

			Committee. • The Fund always obtains expert advice when considering its investment objective and strategy.
3	**Risk and Liabilities** In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating local employers, the risk of their default and longevity risk.	**FULL**	• The investment objective and strategy reflects the specific liability profile of the scheme membership • The covenant of the employer and their ability to pay contributions is taken into account when setting contribution rates • The Fund has in place a risk management process to identify and monitor scheme employer related risks and report to Committee as required • The Risk Register identifies all significant risks to the Fund, action to mitigate the risk and action plan for Committee to consider • The external auditor reports its assessment of the risk management process to the Committee.
4	**Performance Assessment** Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**FULL**	• The Fund measures the performance of the Fund against its investment objective and that of its investment managers against their specific performance benchmarks, over appropriate timeframes. • Performance is monitored quarterly by the Committee and Investment Panel • The performance of advisors the Fund is assessed on an on-going basis. • The performance of the decision-making bodies is assessed by external auditors and through the Committee's Annual Report to Council on its activities and decisions taken during the year.
5	**Responsible Ownership** Administering Authorities should: • Adopt, or ensure their investment	**FULL**	• The Fund requires its managers adopt the FRC UK Stewardship Code (replaced the Institutional Shareholders' Committee Statement of Principles) • The Fund published its compliance with the FRC UK

	managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities.		Stewardship Code in December 2010. • The Fund's policy on responsible ownership is included in its Statement of Investment Principles • The Fund has appointed a proxy voting agent to monitor the voting activities of the investment managers and report its findings to the Committee • The Fund has a Responsible Investing Policy to address long term investment concerns and opportunities arising from social, environmental and governance issues. This includes the appointing and monitoring process of managers.
6	**Transparency and Reporting** Administering Authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate	**FULL**	• Has a clear policy for communication and consultation with its scheme members, representatives and employers as appropriate. • All documents and statements are publicly available and the Annual Report & Accounts contains information and data relevant to its many, diverse stakeholders. • Regular meetings are held with investment managers, advisors, 3rd party investment administration suppliers to discuss service delivery and performance against objectives. • Service level meetings are held with scheme employers to discuss service delivery. • Administration and investment forums are held for scheme employers to inform employers of any issues that may impact their budgets, resourcing levels or employment obligations to staff.

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Appendix 8

Rebalancing Policy

The rebalancing policy ensures that the Fund's asset allocation remains broadly aligned with the strategic benchmark given relative market movements of assets over time and the net investment/divestment of cash. Therefore the policy must ensure all rebalancing decisions fall within the strategic framework as set out in the following table:

Assets	Current Target	New Target	Proposed Range
Total Growth	**80%**	**80%**	**65 - 85%**
Equities	60%	50%	45 - 55%
Developed	*55%*	*40%*	*35 - 45%*
Emerging Markets	*5%*	*10%*	*5 - 15%*
Diversified Growth Funds		10%	5 - 15%
Illiquid Growth	20%	20%	15 - 25%
Hedge Funds	*10%*	*5%*	*0 - 7.5%*
Property	*10%*	*10%*	*5 - 15%*
Infrastructure		*5%*	*0 - 7.5%*
Other Growth		0%	0 - 5%
Total Stabilising	**20%**	**20%**	**15 - 35%**
Government Bonds	*6%*	*3%*	*0 - 10%*
Index–linked Bonds	*6%*	*6%*	*3 - 10%*
Corporate Bonds	*5%*	*8%*	*4 - 20%*
Other Bonds	*3%*	*3%*	*0 - 5%*
Cash		**0%**	**0 - 5%**

The rebalancing policy is as follows:

(1) The rebalancing policy includes rebalancing between equities & diversified growth funds ("liquid growth assets"), bonds ("stabilising assets") and cash. All these investment are deemed liquid.

(2) The strategic allocation to liquid growth assets, stabilising assets and cash is 60% /20% /0%, giving a ratio of 75/25/0.

(3) For the ratio between liquid growth assets / stabilising assets, there is a two-tiered set of boundaries:

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

ii. A deviation of 5% or more results in consultation with the Investment Panel. At this point the Panel will agree to either an automatic rebalancing back to at least the 2% threshold or a tactical decision to allow a deviation of more than 5% as long as it remains within the strategic asset allocation range.

iii. Allocation to cash is permitted under (i) and (ii) above to bring the liquid growth/stabilising allocations within the boundaries. Cash cannot exceed 5% of Fund value (this excludes cash held as collateral for futures or forward contracts, and the cash held in the Blackrock portfolio set aside for investing in property).

(4) For hedge funds and property allocations the following will trigger a review by the Investment Panel:

i. Property +/- 5%: around its target allocation of 10% (i.e. a range of 5% to 15% of Fund assets)

ii. Fund of Hedge Funds: - 5% to + 2.5% around its target allocation of 5% (i.e. a range of 0% to 7.5% of Fund assets).

(5) Rebalancing within growth and stabilising assets will be based on the strategic benchmark and performance (of active managers) and will take account of any tactical positions.

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

(7) The rebalancing policy will be implemented by Officers, having consulted the Investment Consultant or Panel if an automatic rebalancing is triggered. Any recommendations from the Panel that take the asset allocations outside the permitted strategic ranges will have to be agreed by the Committee.

(8) Rebalancing activity will be reported to Panel and Committee at the following quarterly meeting.

(9) For clarity, the percentages in (3) refer to the ratio allocation between growth and stabilising assets which is 75%: 25%. It is the changes in this allocation that will trigger the rebalancing as outlined in the policy. The corresponding trigger levels expressed in terms of the strategic benchmark allocations are as follows:

	Liquid Growth/Stabilising Ratio for Rebalancing	**Corresponding Strategic Allocation**
Strategic Allocation	75% : 25%	60%: 20%
Boundary for tactical review by officers	73% : 27% or 77% : 23%	58.4% : 21.6% or 61.6% : 18.4%
Boundary for 'automatic' rebalancing	70% : 30% or 80% : 20%	56% : 24% or 64% : 16%

Therefore the boundaries in the rebalancing policy are within the strategic ranges.

Note:
The Avon Pension Fund Terms of Reference (2013) states that the Investment Panel will:
"Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee…and have delegated authority to:

a. Approve and monitor tactical positions within strategic allocation ranges.
b. Approve investments in emerging opportunities within strategic allocations…"

To be approved by Avon Pension Fund on 21 June 2013

Appendix 9

Cash Management Policy

The Fund's cash will be managed as follows:

1. A model, based on set assumptions, is used to forecast the Fund's cash flows and generates forecasts for Best, Neutral and Worst case cash flow scenarios.
2. The cash flow model is updated with actual data each month to monitor the forecast cash flow against actual cash flow and consequently allow the review and possible adjustment of Best, Neutral and Worst case assumptions.
3. The cash position is monitored on a monthly basis by the Investments Manager and the Finance and Systems Manager. The Head of Business Finance and Pensions will be informed of the Fund's cash position on a quarterly basis or more frequently if required.
4. Investment income will be utilised to meet any shortfall in cash. The passively managed gilt and index linked gilt income is no longer automatically reinvested. The passively managed pooled equity funds will be invested in distributing units.
5. Investment income will only be reinvested at the discretion of the Investment Manager taking account of the Fund's cash flow requirements.
6. As it becomes necessary as a result of the cumulative reduction in cash balances, divestments will be made from the Fund up to the forecast annual requirement of £15m. During any year, if the cashflow requirement exceeds this annual forecast, divestment will only occur following consultation with the Chair and Divisional Director - Finance.
7. Divestments will be implemented following these principles:
   a. to bring asset allocation in line with the strategic policy, taking into account any tactical asset allocation
   b. to divest from portfolios that exceed their strategic allocation, taking into account any tactical allocation
   c. if no manager significantly exceeds their strategic allocation, to divest from the passive portfolio
   d. if the Fund does not deviate from the strategic allocation to divest pro-rata between bonds and equities.
8. Implementation of the policy is delegated to Officers.
9. The Committee will be informed of all divestments, and of any significant changes in the forecast of cash balances or the level of investment income, through the quarterly investment monitoring report.

To be approved by Avon Pension Fund on 21 June 2013

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 JUNE 2013**	**AGENDA ITEM NUMBER** **14**
TITLE:	**ANNUAL REPORT TO COUNCIL 2013**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council		

1 THE ISSUE

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

1.2 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2013, will be submitted to the Council meeting in July 2013. In addition, the report will also be circulated to all employing bodies within the Fund to inform them in detail of the work undertaken by the Committee.

2 RECOMMENDATION

That the Committee:-

2.1 Review and approve the 2013 Annual Report to Council

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations in this report.

4 REPORT

4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months to 31 March 2013 and sets out its agenda over the coming year.

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

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (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	Committee reports
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

AVON PENSION FUND COMMITTEE
ANNUAL REPORT TO COUNCIL
(April 2012 - March 2013)

1 BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2009 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of more than 170 employing bodies including the four unitary authorities. The Fund has c. 89,000 members and the value of the Fund as at 31 March 2013 was £3.1 billion.

(a) AVON PENSION FUND COMMITTEE TERMS OF REFERENCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee whose terms of reference, as agreed by the Council in May 2013, are set out below:

"To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy.
4. Monitoring the performance of investments, investment managers, scheme administration, and external advisors.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
8. Considering requests from organisations wishing to join the Fund as admitted bodies.
9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme."

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee ("the Investment Panel") or Officers.

Committee Membership

The Committee structure is as follows:

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

Committee meetings and workshops:

The Committee meets quarterly. In addition, a Special Committee Meeting was held to discuss the Investment Strategy. Attendance at these meetings was 80% for the voting members and 69% for the non-voting members.

Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. These workshops are designed to explore specific policy issues in detail. During the last twelve months, three workshops were arranged to finalise the Fund's policy for Socially Responsible Investing and two workshops were held to review the investment strategy.

Investment Panel

The role of the Avon Pension Fund Committee Investment Panel is to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.
5. Approve investments in emerging opportunities within strategic allocations.
6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
7. Approve amendments to investment mandates within existing return and risk parameters.
8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Delegate specific decisions to Officers as appropriate.

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

The Panel met formally four times during the year with attendance at 87.5%. In addition each meeting was followed by a workshop where the investment managers present on their performance and outlook for their portfolio.

Committee members also attended the Fund's Annual Employers' Conference which was held in February 2013. This well attended conference provides an opportunity for employers to meet with the Fund officers and committee members to discuss the overall service provided and explore topical issues that affect the employers.

2 TRAINING

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

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

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

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

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

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

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

3 REVIEW OF THE YEAR

a) INVESTMENT PERFORMANCE

The Fund generated an investment return of 13.8% during the year which was in line with the average local authority fund return. Over the last three years the Fund's return was 8.4% p.a. which is 0.3% ahead of the average local authority fund return.

The 2012/13 investment return was driven primarily by the strong returns from the equity portfolios which comprise 60% of the Fund's assets. Global markets rose c. 16% during the year. The value of the bond portfolio also rose during the year as the 'flight to safety' within bond markets continued as investors sought the relative safety of UK government bonds.

b) FUNDING LEVEL

As at 31 March 2013 the Actuary has estimated that the funding level has marginally fallen to 69% from 70% a year earlier. This contrasts with the 82% funding level at the 2010 valuation. The fall in the funding level since 2010 is due to the increase in liabilities; the investment return is ahead of expected returns over the period since the 2010 valuation. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation. Thus increases in inflation and falls in gilt yields since 2010 have both caused the value of the liabilities to rise. Gilt yields in the UK are still near historic lows. These low yields are a result of investors seeking relative safety in non-euro denominated bonds, such as UK gilts whilst the Eurozone debt crisis remains unresolved. In addition, the Bank of England's policy to support the economy through its "quantitative easing" programme, in which the Bank purchases gilts from banks, has also kept yields low.

The next triennial valuation as at March 2013 is now in progress. This will set the employer contribution rates for the three years from April 2014 to March 2017.

c) POTENTIAL CHANGES TO THE LGPS

During the year the government began the consultation about the changes to the new scheme which will see the current "final salary" scheme being replaced by a "career average revalued earnings" scheme. The new scheme will come into effect from 1 April 2014 and the changes to the benefits structure will be reflected in the 2013 triennial valuation.

Recognising the significant impact on operations of the new scheme, the Committee agreed to invest in additional resources in terms of staff and IT systems in order that the new scheme is efficiently managed by both the Fund and scheme employers. The resources are required to ensure there is effective communication to members and employers and to increase the use of electronic data transmission between the Fund and scheme employers.

2012 also saw the introduction of "auto-enrolment". Although not directly affecting the pension fund, there was a significant amount of work communicating to employers about auto-enrolment and how it affected their pension arrangements.

d) PENSIONS ADMINISTRATION

(i) Budget

During the Year to 31 March 2013, total costs were £656,000 (5%) under the budget of £12.8 million. However, excluding Investment Management, custody fees and governance costs, administration costs were £152,000 under the budget of £2.1million, a saving of 7%.

Spending on Investment Management and custody fees was £282,000 under budget due to reductions in the rates charged by some managers. The investment management and custody fees of £10.1 million equate to 0.32% of the Fund's assets.

(ii) CIPFA Benchmarking (Benefits Administration)

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

In 2011/12 the Fund's overall costs at £17.71 p.a. per member were less than the average of £20.45. Staffing costs (excluding payroll) were significantly less at £6.52 per member against £8.82. Payroll costs per pensioner member of £1.07 compares favourably against the average of £3.15.

The Fund invests heavily in communications with communication costs at £2.55 per member compared to the average of £1.12. Although significantly higher, the Committee has prioritised resources to this area as it strongly believes in the importance of providing members with timely, accurate information. This is delivered by specific newsletters to active and pensioner members, a high quality website, provision of member access to their "account" via the website and the facility for scheme employers to send information via the website's secure portal. Savings are being realised through the increase use of electronic delivery to members and employers alike.

The results of the Benchmarking exercise are discussed by the Committee.

(iii) Pensions Administration Strategy

The Pensions Administration Strategy came into effect in April 2011 with the aim of encouraging employers and the Fund work more closely together to provide an ever improving level of service to Fund members.

Performance of both the Fund and employers is now being closely monitored and during 2012/13 was reported via Quarterly Performance Reports to larger employers and through review meetings with some employers. The Strategy provides a transparent and robust operating and performance framework which improves accountability and has successfully focussed attention on the need for both parties to invest in and make use of electronic data provision to improve efficiency.

The Strategy is due for review after April 2013.

4 COMMITTEE BUSINESS TO MARCH 2013

a) Investment Strategy

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

- New investment strategy was agreed in March 2013. The overall investment objectives (risk and return targets) remain unchanged but the new strategy allows greater flexibility for the Fund to achieve its objectives, primarily through the introduction of investment strategies that enable dynamic allocation between assets over shorter timeframes. In addition, the asset allocation allows for greater use of tactical positions within agreed limits.
- The Committee concluded its review of the Fund's Responsible Investing Policy ensuring that the Fund's policy reflects best practice across the whole Fund, subject to the constraints imposed by the investment structure. The policy was published in June 2012.

b) Funding Strategy (Interim Valuation)

During the year an interim valuation was commissioned to up-date the Committee on the funding position in order to prepare scheme employers for the potential outcome of the 2013 actuarial valuation. The interim valuation at 30 September 2012 showed a rise in the funding level to 73% but by 31 March 2013 the estimated funding level had fallen again to 69%.

c) Approval of the 3-year Service Plan and Budget 2013/16

The Service Plan details the service developments are planned to be undertaken during the next three financial years (2013/2016). The plan is designed to respond to known and anticipated legislative changes and Committee initiatives, as well as to take the Pensions Service forward by improving performance and the overall quality of service to members and employers.

Given that the "new Scheme" will be introduced in 2013/14 with an implementation date of April 2014, much of the plan's focus is on the roll out of the new scheme, especially the Fund's communications with members and employers, IT requirements and training of both internal staff and staff at scheme employers.

The 2013/14 administration budget increased by £290,000 reflecting the additional resources required to deliver the new scheme and auto-enrolment. This includes extra staff resources and the cost of new "middleware" to enable electronic transfer of data from payroll systems into the pensions system. This should generate savings in the future. In addition, there were one-off advisory costs of implementing the new investment structure. Recurring savings of £85,000 were identified mainly through embedding the use of electronic systems to deliver the service.

d) Treasury Management Policy and Cash Management Policy

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

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

Following the continuing downgrading of the credit ratings of the UK banks, the Treasury Management Policy was revised in line with the Council's policy, to ensure there is adequate flexibility for the efficient management and investment of the short term cash.

In addition, as the Fund's cashflow profile is "maturing" more rapidly than previously anticipated (the monthly payment of pension payments is now exceeding the monthly receipt of pension contributions). As a result the Committee agreed changes to the Cash Management Policy which set a framework for utilising investment income and asset sales to meet pension payments (currently investment income covers the cash requirement and asset sales are not required). The review of the investment strategy took account of the cash flow requirements and as a result, the passively managed investments will be switched into pooled investment funds that distribute income to investors (rather than reinvest within the pooled fund).

e) Monitoring of Voting at Company Meetings

Voting at shareholder meetings is one tool with which the Fund can influence corporate behaviour. As the Fund's investments are managed by external managers, the voting decision is delegated to the manager, with the intention that the voting decision will be aligned with the investment decision. In 2011 the Fund appointed an agent to monitor the voting undertaken on behalf of the Fund and to report to Committee annually about the voting behaviour and the wider trends and issues around corporate governance. The first annual report was presented to Committee in 2012. From this report the Committee identified two areas they wanted managers to focus on that could have a significant impact on corporate performance:

(i) Remuneration policy and how it relates to corporate performance and objectives

(ii) Whether Board structures provide adequate independence to the decision making process and draws on experience and knowledge from a diverse selection of individuals

f) Administration

Following the introduction of the Pensions Administration Strategy, the Committee reviews Quarterly Performance Monitoring Reports showing the Fund's and employers' performance. Where the performance is below expectations, the Committee has used its influence where appropriate to discuss the issue internally with those responsible for service delivery. As the Fund rolls out the electronic data interface to more of the large employers during 2013 and other employers use the alternative electronic facility to inform the Fund of membership changes, it is expected that improvements in employer performance will be sustainable.

g) Workplans

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

5 FUTURE BUSINESS

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

a) Investments

- Investment Strategy – implement changes to the investment structure in line with the agreed strategy.
- Explore options for investing in infrastructure.
- Investigate how liability driven investing could assist in hedging the interest rate and inflation impact on the liabilities.

b) 2013 Triennial Valuation

- Agree the Funding Strategy Statement that sets the parameters for the funding plan and contribution rates.

c) Benefits Administration

- Respond to the on-going consultation exercises on the new LGPS Scheme and monitor the project to implement the new scheme including the communications plan to explain the changes and their significance to members and employers.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.
- Approve any changes as a result of the Review of the Pensions Administration Strategy due after April 2013.

d) Governance

- Engage with and respond to government consultations expected during the year on the governance structure of funds at the local level and possible proposals to change the arrangements for administering the LGPS funds nationally.

Avon Pension Fund

June 2013

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**21 June 2013**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 March 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Appendix 3 - 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 31 March 2013.

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

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

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

1.3 As agreed as part of the Investment Strategy Review, the structure of JLT's report at Appendix 2 has been revised to provide greater focus on the strategic nature of investment performance and a shorter summary performance analysis on the investment managers. Detailed performance analysis on each individual investment manager is routinely considered by the Investment Panel and any issues identified by the Panel on any individual investment manager are reported to Committee.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 Note the information set out in the report

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing ending 31 March 2013 will impact the triennial valuation which is being calculated as at 31 March 2013. Investment returns from 1 April 2013 will affect the next valuation in 2016. 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 at Appendix 2 (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.*** (Please note, the Actuary is currently undertaking the triennial valuation which will calculate the funding position more accurately using membership data at March 2013).

4.2 Key points from the analysis are:

(1) The estimated funding level at 31 March 2013 decreased to 69% from 71% at 31 December 2012.

(2) The largest contributor to the reduction in the funding level was once again the rise in the inflation assumption used to value the liabilities (same as last quarter), which increased the value of future inflation linked payments (liabilities). The overall 2% reduction in the funding level was in spite of a return on assets in excess of the assumed return.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £262m (+8.9%) in the quarter, giving a value for the investment Fund of £3,135m at 31 March 2013. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. JLT's quarterly performance report is at Appendix 2. This report now focuses on strategic performance of the Fund and summarises the performance of the managers. Manager performance is monitored in detail by the Panel. The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance**
Periods to 31 March 2013

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	8.9%	13.8%	n/a
Avon Pension Fund (excl. currency hedging)	9.4%	14.1%	8.4%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	8.6% *(+0.3%)*	12.4% ***(+1.4%)***	7.7% *n/a*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	9.1% *(-0.2%)*	13.8% ***(=)***	8.1% *n/a*

5.2 **Fund Absolute Return:** Quarterly return driven by positive returns across all asset classes with equity markets and UK index linked gilts the strongest performers. The story is similar over the one year period with positive returns across all asset classes. Property is showing the weakest returns within the growth portfolio, although still positive over the year. 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 bonds and equities. 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 original Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds –** note that relative performance will be reported against this benchmark until the investment in DGFs marks the first move towards the new benchmark and from then on that will be used**):** Annual relative outperformance was largely driven by the majority of the Fund's active managers outperforming their respective benchmarks used in the strategic benchmark (particularly the equity and bond managers). The overweight to equities and UK corporate bonds (which performed strongly) and underweight to hedge funds and property (which both performed less well) also contributed to the outperformance over the twelve month period.

(2) **Versus Local Authority Average Fund:** Over the quarter the Fund underperformed the average fund slightly due to lower than average allocation to equities which experienced a strong quarter. Over one year the Fund performed in line with the average fund.

5.4 **Currency Hedging:** This quarter Sterling weakened against both the Dollar and Euro, resulting in the returns from equity assets denominated in these currencies increasing in Sterling terms. This currency gain was partially offset by sterling strengthening versus the Yen as the Yen continued to show weakness against most major currencies, resulting in returns from Yen denominated assets reducing in Sterling terms. On the c.£872m assets in the programme, the total effect of underlying currency movements had a positive impact of 5.13% over the quarter, with the hedging programme detracting 1.67% from this, resulting in a net currency return on the assets in the programme to +3.42%. In terms of the Fund's total return, the hedging programme detracted 0.5% from 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. 11 mandates met or exceeded their 3 year performance benchmark, which offset underperformance by the Hedge Funds. Genesis, RLAM, and Jupiter all continue to significantly outperform their 3 year performance targets.

5.6 Man remains under close review by officers as they restructure the portfolio after a period of disappointing performance. Man's mandate was considered at the Investment Panel meeting on 4 June 2013 and the outcome is reported in the Investment Panel Activity Report item on this agenda.

5.7 TT's performance continues to improve since changes were made to address performance and whilst still short of their three year performance target, this performance measure is positive and improving. One year performance is ahead of target.

6 INVESTMENT STRATEGY

6.1 Returns within the fixed income portfolio are significantly ahead of the assumed strategic return over 3 years, except for overseas fixed interest (which forms a small part of the portfolio). Equity returns are in line with the return assumptions over 3 years, with property and hedge funds underperforming the strategic assumptions.

7 IMPLEMENTATION OF NEW INVESTMENT STRATEGY - UPDATE

7.1 Changes to the Investment Strategy agreed at the Special Meeting in March 2013 will be implemented over the coming months. Plans for Stage 1 of the implementation plan (changes to the liquid growth portfolio, equities and diversified growth funds) were considered by the Investment Panel at their meeting on 4 June 2013 a summary of which is included in another agenda item. In addition, the Panel agreed the brief for the Diversified growth fund mandates, the tender process for which commenced in June. The Committee will be kept up to date with progress on the implementation of the new strategy in this report and through the Investment Panel Activity report.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

8.1 The rebalancing policy 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. Revisions to this policy are being considered in another item on this Committee agenda.

8.2 There was no rebalancing activity undertaken during the quarter. Market movements have resulted in an Equity:Bond allocation of 77.9:22.1 as at 1 May 2013. This is within the tactical range for rebalancing. Officers will incorporate rebalancing as part of the changes to the Fund’s asset allocation as the new strategy is implemented.

Cash Management

8.3 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.

8.4 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 during the quarter were invested in line with the Fund's Treasury Management Policy which was approved on 16 March 2012. A revised Treasury Management Policy was approved on 22 March 2013.

8.5 The Fund continues to deposit internally managed cash on call with Barclays and Bank of Scotland. 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. In line with the Treasury Management Policy the Fund did not deposit cash with NatWest during the quarter. However following the March Committee's approval of a revised Treasury Management Policy, depositing cash with NatWest was resumed at the beginning of April.

8.6 During the quarter there was a net cash outflow of c. £1.5m as benefits paid and costs incurred exceeded contributions and income received. This is largely in line with the overall trend of the neutral scenario in the cash flow forecasting model used internally to monitor cash flow. This forecasts an average monthly outflow of c. £0.9m over the year to 31 March 2014, and greater outflows in subsequent years. However this could change as the effects of the 2013 valuation, auto enrolment and LGPS 2014 become clearer.

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	226
Resolutions voted:	2,671
Votes For:	2,529
Votes Against:	145
Abstained:	11
Withheld* vote:	1

** 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.*

9.2 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 3.

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	

APPENDIX 1

AVON PENSION FUND VALUATION – 31 MARCH 2013

	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	315.1	17.0	159.8	131.8		16.8							640.5	20.4%
North America	162.8	11.0				92.8							266.6	8.5%
Europe	135.6					41.0		34.5					211.1	6.7%
Japan	40.7					14.8		36.1					91.6	2.9%
Pacific Rim	56.3					13.6		32.4					102.3	3.3%
Emerging Markets					158.4	17.6							176.0	5.6%
Global ex-UK							218.1						218.1	7.0%
Global inc-UK	310.5											8.0	318.5	10.2%
Total Overseas	***705.9***	***11.0***			***158.4***	***179.8***	***218.1***	***103.0***				***8.0***	***1384.2***	***44.2%***
Total Equities	**1021.0**	**28.0**	**159.8**	**131.8**	**158.4**	**196.6**	**218.1**	**103.0**				**8.0**	**2024.7**	**64.6%**
BONDS														
Index Linked Gilts	211.1												211.1	6.7%
Conventional Gilts	110.8	14.7											125.5	4.0%
Sterling Corporate	17.0								176.5				193.5	6.2%
Overseas Bonds	81.5												81.5	2.6%
Total Bonds	**420.4**	**14.7**							**176.5**				**611.6**	**19.5%**
Hedge Funds										221.1			221.1	7.0%
Property											222.3		222.3	7.1%
Cash	5.1	18.0	3.0	8.0		3.0					7.6	11.0	55.7	1.8%
TOTAL	**1446.5**	**60.7**	**162.8**	**139.8**	**158.4**	**199.6**	**218.1**	**103.0**	**176.5**	**221.1**	**229.9**	**19.0**	**3135.4**	**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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Avon Pension Fund

Review for period to 31 March 2013

May 2013

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Contents

1 Executive Summary

- This report is produced by JLT Investment Consulting ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Funding level

- There is expected to have been a deterioration in the funding level by around 2% over the first quarter of 2013.
- The drivers of this are:
    - A sharp rise in the Market Implied (RPI) inflation assumption used to project the liabilities. This increases the amount of future inflation-linked payments and hence increases the value placed on the liabilities, all else being equal.
    - This was despite a strong positive return from the assets, in particular equities.

Fund Performance

- The value of the Fund's assets increased by £262m over the first quarter of 2013 to £3,135m. The total Fund (including the impact of currency hedging) outperformed the Fund's strategic benchmark over the quarter by 0.3%, producing an absolute return of 8.9%.

Strategy

- Equity markets produced strong returns over the last quarter. Japan was the best performer at 19.2%, with emerging markets equities much lower at 5.4%. Over the last twelve months the US produced the best return at 20.1%. Japanese equity returns were reduced in Sterling terms by the weakening of the Yen but still produced comparable double-digit Sterling returns over 12 months (14.3%).
- The three year UK equity return has moved above the assumed strategic return, with overseas equities marginally below.
- Both nominal and index-linked bond returns have been high over the last three years and ahead of the assumed strategic return. This was a result of falling bond yields, and more recently falling real yields have boosted index-linked gilt returns.
- Overseas Fixed Interest and hedge funds remain below the assumed strategic return but there has been some improvement over the last quarter.
- The Property return has fallen behind the assumed strategic return, as the higher returns from 2010 fall out of the analysis and are replaced by lower recent returns. Since the start of 2012 income (rent) has been the main driver of returns rather than capital growth.

Managers

- In line with general market returns, all managers have produced positive returns over the last quarter, ranging from 0.8% from Schroders Property to 15.8% from SSgA Pacific. In relative terms, it has been a good quarter with all funds outperforming (apart from BlackRock Multi-Asset, which only underperformed by 0.1%).

- Over one year, the absolute return from each manager was positive, as equity and bond markets rose. In relative terms, only MAN, Schroder equity and the two Blackrock funds underperformed their benchmark.
- Only the four fund-of-hedge fund managers produced negative relative returns over three years.
- TT made changes in Q4 2011 and performance has continued to improve, with one year performance at 4% above the benchmark. TT's three year performance has improved to 0.5% p.a. above their benchmark, but this is below their target of +3-4% p.a. above the benchmark.
- Man restructured the portfolio in Oct 2012 and the Panel met them in early 2013 to review the impact on performance. Performance has improved over Q1 2013 but this is a short time period over which to draw any firm conclusions.
- The SSgA Europe ex UK Enhanced Equity pooled fund has fallen in size such that Avon's investment now represents over 90% of the pooled fund holdings. Avon's share is at the same level as when the Panel last investigated the issue in 2011, albeit the fund value is higher than at that time. Avon's share of the Pacific fund is also around 90% (again a similar share but a slightly higher fund value then when previously investigated). Performance of the SSgA Europe ex UK Enhanced Equity Fund does not appear to have been affected by its reduction in size.
- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on servicing existing investors, strategic acquisitions and joint venture projects. The Stenham portfolio produced a strong quarterly return which has improved its longer term returns.
- The results of the Fund's recent strategic review should be taken into account before making any manager or asset allocation changes.

2 Market Background

The figures below cover the three months and 1 and 3 years to the end of March 2013.

Market Statistics

Yields as at 31 March 2013	% p.a.
UK Equities	3.35
UK Gilts (>15 yrs)	3.02
Real Yield (>5 yrs ILG)	-0.43
Corporate Bonds (>15 yrs AA)	4.06
Non-Gilts (>15 yrs)	4.06

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.22	-0.10	0.19
UK Gilts (>15 yrs)	0.02	-0.24	-1.44
Index-Linked Gilts (>5 yrs)	-0.36	-0.32	-1.07
Corporate Bonds (>15 yrs AA)	-0.02	-0.57	-1.44
Non-Gilts (>15 yrs)	0.01	-0.65	-1.33

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	0.5	8.1	12.3
Index-Linked Gilts (>5 yrs)	9.0	11.7	13.0
Corporate Bonds (>15 yrs AA)	1.3	11.7	10.4
Non-Gilts (>15 yrs)	1.0	13.7	10.6

* Subject to 1 month lag

Source: Thomson Reuters and Bloomberg

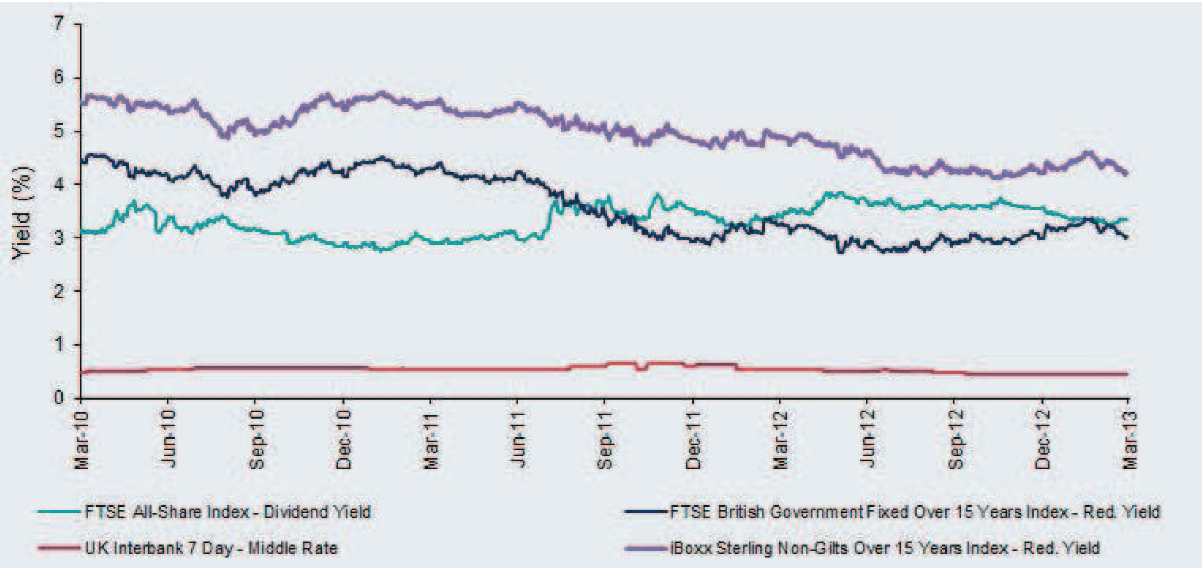
Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.3	16.8	8.8
Overseas Equities	14.4	17.2	8.2
USA	18.5	20.1	12.6
Europe	9.7	17.1	3.8
Japan	19.3	14.3	3.5
Asia Pacific (ex Japan)	8.8	16.7	7.3
Emerging Markets	5.4	7.4	3.2
Property	1.1	2.5	6.6
Hedge Funds	3.6	7.5	5.8
Commodities	7.6	0.0	3.0
High Yield	9.1	19.1	10.7
Emerging Market Debt	-2.3	10.1	9.9
Senior Secured Loans	2.8	8.7	5.7
Cash	0.1	0.5	0.5

Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-6.6	-5.0	0.0
Against Euro	-4.1	-1.4	1.8
Against Yen	1.6	8.6	0.2

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation - RPI	0.8	3.2	4.1
Price Inflation - CPI	0.7	2.8	3.5
Earnings Inflation *	-0.5	0.6	1.5

Market Summary charts

The graph above shows market returns for the last three years; both the medium-term trend and the short-term volatility.



The graph above shows the historic yields for gilts, corporate bonds, UK equities and UK cash over the last three years. The trend over the last 2 years shows falling gilt and corporate bond yields, whilst the yield on the FTSE All-Share Index has risen.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 March 2013, 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	8.8	Both around the assumed strategic return following a return of around 17% over the last twelve months. This followed flat returns of the previous 12 months.
Global Equities	8.4	8.2	
UK Gilts	4.7	12.3	Significantly ahead of the assumed strategic return as gilt yields fell significantly during 2011. Over the last twelve months, nominal gilt yields have stabilised whereas real yields and corporate bond yields have fallen, giving strong returns.
Index Linked Gilts	5.1	13.0	
UK Corporate Bonds	5.6	8.6	
Overseas Fixed Interest	5.6	4.3	Behind the assumed strategic return, affected by rising yields within European bonds, however there has been some improvement over the most recent quarter.
Fund of Hedge Funds	6.6	2.2	Behind the assumed strategic return following a negative return in 2011. More recent returns have been steady, albeit low. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.6	This has fallen behind the assumed strategic return, as the higher returns from 2010 fall out of the analysis and are replaced by lower recent returns.

Source: Statement of Investment Principles, Thomson Reuters.

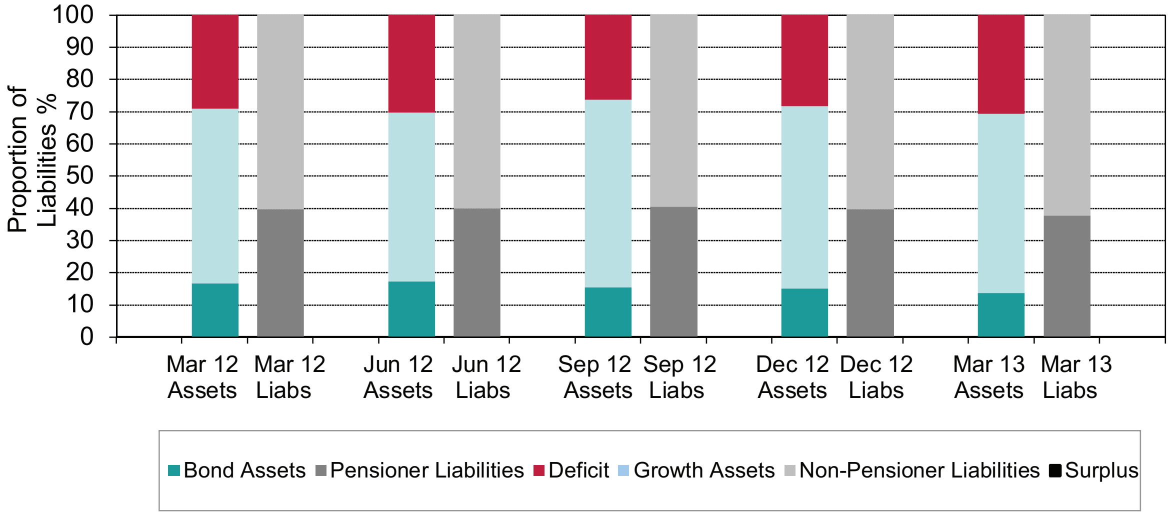
See appendix A for economic data and commentary.

3 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

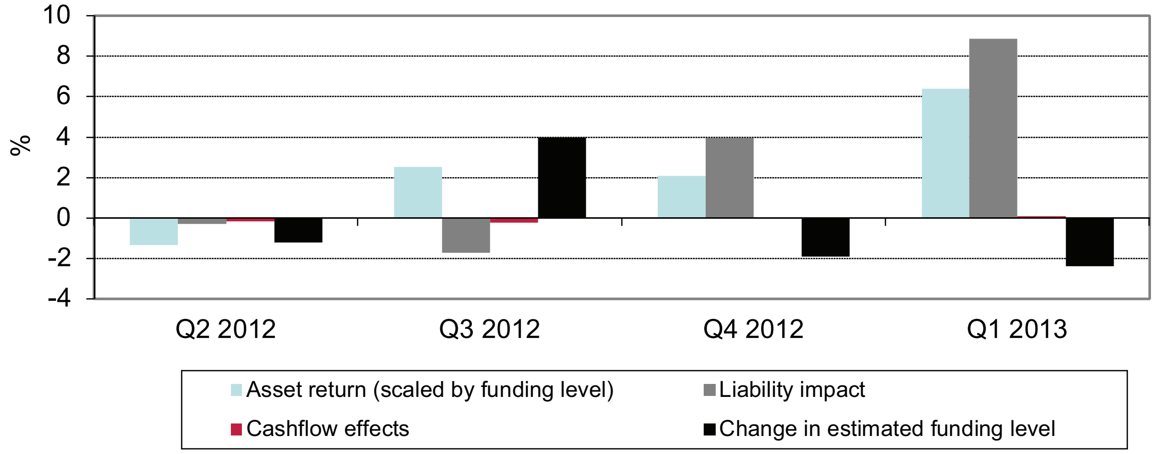
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix 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 decreased by around 2% over the first quarter of 2013, all else being equal. This was driven by:
  - » A sharp rise in the Market Implied (RPI) inflation assumption used to project the liabilities. This increases the amount of future inflation-linked payments and hence increases the value placed on the liabilities, all else being equal.
  - » This was despite a strong positive return from the assets, in particular equities.
- At the valuation date, 31 March 2010, the Scheme was 82% funded. Since then financial market movements have reduced the overall funding level, with most of the deterioration coming from lower real yields, especially since the second half of 2011 when bond yields fell sharply.

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.

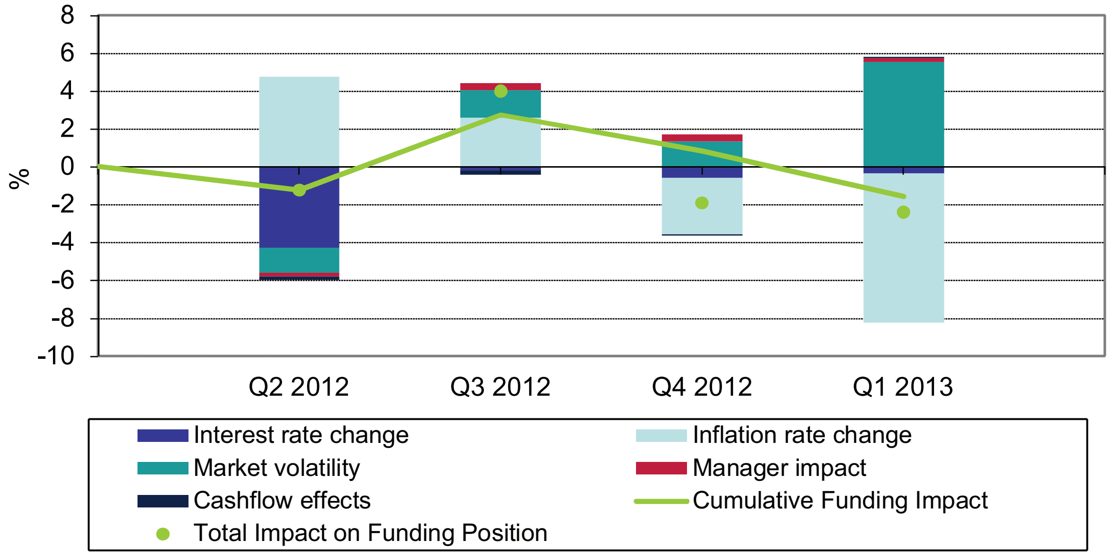


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 6.4%, over the last quarter.
- Over the quarter, the value placed on the liabilities increased by 8.9% due to an increase in the inflation assumption.
- Overall, the combined effect has led to a decrease in the estimated funding level to 69% (from 71% at 31/12/2012).

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 Q2 2012. Over the last three quarters, the discount rate assumption has not changed, which results in a negligible contribution due to the liabilities unwinding.
- The Market Implied (RPI) inflation assumption rose sharply from 3.1% p.a. to 3.6% p.a. over the quarter. This increased the estimated liabilites and therefore was a negative contibution to the estimated funding level. This is the second consecutive quarter that the inflation assumption has risen and reverses the positive impacts of the first two quarters on the above chart.
- 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 a strong positive contribution 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 gave a relatively small contribution, as expected, compared to the other factors.
- The small 'cashflow effects' reflect factors such as pension payments and contributions/disinvestments.
- Overall the financial factors have had a negative impact on the estimated funding level of the Fund over the last quarter.
- Over the last twelve months, the financial factors have had a negative effect mainly due to the 'interest rate' effect (a falling Mercer gilt yield discount rate) over Q2 2012 and the inflation impacts of the last two quarters. Rising markets (the 'market volatility' bars) were a positive, with the remaining components on the chart above each having a broadly neutral effect over the year.

4 Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 March 2013, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 March 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	640,484	20.4	18.0
Overseas Equities	1,384,317	44.1	42.0
Bonds	611,590	19.5	20.0
Fund of Hedge Funds	221,147	7.1	10.0
Cash (including currency instruments)	55,550	1.8	-
Property	222,341	7.1	10.0
TOTAL FUND VALUE	**3,135,429**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £262m over the first quarter of 2013 to £3,135m. Each asset class contributed positively to the increase, however most of the increase (£233m) came from equities.
- In terms of the asset allocation, market movements resulted in a shift towards equities as they produced double-digit returns and outperformed other asset classes. This moved the allocation slightly further away from the strategic benchmark weights.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 December 2012		Net new money £'000	31 March 2013	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	124,793	4.3	-	139,815	4.5
TT International	UK Equities	144,716	5.0	-	162,741	5.2
Invesco	Global ex-UK Equities	186,292	6.5	-	218,121	7.0
Schroder	Global Equities	174,947	6.1	-	199,613	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	90,327	3.1	-	103,009	3.3
Genesis	Emerging Market Equities	147,442	5.1	-	158,436	5.1
MAN	Fund of Hedge Funds	62,264	2.2	-	63,955	2.0
Signet	Fund of Hedge Funds	66,339	2.3	-	67,197	2.1
Stenham	Fund of Hedge Funds	33,360	1.2	-	34,937	1.1
Gottex	Fund of Hedge Funds	53,559	1.9	-	55,059	1.8
BlackRock	Passive Multi-asset	1,305,849	45.4	-	1,446,466	46.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	60,381	2.1	-2,710	60,652	1.9
RLAM	Bonds	172,159	6.0	-	176,526	5.6
Schroder	UK Property	131,330	4.6	-	132,500	4.2
Partners	Property	87,078	3.0	2,710	95,729	3.1
Record Currency Mgmt	Dynamic Currency Hedging	8,249	0.3	-	-3,117	-0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	8,924	0.3	-	7,955	0.3
Internal Cash	Cash	15,242	0.5	-	15,836	0.5
Rounding		-1	0.1	-	-1	-0.1
TOTAL		**2,873,250**	**100.0**	**0**	**3,135,429**	**100.0**

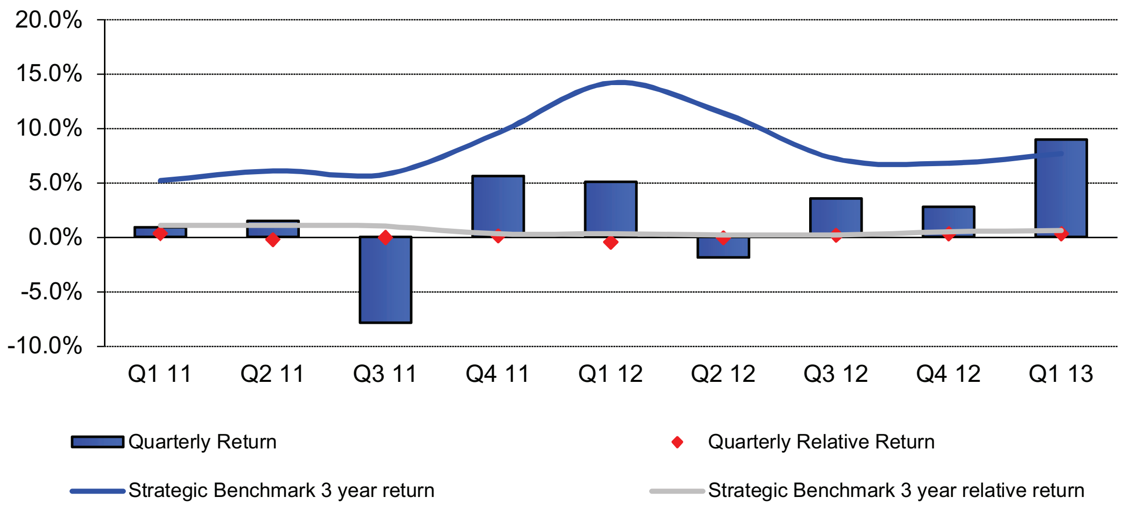
Source: Avon Pension Fund Data provided by WM Performance Services

5 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)	8.9	13.8	N/A
Total Fund (ex currency hedge)	9.4	14.1	8.4
Strategic Benchmark	8.6	12.4	7.7
Relative (inc currency hedge)	+0.3	+1.4	N/A
Relative (ex currency hedge)	+0.8	+1.7	+0.7

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 31 March 2013.

Asset Class	Weight in Strategic Benchmark	Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
		Q1 2013	(quarter)	1 year	(1 year)
UK Equities	18%	10.3%	1.9%	16.8%	3.0%
Overseas Equities	42%	13.4%	5.6%	16.4%	6.9%
Index Linked Gilts	6%	9.0%	0.5%	11.7%	0.7%
Fixed Coupon Gilts	6%	0.4%	0.0%	8.1%	0.5%
UK Corporate Bonds	5%	1.7%	0.1%	12.0%	0.6%
Overseas Fixed Interest	3%	4.3%	0.1%	4.5%	0.1%
Fund of Hedge Funds	10%	3.5%	0.3%	2.7%	0.3%
Property	10%	0.8%	0.1%	1.0%	0.1%
Total Fund	100%				

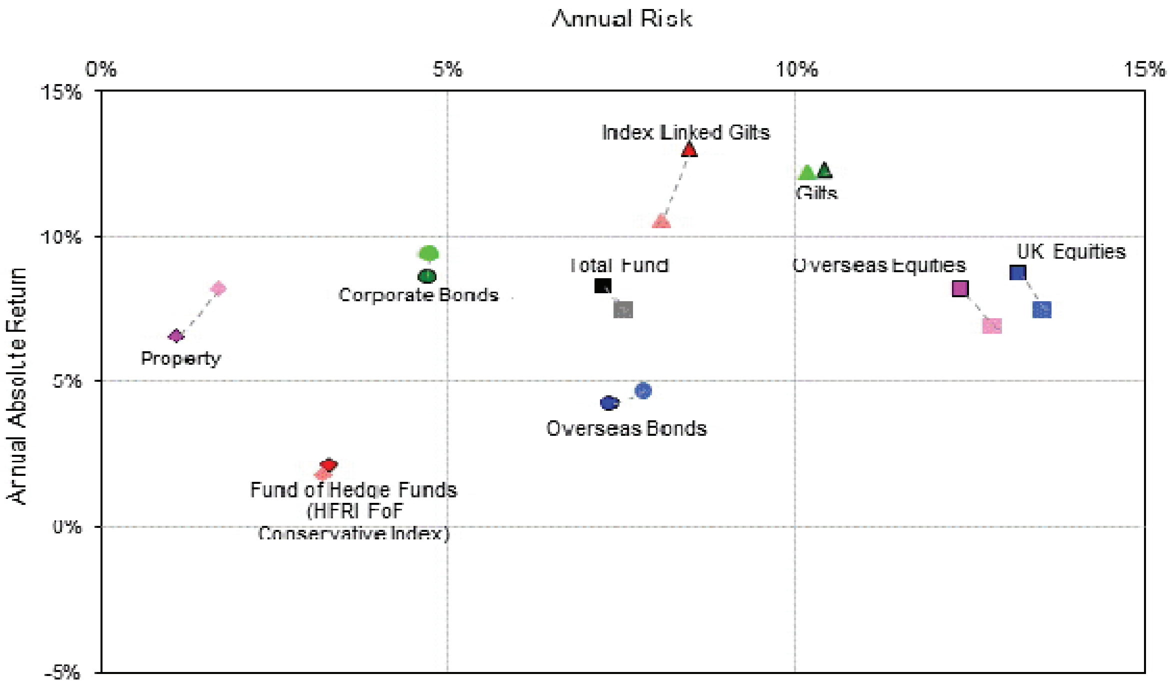
Source: Avon Pension Fund, Data provided by WM Performance Services.

- **Market impact**: Global equities moved sharply upwards in the first quarter, as both company and consumer confidence improved and companies increased dividends.
- The depreciation of Sterling against both the US Dollar and the Euro improved the overseas equity return in Sterling terms over the last quarter. Emerging market equities performed less strongly, due to a lack in the growth of exports to the developed world, but still returned 5.4%.
- Corporate bonds continued to outperform gilts, although the narrowing of the credit spread was less marked than in previous quarters. Index linked gilts significantly outperformed fixed coupon gilts, reflecting the increase in RPI inflation expectations following confirmation in January that there would be no change to the RPI calculation methodology.
- Property produced a small positive return, mainly due to the income (rent) element.
- **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.
- Bond assets, which make up 20% of the benchmark, contributed 1.9% over the year.
- Hedge funds and property made small positive contributions, both over the quarter and year.

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 March 2013 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 31 March 2013



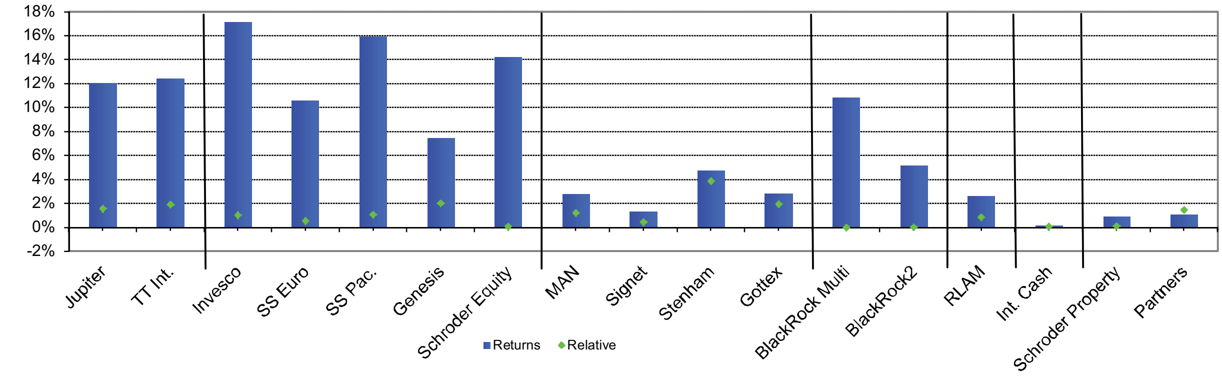
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- 3-year equity returns increased despite the strong returns of Q1 2009 falling out of the analysis, as equities produced double-digit returns in Q1 2013.
- The Property return continued to fall sharply as the lower returns seen over the last year continue.
- Hedge funds continue to produce a steady, albeit low, return, with the three year figures affected by the negative return of 2011.
- Index-linked gilts continued to rise, whereas conventional gilts were flat over the last quarter.
- In terms of risk, there was broadly little change with the exception of property. The volatility of equities continued to fall.
- Both the UK and overseas equity three-year returns rose, with the UK return now above its assumed strategic return of 8.4% p.a. and the overseas return only slightly behind. The three year return on each of the bond types (gilts, index linked gilts and corporate bonds) remains above the respective strategic returns. Property has fallen to below its assumed strategic return; overseas fixed interest and hedge funds remain below their assumed strategic return.

Aggregate manager performance

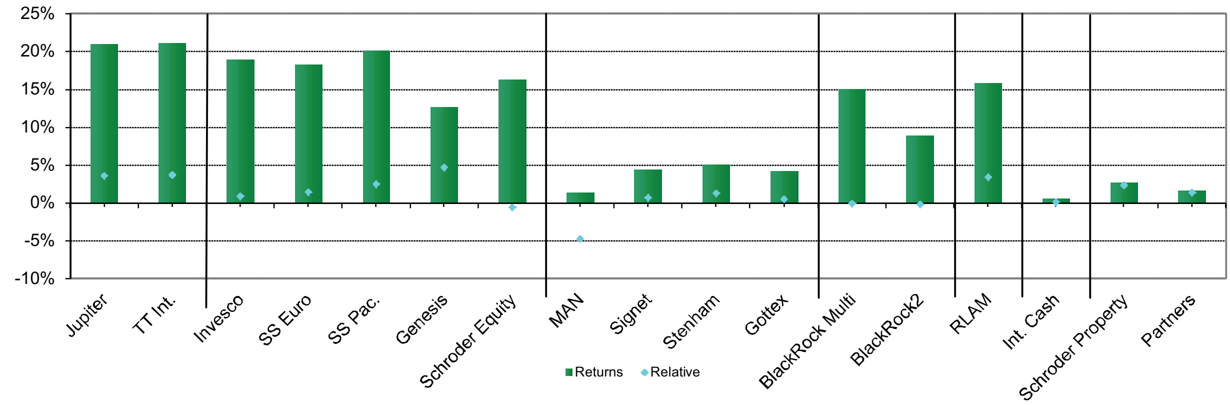
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of March 2013. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - **Quarter to 31 March 2013**

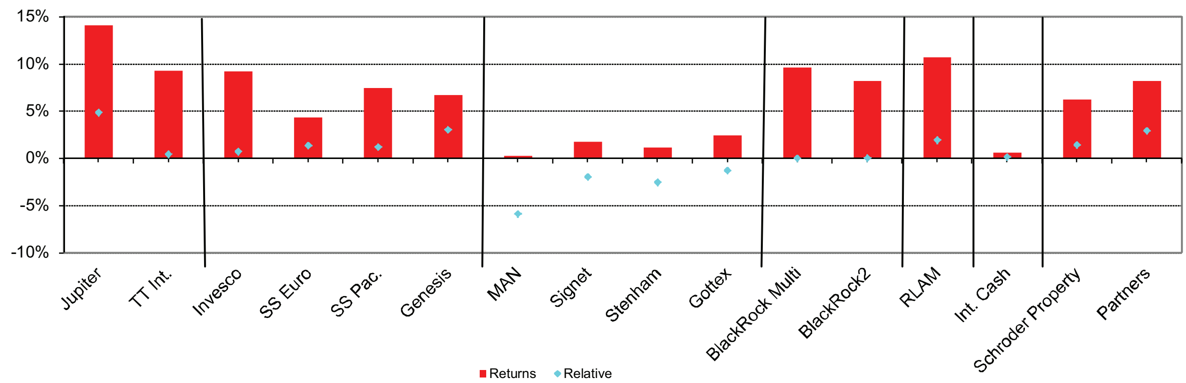


Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 31 March 2013**



Absolute and relative performance - **3 years to 31 March 2013**



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 March 2013. 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.

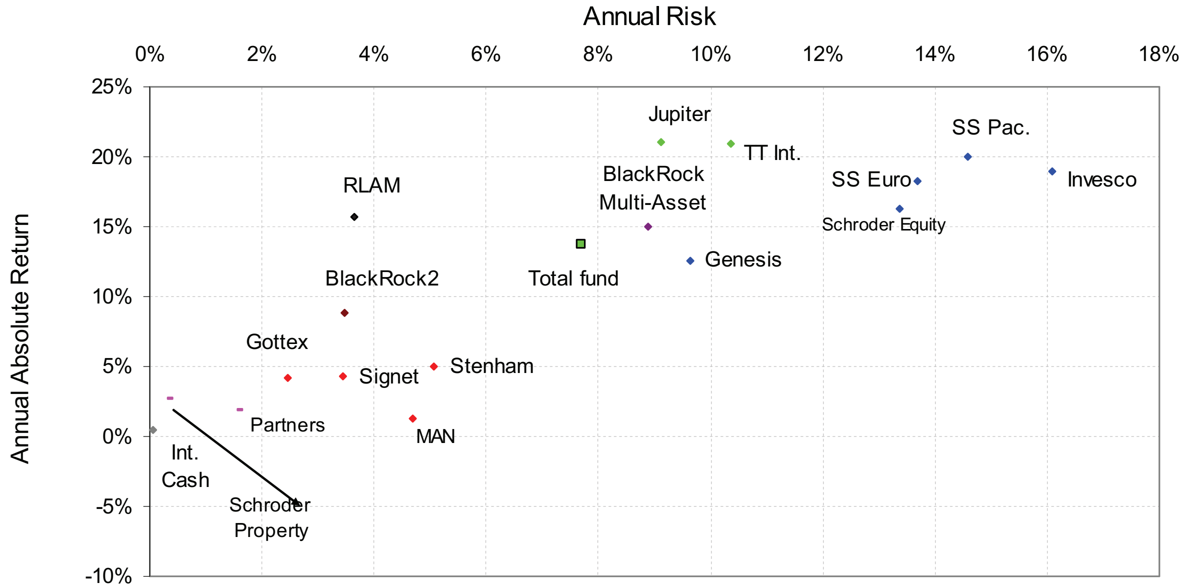
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+1.7	+4.1	+5.2	Target met
TT International	+2.1	+4.3	+0.4	Target not met
Invesco	+1.2	+1.1	+0.7	Target met
SSgA Europe	+0.5	+1.6	+1.3	Target met
SSgA Pacific	+1.2	+3.0	+1.2	Target met
Genesis	+2.1	+5.1	+3.1	Target met
Schroder Equity	+0.1	-0.7	N/A	N/A
Man	+1.2	-5.0	-6.2	Target not met
Signet	+0.4	+0.7	-2.1	Target not met
Stenham	+3.8	+1.3	-2.7	Target not met
Gottex	+1.9	+0.5	-1.4	Target not met
BlackRock Multi - Asset	-0.1	-0.1	0.0	Target met
BlackRock 2	0.0	-0.2	0.0	Target met
RLAM	+0.8	+3.8	+2.1	Target met
Internal Cash	0.0	+0.1	+0.2	N/A
Schroder Property	0.0	+2.4	+1.5	Target met
Partners Property	+1.4	+1.4	+3.1	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

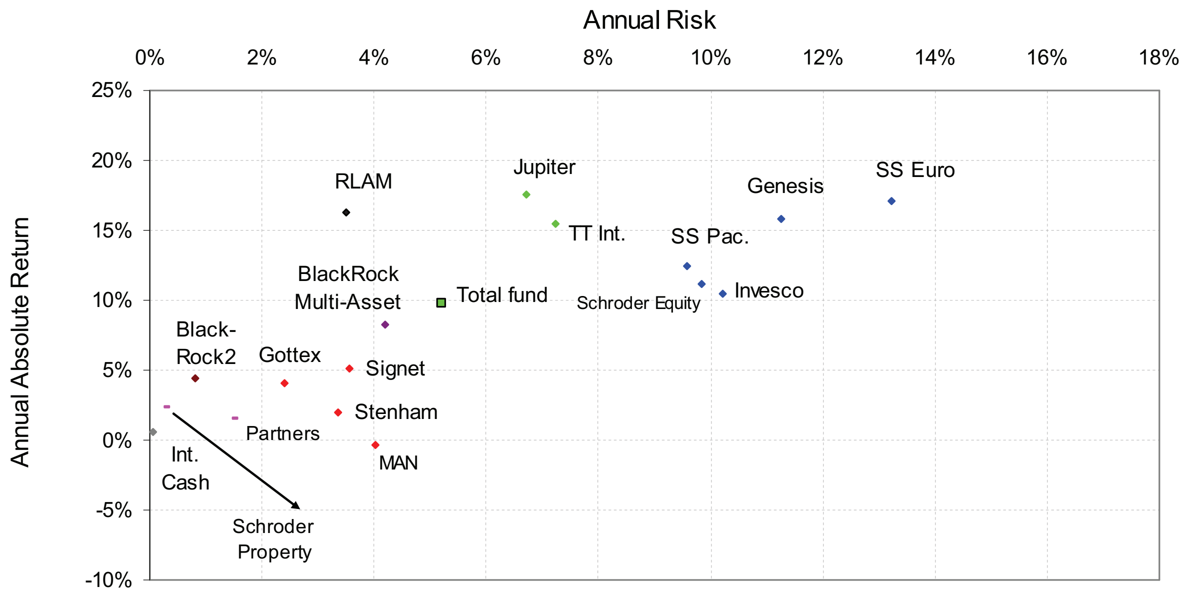
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2013 of each of the funds. We also show the same chart, but with data to 31 December 2012 for comparison.

1 Year Risk v 1 Year Return to 31 March 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 December 2012



Source: Data provided by WM Performance Services

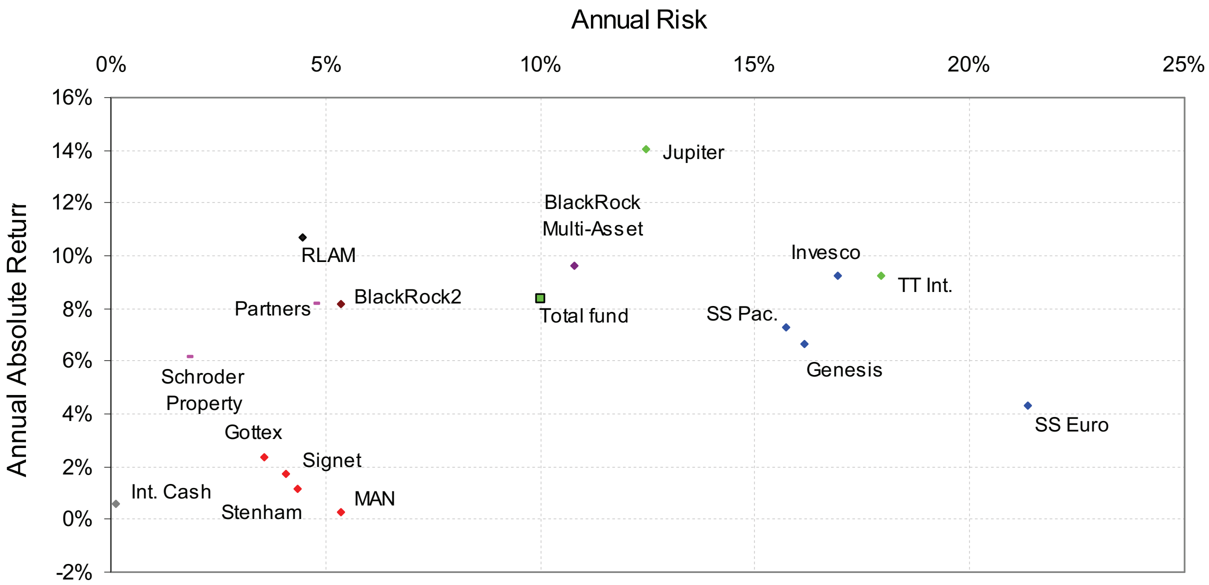
- The managers are colour coded by asset class, as follows:

  - 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 one-year returns are higher to March than to December for all funds apart from Genesis, Signet and RLAM.
- Notable increases are Invesco global equities (from 10.4% to 19.0%) and Stenham (from 2.0% to 5.0%), which puts Stenham's return ahead of Signet and Gottex.
- Genesis emerging market equity fund return over one-year has fallen from 15.8% to 12.6%.
- The one-year risk has generally increased for the equity-based funds and the Blackrock funds, and remained broadly unchanged elsewhere.

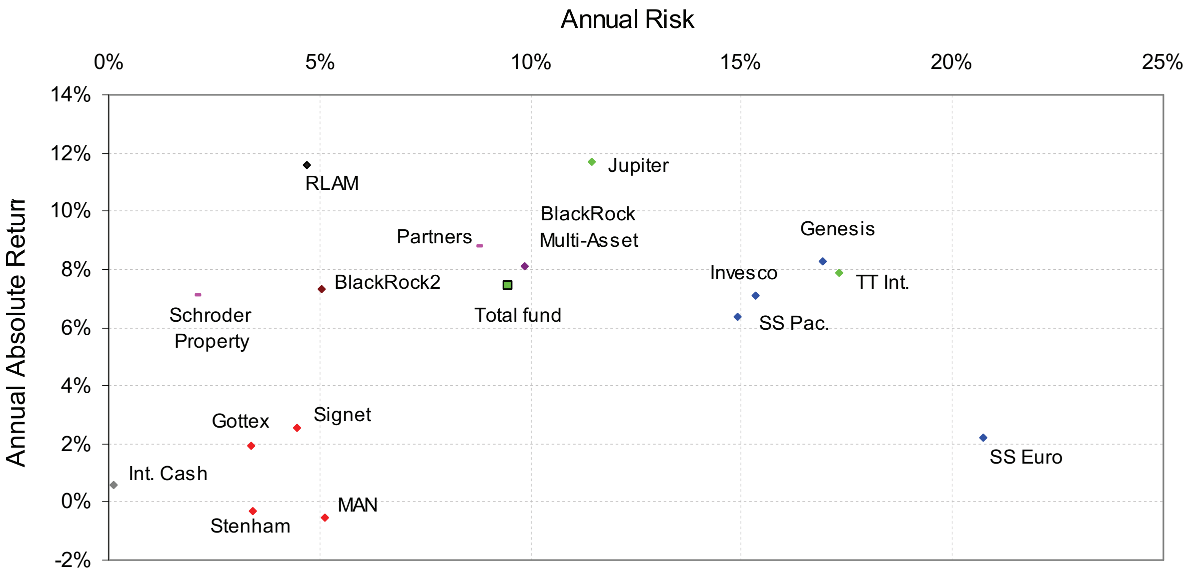
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2013 of each of the funds. We also show the same chart, but with data to 31 December 2012 for comparison.

3 Year Risk v 3 Year Return to 31 March 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 December 2012



Source: Data provided by WM Performance Services

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

- The change in the three-year returns compared to last quarter reflect those of the one-year returns, with a notable improvement from most equity-based funds but a fall from Genesis, Signet and RLAM.
- The 3-year risk figures have generally increased for the equity-based funds and remained at a broadly consistent level for the other funds. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest, in line with the market returns chart on page 15.

Conclusion

- The strongest returns over the 1 year period are from equity funds, corporate bonds (RLAM) and Blackrock Multi-asset. Each of these produced a double-digit return.
- Over three years, the best performer is Jupiter at 14.1% p.a., followed by RLAM at 10.7% p.a. The other equity, property and multi-asset funds generally produced 4-9% p.a., with the hedge funds lowest at 0-3% p.a.
- The Fund of Hedge Fund managers have provided low volatility over both the 1 and 3 year period. However, over the longer 3 year period they have all underperformed their assumed strategic return. Each of the equity-based funds has outperformed the assumed strategic return over 3 years.

Appendix 1: Market Events

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
UK Equities	• UK Equities had a good quarter. The FTSE All-Share Index delivered a 10.3% return over the quarter to 31 March 2013, smaller companies returned 13% whilst medium sized companies lagged slightly, returning 9.8%. Companies' confidence in the future is shown by the number of dividend increases being seen in many sectors, underpinning the yield support that equity prices have long experienced. • CPI inflation remained within the Bank of England's target range over the quarter; the latest figure for CPI inflation is 2.8% (as at 31 March 2013, which is likely to be revised over the quarter by the Office for National Statistics). • The UK Bank Rate remained at 0.5% over the quarter although there was no change to the level of QE, £375bn.	• Official forecasts now suggest a 'triple-dip' recession is unlikely. However, there is little room for manoeuvre – growth is expected to be less than 1% this year – and events beyond the government's control could easily reduce this further. Expected future rises in the inflation rate are also adding to potential problems. • The number unemployed, 2.51m, remains high, although the unemployment rate has held steady at 7.8% over recent months. Increases in wages continue to be subdued whilst the rate of inflation is putting further pressure on consumers.
Overseas Equities:		
North America	• The US Equity Market had a stellar first quarter of 2013 returning 18.5%. The housing market has been improving, and consumer confidence has picked-up somewhat. Corporate America helped, earnings for 2012 were largely as expected, forecasts for 2013 remain positive and there are signs of a pick-up in mergers and acquisitions (and even a return of the leveraged buyout). • The market welcomed the continuation of QE which is now officially dependent on the unemployment rate falling below 6.5% - and staying there – which a majority of the Fed Board do not expect until 2015/16. So QE appears to be here to stay, albeit in reduced monthly amounts.	• After the strong rise in equity prices in the first quarter it would not be surprising if there was a pause for breath in the short term, particularly if some of the mixed signals coming from more recent economic statistics continue. • Tax increases agreed as part of the 'fiscal cliff' negotiations at the end of 2012 added to the automatic spending cuts imposed by the 'sequester' in January have the potential to hold back any recovery.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Europe	• The European markets delivered 9.7% growth over the quarter, continuing the strong rally it experienced over 2012. • Despite the grim big picture, many companies are increasing profits and, perhaps more importantly, dividends. Income is becoming a significant part of share prices' total return (as has been the case in the UK for some time). Europe should be treated as a market of many stocks, not a single stock market. There are opportunities to be grasped, even in the most unpromising areas.	• Unemployment remains high - particularly in the peripheral Eurozone countries as austerity measures impact on confidence. • The 'resolution' of the Cyprus crisis, has set a precedent that could be followed elsewhere – Spain, a possibility. There are already other, peripheral, countries heading into difficulty – Slovenia seemingly next in line – and it will be interesting to see if the same remedies are imposed in future negotiations. The Cyprus 'bail-in' will also have the effect of weakening already weak banks across the Eurozone as depositors move their uninsured cash to perceived 'strong' banks in the region – just in case.
Japan	• Japan was the best performing major market in the first quarter, with a return in sterling of 19.3% and even stronger return in local currency of 21.2%. It is a very long time since we have been able to make such a statement. • The new Prime Minister, Mr Abe, was elected on a platform of monetary and fiscal expansion to overcome deflation and boost the economy. He has already appointed a new Bank of Japan Governor, Mr Kuroda, who markets expect to be fully supportive of these efforts, unlike previous, ultra-conservative incumbents.	• There are still clouds on the horizon, not least international politics in the region. China, in particular, is not happy with the perceived 'beggar-thy-neighbour' policies being proposed and the US Congress might start to grumble if the yen weakens much more. But for the time being the rest of the developed world seem content for Japan to continue its experiment in reflation.
Asia Pacific	• The region had a relatively subdued first quarter, returning 8.8%. As usual, China has been the main area of returns and concern. The new President, Xi Jinping, took over in March, with stability the watchword, but with some major problems to address. Exports have recovered somewhat from the lows of last summer but the lack of growth in the Western developed world limits any rapid recovery. Overall GDP should grow in 2013 at about the same rate as last year – around 7.5% - which might sound high, but for China is nearly equivalent to stagnation.	• In the short term the new Chinese administration's room for manoeuvre is constrained by a property bubble – the legacy of the massive expansion in credit in 2008/9. Easing monetary conditions to promote growth is not possible until property lending throughout the economy can be controlled more rigorously. In addition, geopolitically there is, of course, the question of North Korea. So far markets have blithely ignored all the table-thumping and sabre-rattling but there is always the chance that the situation gets out hand.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Emerging Markets	• Emerging Market indices rose approximately 5% over the quarter – a somewhat lacklustre performance. The reasons are very similar to those described above in the Asian section – a reliance on exports to a developed world growing little, if at all. However, the fastest growing areas in Emerging Markets generally are in the domestic economy – consumption and services – aimed at the burgeoning middle class in many countries with an increasing propensity to spend.	• Political instability is the main investor concern at present with the political leadership of China facing its first serious test in North Korea and the increasing uncertainties in Latin America proving a drag on growth. There is also a strong correlation between Emerging Market indices and the US dollar. When the latter is strong, as it has been, they tend to underperform – and vice versa.
Gilts	• Gilts returned 0.7% over the 3 months to the end of March 2013. The recent downgrade by Moody's to AA Stable in this asset class has not impacted on it continuing to be regarded as having 'safe haven' status at the moment.	• The safe haven position of Gilts is inextricably linked to the measures taken to resolve the Eurozone crisis. We continue to be concerned that this asset class may experience falling capital values in the near term as markets work through the sovereign crisis. There is a short term risk of yields decreasing on more QE.
Index Linked Gilts	• With limited supply and investors continuing to seek inflation protection, demand for Index Linked Gilts remains high, thus supporting prices. There are pockets of value to be found in this asset class.	• A negative real yield on long-dated index-linked stocks is unsustainable over the longer term in an environment in which central banks are able to successfully control inflation within a target range.
Corporate Bonds	• Sterling Corporate Bonds produced a positive return of 1.8%, benefiting from the strength of corporate balance sheets and the higher yields relative to gilts. The interest rate outlook is stable, and the returns available make the sector appealing to some investors.	• The Corporate Bond Market is currently suffering from a lack of liquidity and the tightening of credit spreads means that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they did 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 Q1 2013. The lack of growth in the UK economy compounded these issues.

Economic statistics

	Quarter to 31 March 2013			Year to 31 March 2013		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.3%	n/a	0.6%	0.6%	n/a	1.8%
Unemployment rate	7.9%	11.1%[4]	7.6%	7.9%	11.1%[4]	7.6%
Previous	*7.7%*	*11.0%*	*7.8%*	*8.3%*	*10.3%*	*8.2%*
Inflation change[2]	0.5%	0.5%	1.4%	2.8%	1.7%	1.5%
Manufacturing Purchasing Managers' Index	48.3	46.8	51.3	*48.3*	46.8	51.3
Previous	*51.4*	*47.5*	*50.7*	*51.9*	*47.7*	*53.4*
Quantitative Easing / LTRO (3)	£375bn	€1,018bn	$3,029bn	£375bn	€1,018bn	$3,029bn
Previous	*£375bn*	*€1,018bn*	*$2,774bn*	*£325bn*	*€1,018bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 March 2013 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 February 2013

Appendix 2: 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 3: 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	+4%
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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QUARTERLY ENGAGEMENT REPORT

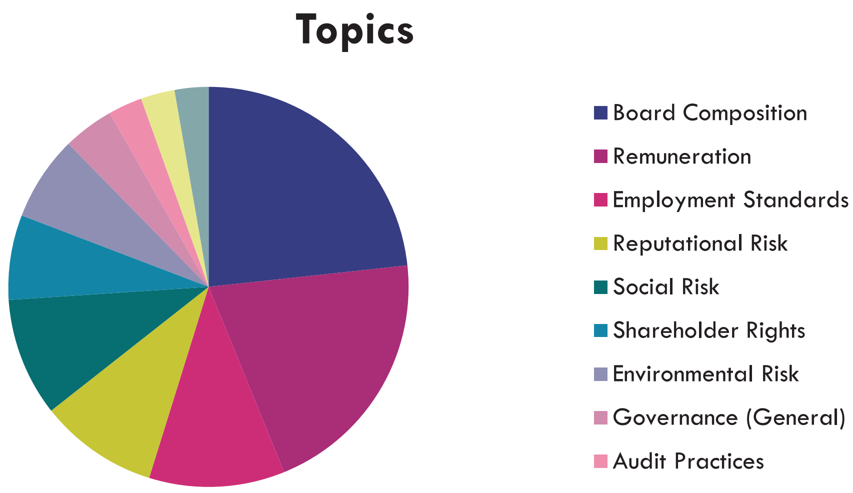
JANUARY TO MARCH 2013

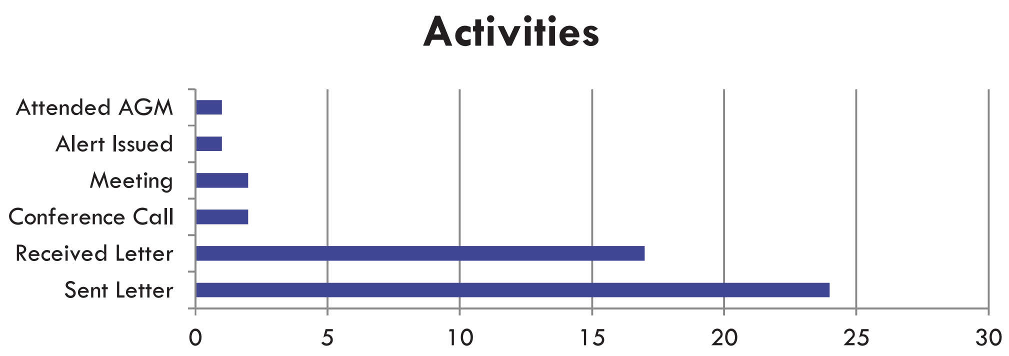
Local Authority Pension Fund Forum

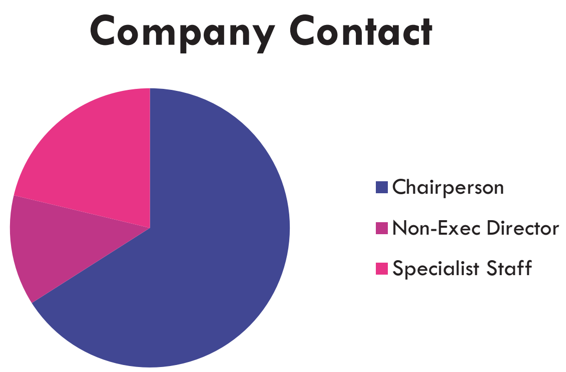
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

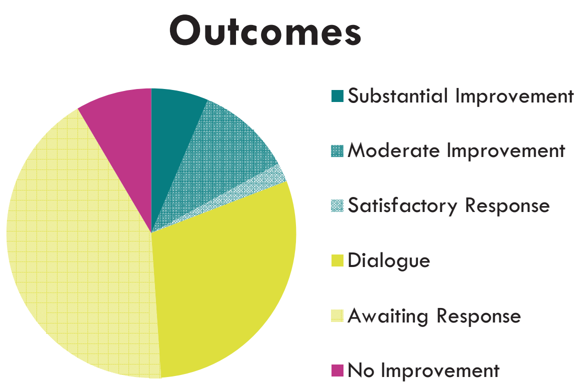
ENGAGEMENT SUMMARY

JANUARY TO MARCH 2013









ACHIEVEMENTS

- Launched LAPFF's new 'Expectations for Executive Pay,' and sent the document to the FTSE 350 Chairmen for consideration.
- Met with the chairman of **British American Tobacco** to discuss health risks related to the manufacture and sale of tobacco products.
- Attended the **Lonmin** AGM to enquire about the company's ongoing response to issues flagged up by the violent strike at its Markiana mine.
- Received reply from **Tesco** on questions raised regarding business risks and labour concerns at its Fresh & Easy operations in the United States.
- Engaged in ongoing dialogue with **National Express** on disparity in application of global labour standards
- Wrote to **JP Morgan & Chase** welcoming the decision by the remuneration committee to reduce the CEO's remuneration following the recent trading scandal and subsequent financial losses in its London offices.
- Held a conference call with **Comcast** regarding separation of chair and CEO, majority voting and the company's dual class share structure.
- Participated in an investor call with directors of **Hewlett Packard** regarding the controversial takeover of **Autonomy** and subsequent questions raised about its Auditors.
- Met the senior independent director at **Société Generale** to discuss the concentration of power held by the joint chair/chief executive.

THE FORUM IN THE NEWS

LAPFF's new expectations on executive pay - Financial News, Investment & Pensions Europe, Bloomberg, The Independent

EU reviews accounting rules - CityAM

New LAPFF Chair – Municipal Journal, Investment & Pensions Europe, Professional Pensions, Portfolio International

Investor concern over flaring of natural gas – CSR Wire

Pension funds & infrastructure investing – The Guardian

View more press coverage: http://lapfforum.org/TTx2/press/in-the-news

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF initiated engagement this quarter with the two British listed tobacco companies in an effort to understand how they manage health and liability risks, as well as how they are planning for future restrictions on the sale of tobacco products. The Forum Chair met with the Chairman of **British American Tobacco** to discuss members' concerns regarding social and health concerns, regulatory risks, and voluntary restrictions on marketing and advertising.

Increasingly, companies are approaching the Forum to proactively seek its views on key governance issues. We were pleased when **Standard Chartered** and **Legal & General** contacted LAPFF this quarter seeking meetings to discuss governance issues. These approaches from companies are a testament to the progress LAPFF has made in positioning itself as the leading shareholder advocacy body that brings a unique perspective to the debate from local authority funds.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

Continuing previous engagement, LAPFF met with the senior independent director of **Société Generale**, to follow up on a shareholder resolution, co-filed by LAPFF member, West Yorkshire, for the separation of powers at the head of the company.

Following on its engagement in 2012, LAPFF wrote to **JP Morgan & Chase**, welcoming the company's decision to adjust the CEO's pay downward this year as a result $6 billion in losses from the "London whale" trading scandal. Last year LAPFF had expressed concern about remuneration at the company. In its letter, LAPFF also reiterated the call for the company to appoint an independent Chair.

"We've been a long-time believer in linking pay to performance, and we think that linkage was made in this case"

- California State Teachers Retirement System (CalSTRS) on JP Morgan Remuneration decision

The Forum held a conference call with **Comcast** to discuss concerns regarding the joint Chair/CEO position, majority voting, and the dual class share structure. We were also pleased to receive a letter from **Flir Systems** indicating that following engagement by shareholders, the company has agreed to declassify the board and implement majority voting for directors.

We received responses from several companies that we wrote to last quarter to congratulate them on achieving a good governance rating in LAPFF's annual Global Focus List review. The companies welcomed LAPFF's effort to write and acknowledge the positive governance practices they had implemented. Finally, we wrote follow up letters to companies that had not responded to our request to meet, sent in December 2012.

Financial Reporting & Audit

The Parliamentary Commission on Banking Standards has heard more evidence highlighting the problems with accounting standards. Head of Financial Stability Andrew Haldane said on 21st January 2013:

> **Parliamentary Commission on Banking Standards**
>
> **Pat McFadden MP:** "Is this [IFRS] not like driving only with a rear-view mirror?"
>
> **Professor Stella Fearnley**: "I think it is driving with a blindfold."

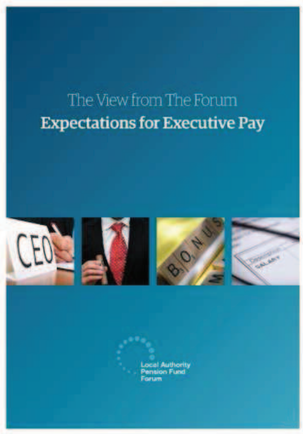
"On our back-of-the-envelope estimates, the extent of structural under-provisioning by the UK banks pre-crisis ran to tens of billions of pounds – non-trivial amounts of money, which should have been set aside. Deducted from capital, that would have shown UK banks in somewhat less rude health than appeared to be the case in 2005 and 2006."

On the basis of the LAPFF banks post-mortem report, by the middle of 2008, UK banks were underprovided (i.e. loans were overvalued) by almost £100bn.

The International Accounting Standards Board (IASB), the Big 4, and Institute of Chartered Accountants of England and Wales (ICAEW) have taken an approach of denying the problem with IFRS. However there are signs from written evidence from Baroness Hogg of the Financial Reporting Council (FRC) that the FRC position is moving. Furthermore the ongoing FRC consultation on the Sharman Review of Going Concern reflects the concern that it is only possible to make a fair assessment of going concern status on the basis of prudent accounting policies.

Executive Pay

In March, LAPFF launched a new document outlining fifteen key considerations for companies when setting executive pay. 'Expectations for Executive Pay' calls into question the recent steady increase in executive awards and sets out a new vision for executive pay. Features include a request that companies set incoming executive pay below that of their predecessor, discontinue the use of peer benchmarking for the purpose of pay, and phase out long-term incentive plans. The Forum expects to engage with corporate boards on these fifteen principles in an effort to address investor and stakeholder concerns about pay.



MANAGING ENVIRONMENTAL RISK

Climate Change

As part of its involvement with the Carbon Disclosure Project (CDP), LAPFF has joined the carbon action group which asks companies to implement cost effective carbon emissions reductions which deliver a satisfactory return on investment. Targeted engagement for 2013 will be oriented around member holdings.

LAPFF continues to be a signatory to CDP and to CDP water disclosure which engages companies to disclose their exposure to water risks and opportunities.

> **"Currently the world's forests store 283 billion tons of carbon in their biomass"**
>
> *-UN Food & Agriculture Organisation*

Environmental Risk Management

The **Forest Footprint Disclosure** project published its annual review, which indicated that 100 companies agreed to disclose information on their use of forest products, a 15% increase from 2011. Companies new to the disclosure process this year included **Colgate-Palmolive Co.**, **Groupe Danone**, **Gucci**, and **HJ Heinz Company**. Several British firms were highlighted as leaders: **Sainsbury's**, **Marks & Spencer**, **BSkyB**, and **British Airways**. LAPFF is an investor supporter of the Forest Footprint Disclosure project, which canvasses companies' use of key commodities with known ties to deforestation, namely soy, beef, palm oil, biofuels, and timber.

Given the substantial public interest in shale gas development in the UK, LAPFF wrote to **BG Group** and **Centrica** seeking information on the company's intentions for shale gas development in the UK. The Forum is aware of the potential economic value of domestic shale gas development, but is also interested in monitoring the environmental and social risks.

TARGETING SOCIAL ISSUES

Employment Standards

Members of the Forum attended the annual meeting of platinum miner **Lonmin** this quarter to question the company on its response to the violent strike at its Marikana mine in August 2012. LAPFF wrote to the Chairman last August expressing condolences for the loss of life and urging restraint and caution with regard to the company's negotiations with striking workers. Fourty-six people were killed when violence erupted at the company's South African mine.

Lonmin's Plan

1. Improve union relations
2. Empower employees through share ownership & cooperation
3. Improve work-life balance for migrant workers
4. Revise the shift system to make better use of assets
5. Improve housing and accommodation

LAPFF was pleased by the Chairman's remarks at the Lonmin AGM, which highlighted the company's commitment to improve living conditions for workers, reconsider the company's shift-work structure, and engage more productively with communities and workers. Richard Greening, LAPFF Executive member and representative of Islington Pension Fund, spoke at the AGM to encourage the board to take steps to address the labour and human rights concerns at the mine. A follow up discussion with the corporate secretary following the meeting provided LAPFF with further insights into the company's plans to address some of the underlying concerns of the miners.

LAPFF received a response from **Tesco** regarding its letter on the company's labour practices and its business strategy in the US. Tesco's Fresh & Easy brand has been struggling, and the company announced it is selling the business. A request to meet with board members has been unsuccessful, however LAPFF plans to follow up with relevant senior managers. **National Express** and LAPFF also have an ongoing dialogue regarding its human capital management practices and union relations in the US.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS

© James Stringer

LAPFF is a member of an investor coalition led by Universities Superannuation Scheme (USS) seeking to raise concerns with policy makers on the detrimental impact of IFRS on company accounts. The group met with Andy Haldane and others at the **Bank of England** in February 2013 to express its concerns and hear the views of the Bank on IFRS.

LAPFF also co-signed a letter with other global investors to **US regulators** calling for improvements to the country's corporate governance regime. The letter is a follow up to a similar letter signed by LAPFF in 2009.

CONSULTATION RESPONSES

Two consultation responses were submitted this quarter. The first was to the **Financial Services Authority (FSA)** on the UK listing rules. LAPFF argued against the proposal for a two-step process for electing directors and reiterated that it should raise the 25% threshold.

The second consultation was in response to the **Financial Reporting Council (FRC)** on financial reporting disclosure. In this response, LAPFF opted to write a letter to Baroness Hogg expressing concern about the consultation itself and choosing not to answer the specific consultation questions. In the Forum's view, the FRC consultation fails to address the key issues of financial reporting failures. LAPFF's pointed to a previous meeting with Baroness Hogg in which the Forum expressed serious concerns about the role that IFRS has in distorting financial reporting.

All consultation responses submitted by LAPFF can be viewed on our website.

NETWORKS & EVENTS

- **Employee Engagement** – 'Practically Positive' research presentation
- **Forest Footprint Disclosure project** – annual review launch
- **Beyond business as usual** – Food Ethics Council report
- **PRI signatory event** – panel discussions on responsible investment
- **Sustainable Capitalism** – Tomorrow's Finance event
- **PIRC corporate governance conference** – presentation on LAPFF's new strategy on executive pay

ANNUAL ELECTIONS

Cllr Kieran Quinn of Greater Manchester Pension Fund was elected as LAPFF's new Chair at the January annual meeting, with Ian Greenwood and Cameron Rose appointed as Vice-Chairs. Cllr Geoffrey Watt retired from the LAPFF Executive Committee and the Executive thanks him for his contribution to the Forum over the last several years. Cllr Patricia Glasman of Merseyside Pension Fund and Cllr John Gray of Newham were elected to the Executive.

Cllr Kieran Quinn, Chair
Greater Manchester Pension Fund

Cllr Patricia Glasman
Merseyside Pension Fund

Cllr John Gray
LB of Newham

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Bellway	Board Composition, Shareholder Rights	Awaiting Response
BG Group	Environmental Risk, Climate Change	Satisfactory Response
BNP Paribas	Board Composition, Remuneration	Awaiting Response
British American Tobacco	Social Risk, Reputational Risk	Dialogue
Burberry	Board Composition, Remuneration	Awaiting Response
Carnival Corp	Remuneration, Employment Standards	No Improvement
Centrica	Environmental Risk, Social Risk	Awaiting Response
Coach Inc.	Board Composition, Remuneration	Awaiting Response
Cognizant Technology Solutions	Shareholder Rights	Awaiting Response
Comcast Corp	Board Composition, Shareholder Rights	No Improvement
CRH plc	Governance (General)	Substantial Improvement
Deutsche Post	Employment Standards, Reputational Risk	Dialogue
Flir Systems	Board Composition, Remuneration	Moderate Improvement
Freeport McMoran	Remuneration, Social Risk	Awaiting Response
Hewlett Packard	Audit Practices	No Improvement
Imagination Technologies	Shareholder Rights, Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Dialogue
Inditex	Board Composition, Remuneration	Dialogue
JP Morgan	Remuneration, Board Composition	Moderate Improvement
Legal & General	Remuneration	Dialogue
Lindt & Sprungli	Board Composition, Remuneration	Awaiting Response
Lloyds Banking Group	Finance & Accounting	Substantial Improvement
Lonmin	Employment Standards, Reputational Risk	Dialogue
Marshalls	Governance (General)	Substantial Improvement
National Express	Employment Standards, Reputational Risk	Dialogue
National Grid	Climate Change	Awaiting Response
RBS	Finance & Accounting	Dialogue
Reckitt Benckiser	Environmental Risk	Moderate Improvement
Resolution Ltd	Campaign (General), Audit Practices	Awaiting Response
Rio Tinto	Climate Change	Awaiting Response
Société Generale	Board Composition	Moderate Improvement
Standard Chartered	Board Composition	Dialogue
Svenska Handelsbanken	Board Composition	Dialogue
Tesco	Employment Standards, Reputational Risk	Dialogue

The Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of 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
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
Greenwich 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
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**21 JUNE 2013**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR 12 MONTHS TO 31 MARCH 2013;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 30 APRIL 2013;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 30 MAR 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1	Summary Financial Accounts: 12 months to 31 March 2013
Appendix 2	Summary Budget Variances: 12 months to 31 March 2013
Appendix 3A	Balanced Scorecard : 3 months to 30 April 2013 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A	Customer Satisfaction Feedback in the 3 months to 30 April 2013 *(Retirements from ACTIVE status)*
Appendix 4B	Customer Satisfaction Feedback in the 3 months to 30 April 2013 *(Retirements from DEFERRED status)*
Appendix 5	Active membership statistics over 48 months to 30 April 2013
Appendix 6	Joiners & Leavers statistics over 48 months to 30 April 2013
Appendix 7	Summary Performance Report on Scheme Employers/APF performance for the period to 31 March (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds*
Appendix 8	LGPS 2014 Scheme Implementation Project Plan

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 12 months to 31 March 2013. 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 30 April 2013 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 March 2013

2 RECOMMENDATION

That the Committee:

1.3 Notes administration and management expenditure incurred for 12 months to 30 April 2013

1.4 Notes Performance Indicators & Customer Satisfaction feedback for 3 months to 30 April 2013

1.5 Notes the Summary Performance Report for period from 1 April 2011 to 31 March 2013

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 the 12 months to 31 March 2013 are contained in **Appendix 1.**

4.2 The total variance for the year to 31 March 2013 was net expenditure £656,000 below budget. Within the directly controlled Administration budget expenditure was £152,000 below the original budget. The reduced expenditure in the Administration budget was mainly on salaries as a result of delayed appointments and in Communications as a result of the rescheduling of the LGPS 2014 booklet.

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 30 APRIL 2013

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.**

6 ADMINISTRATION PERFORMANCE

6.1 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 is usually reported by showing what ***percentage*** of the work is outstanding. In this period all new work received in the period was cleared and 362 cases of old work cleared so the percentage was zero. 4216 new cases were created and 4578 cleared (108.59%) Such cases are always followed up on a continuing basis until they are cleared.

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

- Level of use of the Avon Pension Website fell marginally from 3,681hits on average over the previous period to 3,592 in this period*(Chart 2)*
- A continuing low level in short-term sickness (1.32%) and no long-term sickness; the use of temporary staff is within target *(Chart 3)*

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

6.4 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30 APRIL 2013

6.4.1 *Retirement Questionnaires*

Appendix 4A reports on the customer satisfaction based on 28 questionnaires returned from ***active*** members retiring. On average **76%** received their lump sum and **100%** their first pension payments within "10 day" target *(See chart). Item 3 on* Appendix 4A does disclose only a 40% success rate for paying the lump sum within 10 days. Although this is disappointing, it needs to be appreciated that this is in respect of only 5 out of the 28 members

Appendix 4B reports on the customer satisfaction based on 37 questionnaires returned from *former* active members retiring from ***deferred*** status. **100%** received their lump sum and **90%** their first pension payments within "10 day" target *(See chart).*

Customer Service Delivery

Clarity and preciseness of information provided by Avon Pension Fund was rated at 97% by both active and deferred retirees (See chart item 1 on both graphs).

Overall Service rating as either good or excellent from actives and deferreds on the service they received from Avon Pension Fund staff handling their retirement was 6

6.4.2 **C*linics:*** None were held in the period.

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 71 members with more than 3 months service opted out over the 13 month period to 31 January 2013. When annualised this is 66 and expressed as percentage of the total membership of 33,212 this is only 0.2 % 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.

7.3 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;

7.4 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 Opt Out trends) – EFFECT ON MEMBERSHIP OF THE START OF AUTO ENROLMENT

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 45 months period from 1 May 2009 to 31 April 2013 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 and as at 30 April 2013 it stood at 33,426 compared to 33,500 in May 2009.

8.3 Bristol City Council, the Fund's largest employer reached its staging date for auto enrolment on 1st March 2013 and has chosen to defer implementation, as allowed for, for up to 3 months until 1 June 2013. It also took the decision to opt back on 1st June 2013 all those employees who had opted out of the LGPS and remained opted out at that date. With approximately 20% of its eligible workforce opted out, the active membership could rise by over 2,000 giving a significant increase of 7% to the overall Fund. Obviously all those employees who are opted back in to the LGPS can choose to immediately opt out again and if they do they will be re-enrolled in 3 years from the staging date in March 2016.

8.4 The remaining 3 unitaries have chosen to make use of the auto enrolment “transitional arrangements” which defers re-enrolling their opters-out back in the LGPS until October 2017. This decision has generally been taken on cost grounds.

8.5 The Committee will be kept aware of the on-going changes and the effect it is having on Scheme membership. If the funding position of the Scheme is significantly affected this will also be reported.

9 SUMMARY APF & EMPLOYER PERFORMANCE

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 1 April 2011 to 30 April 2013 is included as **Appendix 7**.

9.3The Report discloses 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.

9.4 **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 April 2013.
- Report on any late pension contributions by employers to the Fund due for the 3 months to 30 April 2013.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

The project is progressing towards electronic receipt of all member data change information starting from April 2013:

10.1 Report on year-end Information for employers

Reporting Position at 30th April (Deadline for submission of return). Of the 200 employers, 172 (86%) covering 98% of total active membership have sent all information required which is now being checked and uploaded onto the Pensions Administration Database. A period of grace to 8th May is being given before the charge of £250 for late submission is being levied. This is a much improved position from last year and the threat of charges seems to have focussed employers’ minds on meeting the deadline which was the Fund’s intention.

10.2 Employer Self Service: Update

Employers have been advised that *Employer Self Service* has been enhanced to allow on-line updating of member changes and that from April 2013 for the unitary authorities this will be the only acceptable way to send the Fund member data changes. For less large employers to ease implementation of ESS and due to the much smaller number of transaction submissions, these employers will be phased over a 12 month period and will only go on line when changes arise. Following going on-line and having been given appropriate training on usage those employers who continue to send in changes paper format will be charged additional admin costs.

10.3 Auto enrolment / *i-Connect*

Following approval to proceed by the Pensions Committee in September 2012, the Avon Pension Fund purchased additional middleware from *i-Connect* (a sister company of Heywood- supplier of the hardware).

The Fund's four unitary authorities signed contracts in December 2012 to take i-Connect which is necessary for the APF database monthly updating to operate. This will enable information on starters and changes to be uploaded monthly automatically into the APF's pension database from the employer's payroll data extract resulting in a significant improvement in the timeliness and quality of information submission I time this will lead to improved member data and the level of service the Avon Pension Fund will be able to provide to its members.

The product is being tested with the four unitaries and the first employer Bristol C C successfully went live on 10th May 2013 on schedule. **Bristol is the first local authority employer in the UK to go <u>live</u> on *i-Connect*.** This will give the Fund kudos as *i-Connect* are proposing to issue a National Press Release and also to produce a Case Study in the national press showcasing the Avon Pension Fund's success with *i-Connect.*. The Fund has also offered to be a *Reference Site* for *i-Connect* for other local authority schemes and will be discussing what concessions it will be given by Heywood for this additional work which will assist *i-Connect* in selling its product.

Work is being done towards going live with B&NES and North Somerset Council who staged shortly after Bristol. Revised payroll data extracts are awaited from B&NES and South Gloucestershire Councils expected during June/July 2013. All four unitaries have now reached their staging dates and therefore it is important that the remaining three "go live" as soon as possible for them and for the Fund to benefit from the identification by *i-Connect* of employees to be auto enrolled and for the Fund to receive information electronically to allow automatic update of the Heywood pension administration database.

Further Scheme employers are expected to sign up for i-Connect in due course as each employer's staging date for auto enrolment approaches and they need to monitor their workforce every month to assess them for auto enrolment; 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 comparative 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 take of *i-Connect* up by other employers at present until the product is fully tested, implemented and has run successfully for larger employers.

11. LGPS 2014 SCHEME IMPLEMENTATION PROJECT PLAN

11.1 Although a separate Report is being submitted to this Committee Meeting (Item 17) on the progress of the new Local Government Pension Scheme effective from April next year, it was felt it would benefit the Committee to see the Implementation Project Plan which the Administration Section has put in place to ensure that the Fund complies with all its legal duties and also puts the new Scheme seamlessly in place with a minimum of disruption to Scheme members and employers.

11.2 The Scheme will be working with other local authority pension schemes in the south west area on joint communications and scheme literature. A series of meetings with employers and members are being arranged at employers' venues over a 6-month period starting in January 2014. Using all available methods of communication the emphasis will be on the Fund explaining to existing members and employers what the change will mean for them.

11.3 A copy of the Implementation Project Plan is included as **Appendix 8**

12. RISK MANAGEMENT

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

13. EQUALITIES

13.1 No items in this Report give rise to the need to have an equalities impact assessment.

14. CONSULTATION

14.1 None appropriate.

15. ISSUES TO CONSIDER IN REACHING THE DECISION

15.1 There are no other issues to consider not mentioned in this Report.

16. ADVICE SOUGHT

16.1 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 : YEAR ENDING 31 MARCH 2013

	FULL YEAR 2012/13		
	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	75,273	56,768	(18,505)
Administration Costs	75,511	72,801	(2,710)
Communication Costs	80,998	56,551	(24,448)
Payroll Communication Costs	79,499	91,082	11,583
Information Systems	216,346	198,278	(18,068)
Salaries	1,372,293	1,290,929	(81,364)
Central Allocated Costs	395,186	391,735	(3,451)
Miscellaneous Recoveries/Income	(166,000)	(181,308)	(15,308)
Total Administration	**2,129,106**	**1,976,835**	**(152,270)**
Governance & Compliance			
Investment Governance & Member Training	307,929	204,305	(103,624)
Members' Allowances	40,500	37,072	(3,428)
Independent Members' Costs	48,760	40,880	(7,880)
Compliance Costs	340,550	402,003	61,453
Compliance Costs recharged	(150,000)	(318,275)	(168,275)
Total Governance & Compliance	**587,739**	**365,985**	**(221,754)**
Investment Fees			
Global Custodian Fees	120,000	63,980	**(56,020)**
Investment Manager Fees	10,052,955	9,826,915	(226,040)
Total Investment Fees	**10,172,955**	**9,890,895**	**(282,060)**
NET TOTAL COSTS	**12,889,800**	**12,233,714**	**(656,085)**

Summary of Budget Variances: Full Year to 31st March 2013 APPENDIX 2

Variances Analysis of the full year outturn against budget

Expenditure Heading	Variance*	Most Significant Reasons for Variance
Investment Accounting	(19,000)	The new Custody contract has delivered savings on Investment accounting. The use of conference calls and free conferences has produced savings on staff training and travel.
General Communication Costs	(24,000)	Reduced expenditure in 2012/13 due to the re-scheduling of the production of the LGPS 2014 booklet to 2013/14 and the delayed launch of the new website.
Payroll Communications	12,000	Additional costs of introducing new Fire Fighter's scheme, rechargeable to Avon Fire Service.
Information Systems	(18,000)	i-Connect system introduced later than assumed in the budget
Salaries	(81,000)	Primarily due to delayed appointments to new posts in Investments Team. Investments Officer and Pensions Valuation Officer now in place.
Central Allocated Costs and Administration	(7,000)	Reduced spending on equipment and central expenditure resulting in lower centrally allocated costs than anticipated.
Miscellaneous recoveries / income	(15,000)	Additional recharge of legal fees relating to new admission agreements and costs relating to new Fire Fighter's scheme (see above).
Administration	**(152,000)**	
Governance Costs	(104,000)	Lower spend consultancy advice for the review of Responsible Investing and the Strategic Review (the budget included some allowance for implementation the changes arising from the strategic review which will now be rolled out in 2013/14).
Compliance Costs	50,000	Increase in actuarial charges due to increased number of new bodies, mainly Academies, requiring admission agreements and IAS 19 reports. Offset by reduced audit fees and increased recharge of fees to employing bodies (see below).
Compliance Costs recharged	(168,000)	Increased recharges of actuarial fees as per above including the Pension Fund's administration charge to cover its related additional costs.
Governance & Compliance	**(222,000)**	
Total Directly Controlled	**(374,000)**	

Global Custodian Fees	(56,000)	Custody fees lower than assumed in budget preparation that took place prior to completion of custody tender.
Investment Manager Fees	(226,000)	Investment Manager fees are related to market returns. The budget assumes an annual return on assets of 6%. The reduced expenditure represents 2% of the budget and is the result of a number of managers substantially reducing their annual fees. These reductions have offset the increase in total fees that resulted from performances above the 6% level.
Total Indirectly Controlled	**(282,000)**	
Total Forecast Underspend	**(656,000)**	

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

PENSIONS SECTION ADMINISTRATION

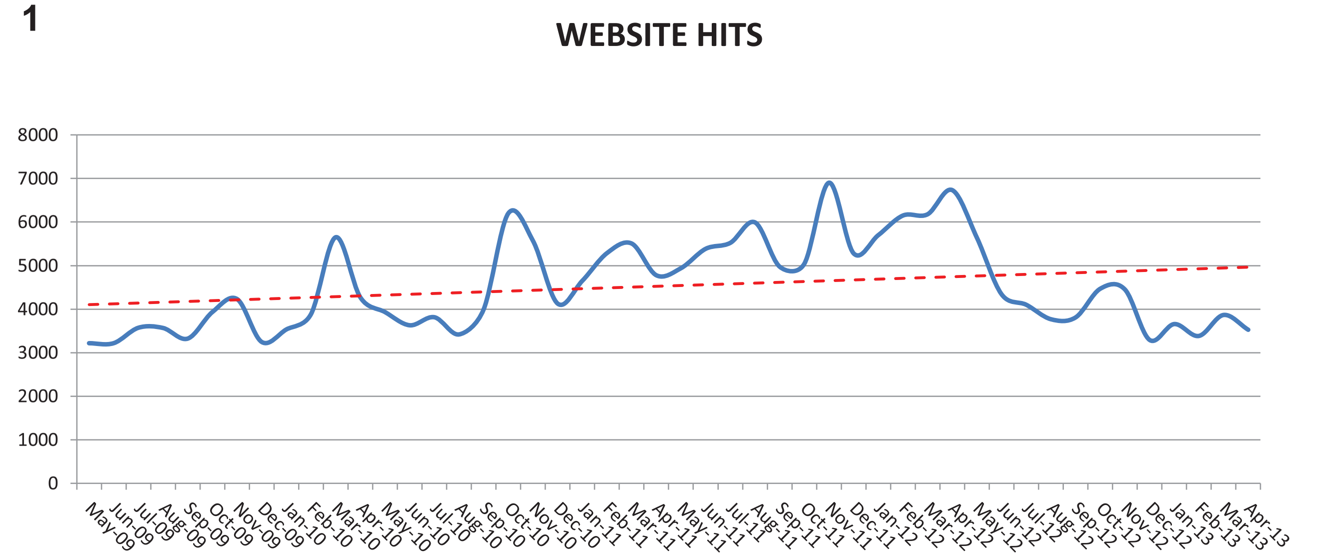
Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 30 April 2013

	INDICATOR	Green Red Amber	2012/13 Actual	Target for 2013/14	Actual 3 months to 30/04/2013	Comments	
A	**Customer Perspective**						
1a	General Satisfaction with Service - clinic feedback	G	0%	95%	N/A	No clinics were held in the period and none are expected in 2012	**Graph 1**
1b	General Satisfaction with Service - retirees feedback	G	97%	95%	97%	Generally good from response from retirees	
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	A	59%	90%	88.98%	11 of 18 Tasks were completed within target	
	Retirements [15 days]	G	83%	90%	83.56%	361 of 432 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	A	68%	75%	66.13%	658 of 995 Tasks were completed within target	
	Refunds [5 days]	G	80%	75%	73.42%	58 of 79 Tasks were completed within target	
	Transfer Ins [20 days]	A	45%	75%	57.50%	49 of 120 Tasks were completed within target	
	Transfer Outs [15 days]	A	67%	75%	71.25%	57 of 80 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	96.85%	831 of 858 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G	0	0	0	No complaints received in the period	
4	Pensions paid on time	G	100%	100%	100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)	G	100%	100%	N/A	due next quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	36000p/a 3000p/q	10,776	3592 per calendar month for reporting period	**Graph 2**
7	Advising members of Reg Changes within 3 months of implementation	G	100%	100%	N/A	none this quarter	
8	Issue of Newsletter (Active & Pensioners)	G	100%	100%	N/A	due next quarter	
9	Annual Benefit Statements distributed by year end	G	100%	100%	N/A	due by by 1st October 2013	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining	G			0%		
2	% Sickness Absence — a) Short Term — b) Long Term	G	a) 1.30% b) 0%	a) 3% b) 3%	a) 1.32% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
C	**Process Perspective**						
1	a) Services actually delivered electronically — b) Services *capable* of delivery to members	A			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	
2	% Telephone calls answered within 20 seconds	G	97%	98%	97.5%	8489 calls,8283 answered within 20 seconds	**Graph 4**
3	Maintain work in progress/outstanding at **below 10%**	G	20658 created, 20892 cleared	10%	-8.59%	4216 Created, 4578 cleared which means that 8.59% of previous outstandings were cleared in the quarter.	**Graphs 5 & 6**
4	Year End update procedures (conts & salaries rdue by 30.04.13)	G	95%	100%	98%	Much improved on previous years	
5	No. of errors (due to incomplete member data from employers)	G	2%	0%	2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	85%	90% (revised)	89.00%	Business Financial Services (inc Pensions) The average for the 2 months is worse than target due to a poor month in March of only 82.14%	
2	Temp Staff levels (% of workforce)	G	0.74%	3%	3.33%	Sligtly above target due to leavers not yet.replaced.	

APPENDIX 3A to Pension Fund Administration Report at 30 April 2013 (GRAPHS 1 - 6)

1



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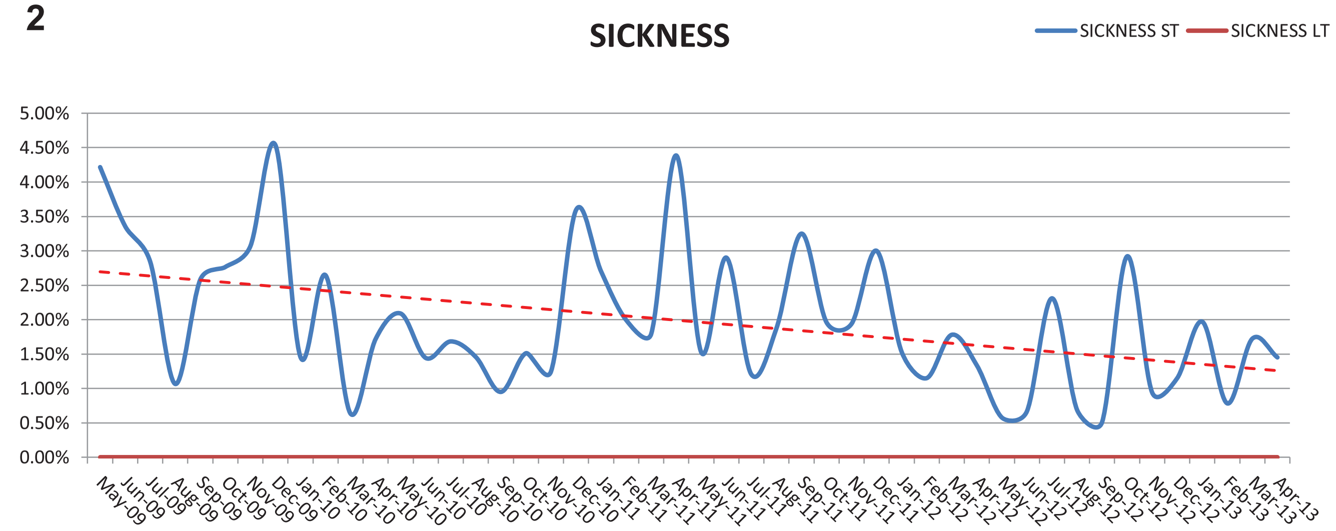

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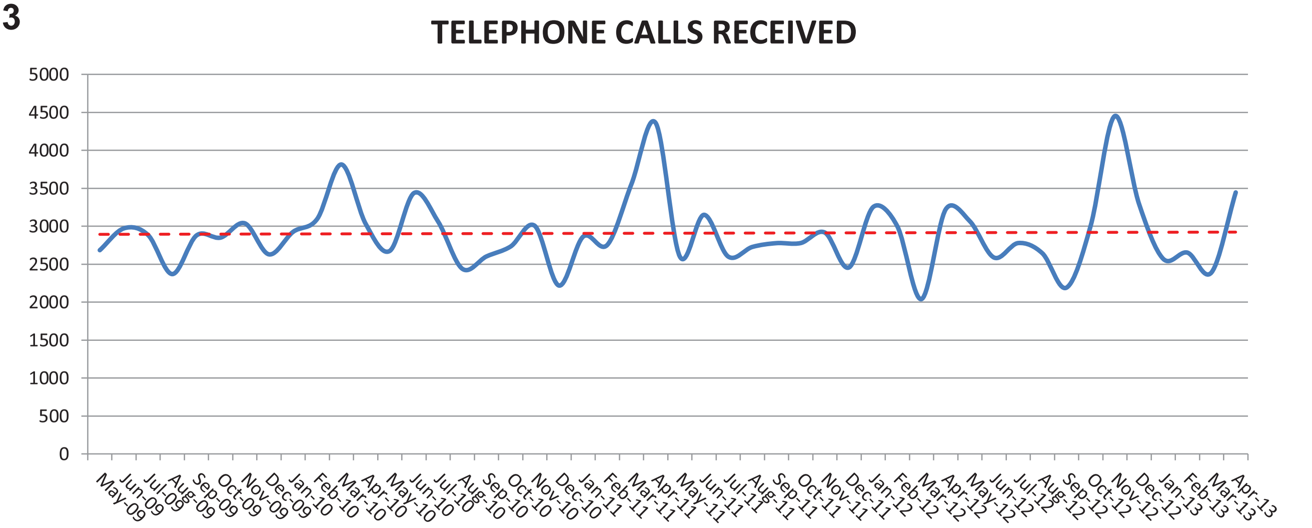

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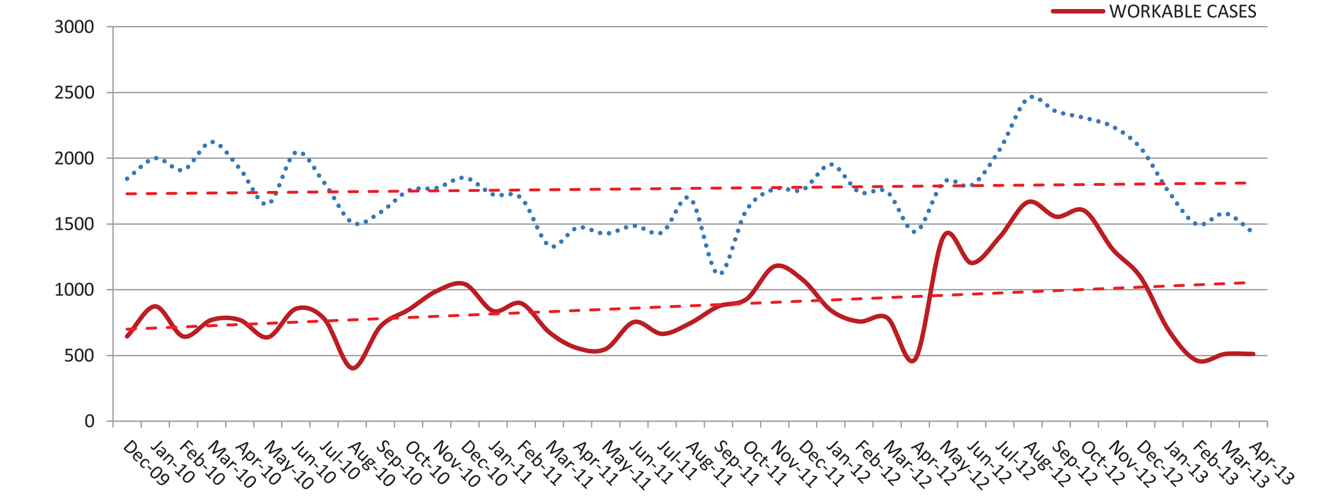
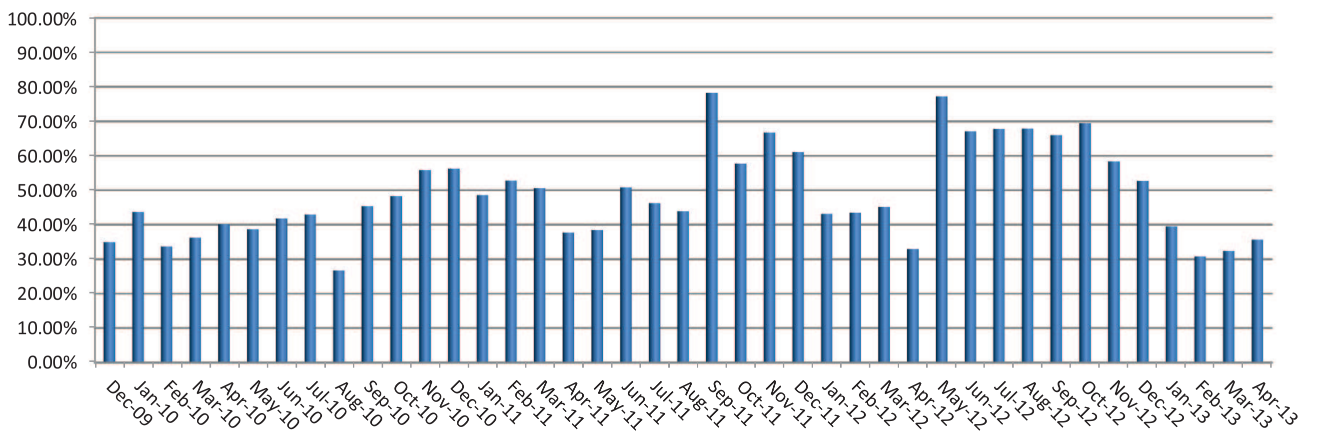
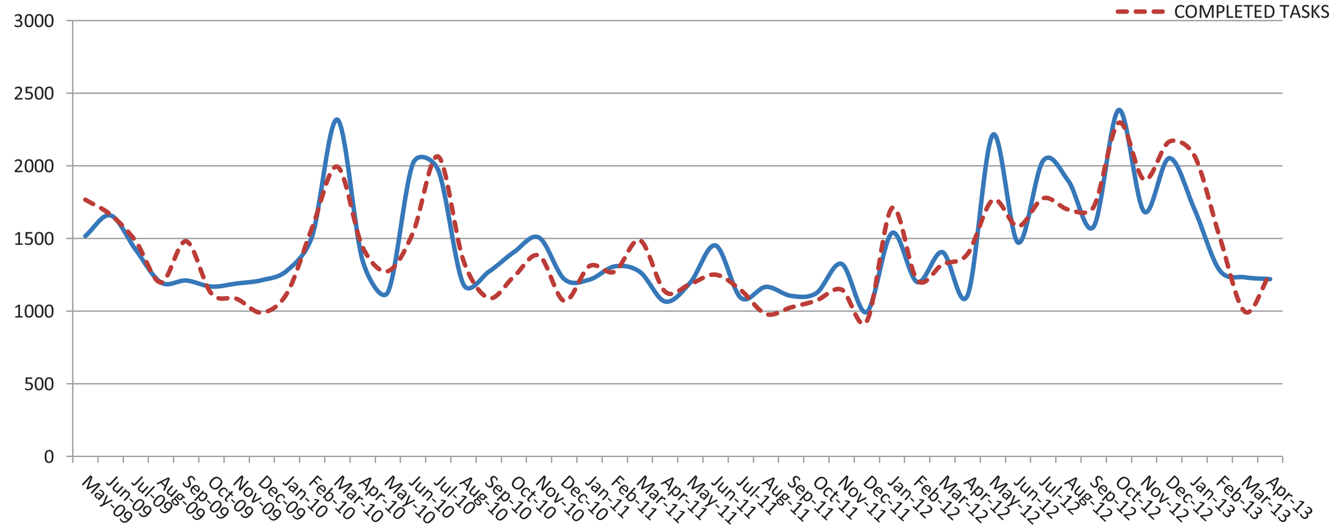

WORKABLE CASES & OUTSTANDING CASES
OUTSTANDING CASES
WORKABLE CASES
3000
2500
2000
1500
1000
500
0
Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13

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 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13

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 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13

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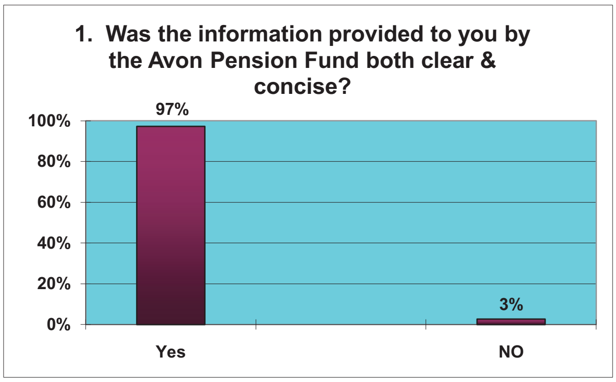
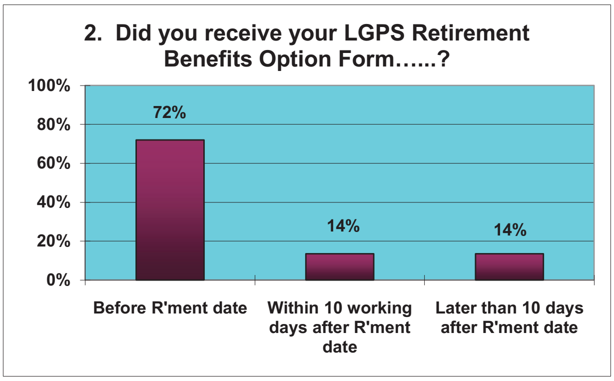
Appendix 4A to Pension Fund Administration Report - Actives

Active Retirements February - April 2013

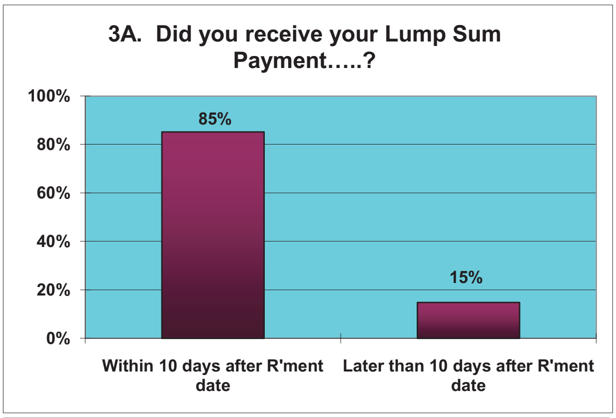
Responses to Retirement Questionnaire

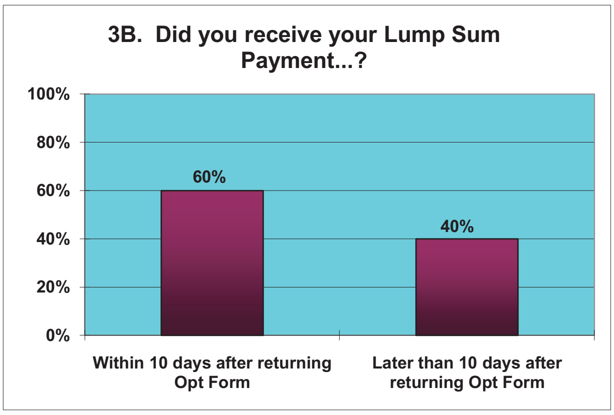
	Number of Questionnaires in this period		37		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	36	97%
			NO	1	3%
2	Did you receive your LGPS Retirement Benefits Option Form.......	A	Before R'ment date	27	72%
		B	Within 10 working days after R'ment date	5	14%
		C	Later than 10 days after R'ment date	5	14%
3A	Did you receive your Lump Sum Payment.....		Within 10 days after R'ment date	23	85%
			Later than 10 days after R'ment date	4	15%
3B	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	3	60%
			Later than 10 days after returning Opt Form	2	40%
3C	Did you receive your Lump Sum Payment.....		Within 10 days after returning Opt Form	2	40%
			Later than 10 days after returning Opt Form	3	60%
4	Did you receive your first Pension Payment....		Within 1 month after R'ment date	32	86%
			Later than 1 month after R'ment date	5	14%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	26	70%
			Good	11	30%
			Average	0	0%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	3	8%
			No	34	92%
7	Were you treated with sensitivity & fairness?		Yes	37	100%
			No	0	0%

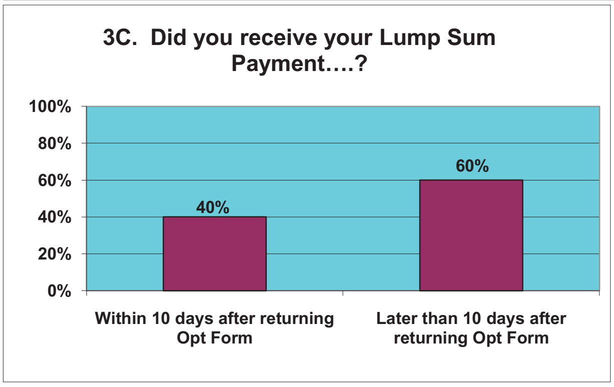


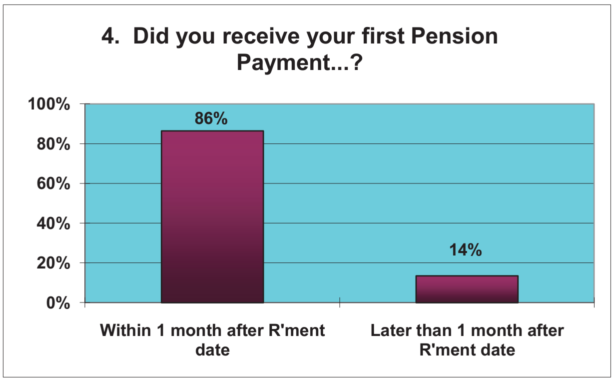


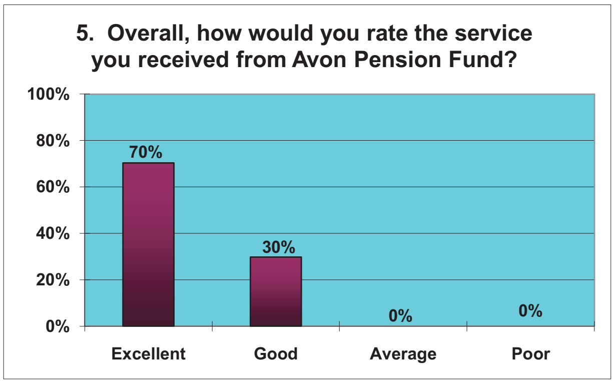
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

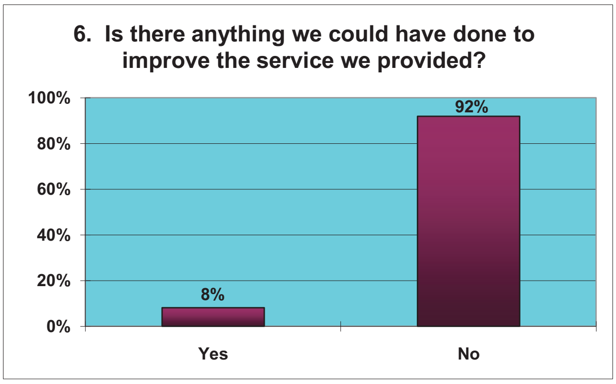


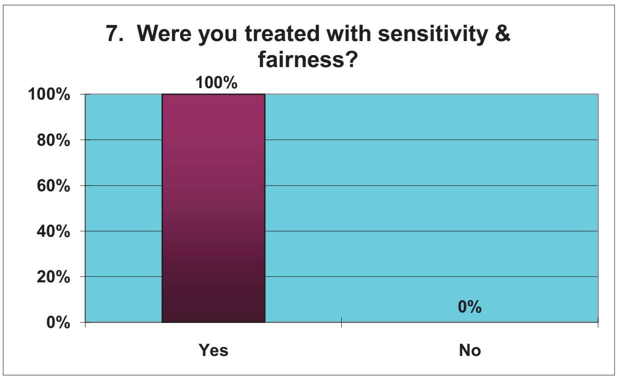












Appendix 4B to Pension Fund Administration Report - Deferreds

Deferred Retirements February - April 2013

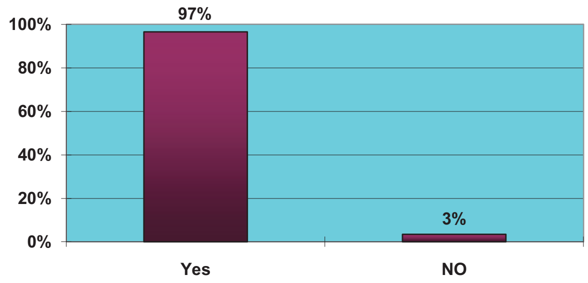
Responses to Retirement Questionnaire

	Number of Questionnaires in this period	29		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?	Yes	28	97%
		NO	1	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A Before R'ment date	28	97%
		B Within 10 working days after R'ment date	1	3%
		C Later than 10 days after R'ment date	0	0%
3A	Did you receive your Lump Sum Payment…..	Within 10 days after R'ment date	25	89%
		Later than 10 days after R'ment date	3	11%
3B	Did you receive your Lump Sum Payment…..	Within 10 days after returning Opt Form	0	0%
		Later than 10 days after returning Opt Form	1	100%
3C	Did you receive your Lump Sum Payment…..	Within 10 days after returning Opt Form	0	n/a
		Later than 10 days after returning Opt Form	0	n/a
4	Did you receive your first Pension Payment….	Within 1 month after R'ment date	28	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	18	62%
		Good	8	28%
		Average	3	10%
		Poor	0	0%
6	Is there anything we could have done to improve the service we provided?	Yes	5	17%
		No	24	83%
7	Were you treated with sensitivity & fairness?	Yes	29	100%
		No	0	0%

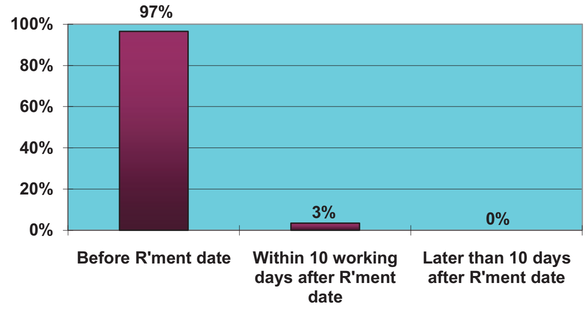
Deferred Retirements February - April 2013

Appendix 4B to Pension Admin Report

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

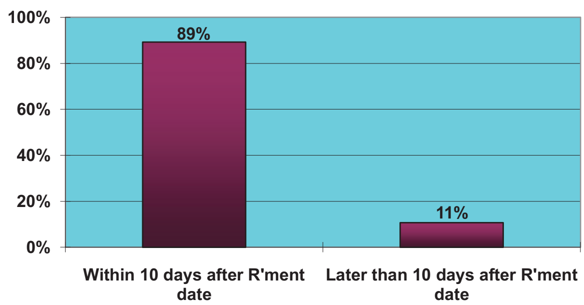


2. Did you receive your LGPS Retirement Benefits Option Form...?

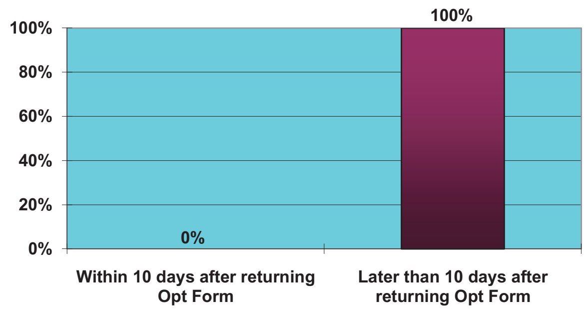


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

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

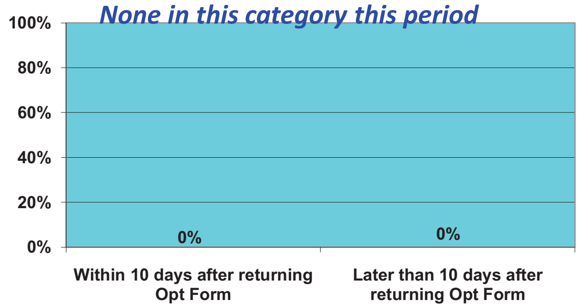


3B. Did you receive your Lump Sum Payment...?

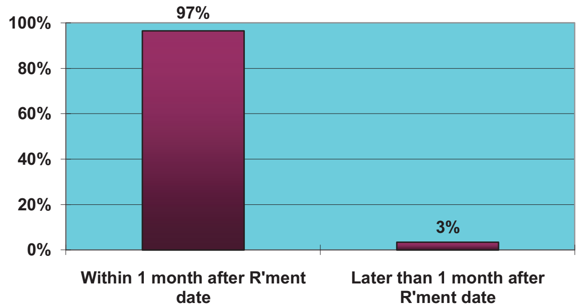


3C. Did you receive your Lump Sum Payment....?

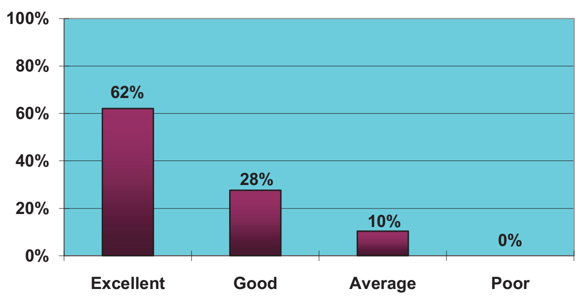
None in this category this period



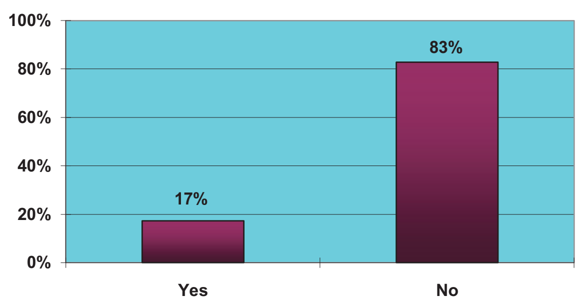
4. Did you receive your First Pension Payment...?



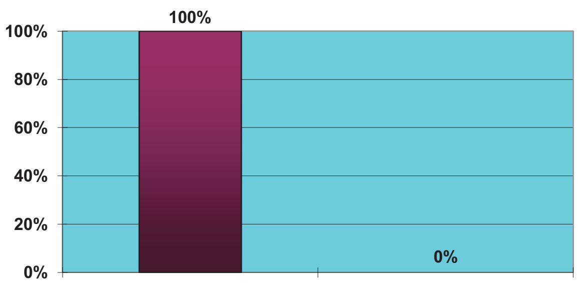
5. Overall, how would you rate the service you received from Avon Pension Fund?



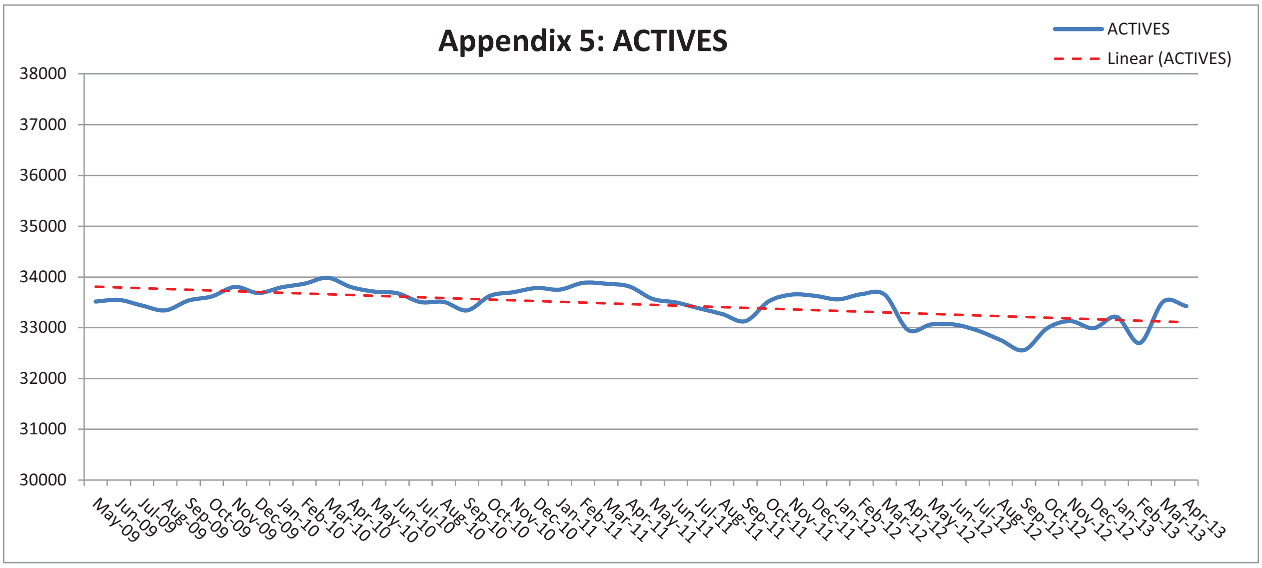
6. Is there anything we could have done to improve the service we provided?

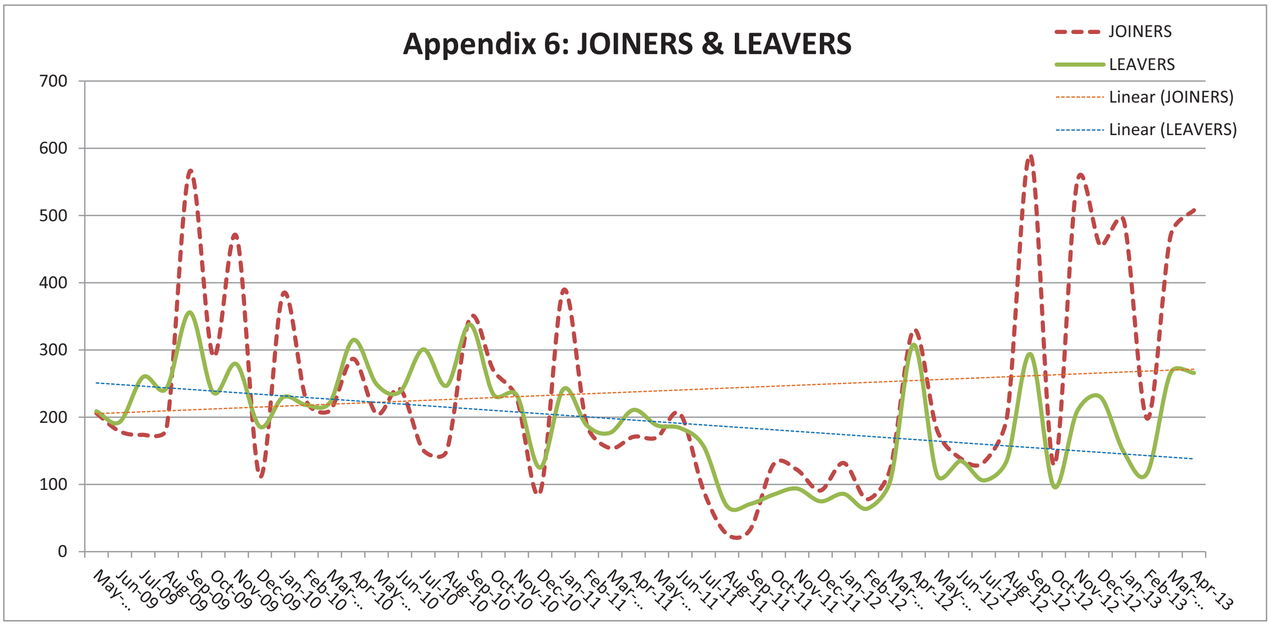


7. Were you treated with sensitivity & fairness?



Appendices 5 and 6 ACTIVE MEMBERSHIP





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COMMITTEE SUMMARY PERFORMANCE REPORT

This is the fifth 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 7 quarter period from 1 April 2011 to 31st March 2013

2. Report of late payers of **pension contributions** (employers) in the 3 month period 1 April 2011 to 31st March 2013

* *Smaller Employers*: *Performance of the remaining employers is <u>not</u> 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 need to be reported** in this period.

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 March 2013.

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 very poor. 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 2011/12 year-end return revealed that some of the employers had not sent leavers forms to APF for leavers during 2011/12 or earlier. By their very nature these late submissions will be late and outside the target period.

Employers have been sending these forms in over the last few periods to remedy their earlier omissions and the figures on the attached statistics **include these late notifications** which will have impacted significantly adversely bringing down the number achieved within target and for some employers badly affected their performance against the standard 20 days target. Now that many of these older "backlog" cases are cleared we can see the employer performance figures starting to improve for deferreds. The final date for clearance of these old cases was the end of February 2013 and these statistics to 31 March 2013 do show an improvement for all employers the most notable being North Somerset increasing from 25% to over 70%. Bristol C. C. increased from 5% to over 40% and South Glos from 47% to 60%.Only B&NES remained poor, increasing from 10% to only 13%.

The introduction of i-*Connect* software which is going live this 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 APF will be able to 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 in all employers' interests.

Also clearance of non-reported cases will improve the accuracy of member data and increase the Fund's chances of meeting the Pension Regulator's requirements on minimum 95% data standard for legacy data being introduced in April 2015.

2. Late payers of Pension contributions

Late payment of contributions due in 2 months to 31 March 2013.

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.

Employer	Payroll month	Days late	Payment

There were no late payers during the period

Total number of employers = 188
Total contributions received in period = £21,606,000
Total late contributions = £0 (0.0% 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. 2012/13 Year end Returns – Update on Employers

Year-end information was required from all employers by the deadline of 30 April 2013. This was earlier than in the previous 2 years as the Triennial Actuarial Valuation of the Scheme by Mercers is due this year and the return of correct member data by 31 July 2013 to the Scheme Actuary means that there is a tight schedule to post and reconcile the information received from employers.

Summary
47 employers out of a total of 200 employers failed to comply = **23.5%** of all employers and this represents 2,263 active members of a total of 34,152 = **6.6%** of the total active membership.

A further period of grace of one week was allowed and the revised figures reduced to **14%** of employers (28) and a mere **1.78%** of the total active membership. Those employers who failed to send their returns in by end of the grace period will be sent a £250 additional charge for non-compliance. All employers were made aware of this potential charge months for non-compliance by the due date. (*See below for the Schedule of employers who failed to comply).*

Conclusion:

1. The number of employers complying with the more stringent deadline is encouraging at 86% and is higher than improvement in previous years.
2. Information was received for 98.28 % of active membership.
3. It would appear that the published imposition of additional charges for non-compliance has succeeded in getting the vast majority of employers to comply by the deadline.

Below is the list of those employers who did not submit full or correct information by the deadline of 30 April 2013 or by the end of the grace period
:

Schedule of Non-Compliant Employers

	active members	Employer name
	161	Circadian Trust (No 1)
	71	SLM Community Leisure
	68	Writhlington Academy Trust
under 50 members	**36**	**Agincare BANES Limited**
	36	**Beechen Cliff Academy**
	33	**Bannerman Rd Community Academy**
	28	**Mouchel**
	24	**Churchill Contract Services**
	16	**Destination Bristol**
	15	**SLM Fitness & Health**
	15	**Colstons Primary School Academy**
	14	**CT Plus (CIC)**
	13	**Bath Tourism Plus**
	13	**Quadron Services Limited**
under 10 members	**9**	**ISS Mediclean (Bristol)**
	9	**Vista SWP Ltd**
	8	**Circadian Trust (No 2)**
	7	**EACT (St Ursula's Academy)**
	6	**Hayesfield School**
	6	**Churchill (Team Clean)**
	5	**Southern Brooks CP**
	4	**ISS Mediclean**
	3	**Trustees of City of Bath**
	2	**MBS - Nailsea IT**
	2	**Mouchel (B&NES Schools IT)**
	2	**Bristol Free School Trust**
	1	**Almondsbury Parish Council**
	1	**Centre For The Deaf**

This represented at the deadline:

a) 28 Employers (14% of 200 employers)

b) 608 active members (1.78% of 34,512 actives at 31.03.2013)

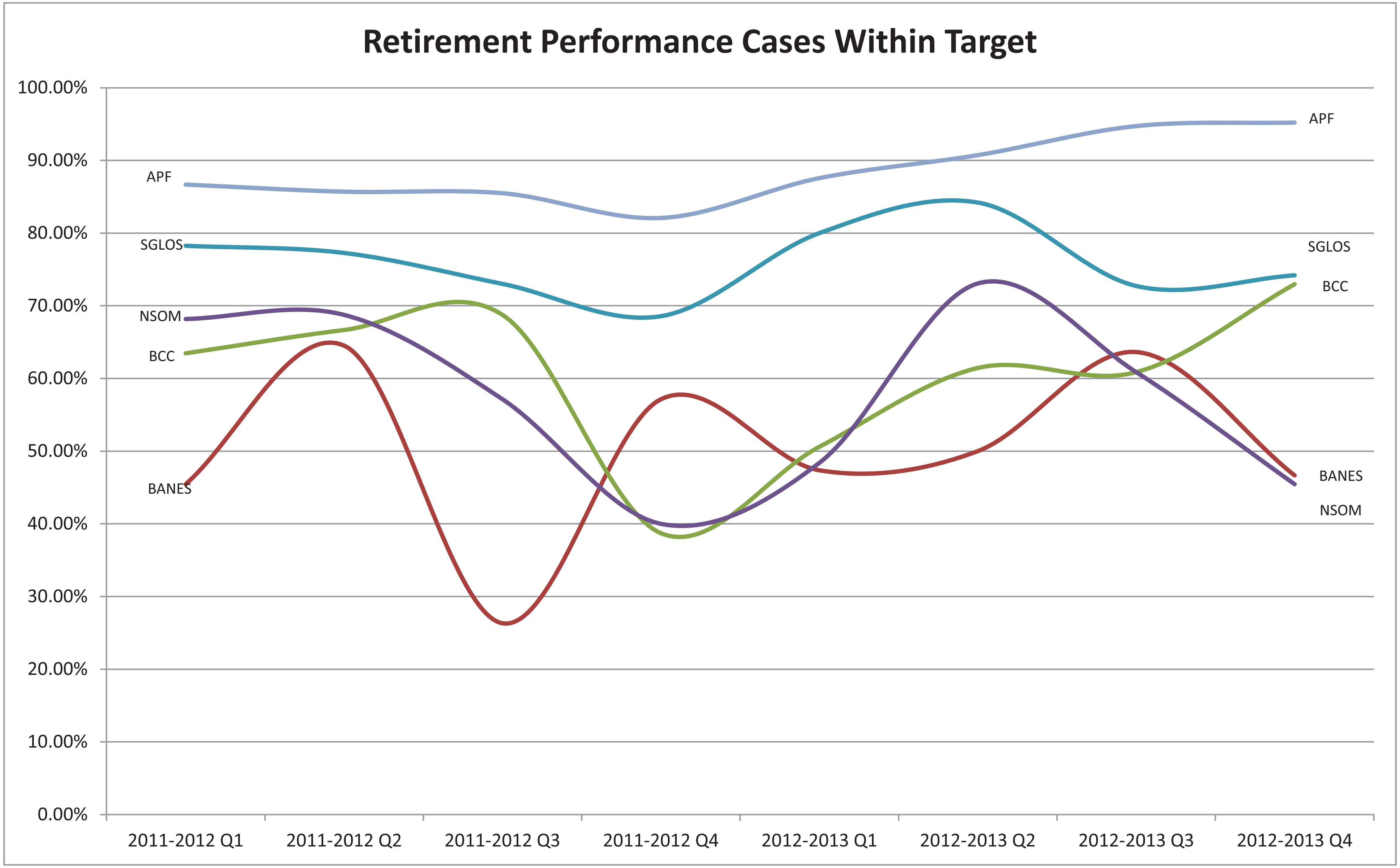
Further developments

- Since the end of the period of grace (7th May) and **up to 4th June 2013** the position has improved with13 of the 28 having now sent accurate year-end information reducing the outstandings to 15 employers covering a mere 413 members (**1.02% of total active membership).** Put another way 98.8% of all member data required has been received. The remaining 15 outstanding employers are currently being chased for their information.

- Those who have now submitted year end information by 4th June are greyed out

- Invoices for additional administration charges of £250 have been sent where there was no valid reason for non-submission by the deadline.

Appendix 7 Annex 1 **Employers Retirements**



Note: This graph takes no account of the volumes in a period and in the case of North Somerset only 11 cases were processed in the current compared to 69 in the previous one

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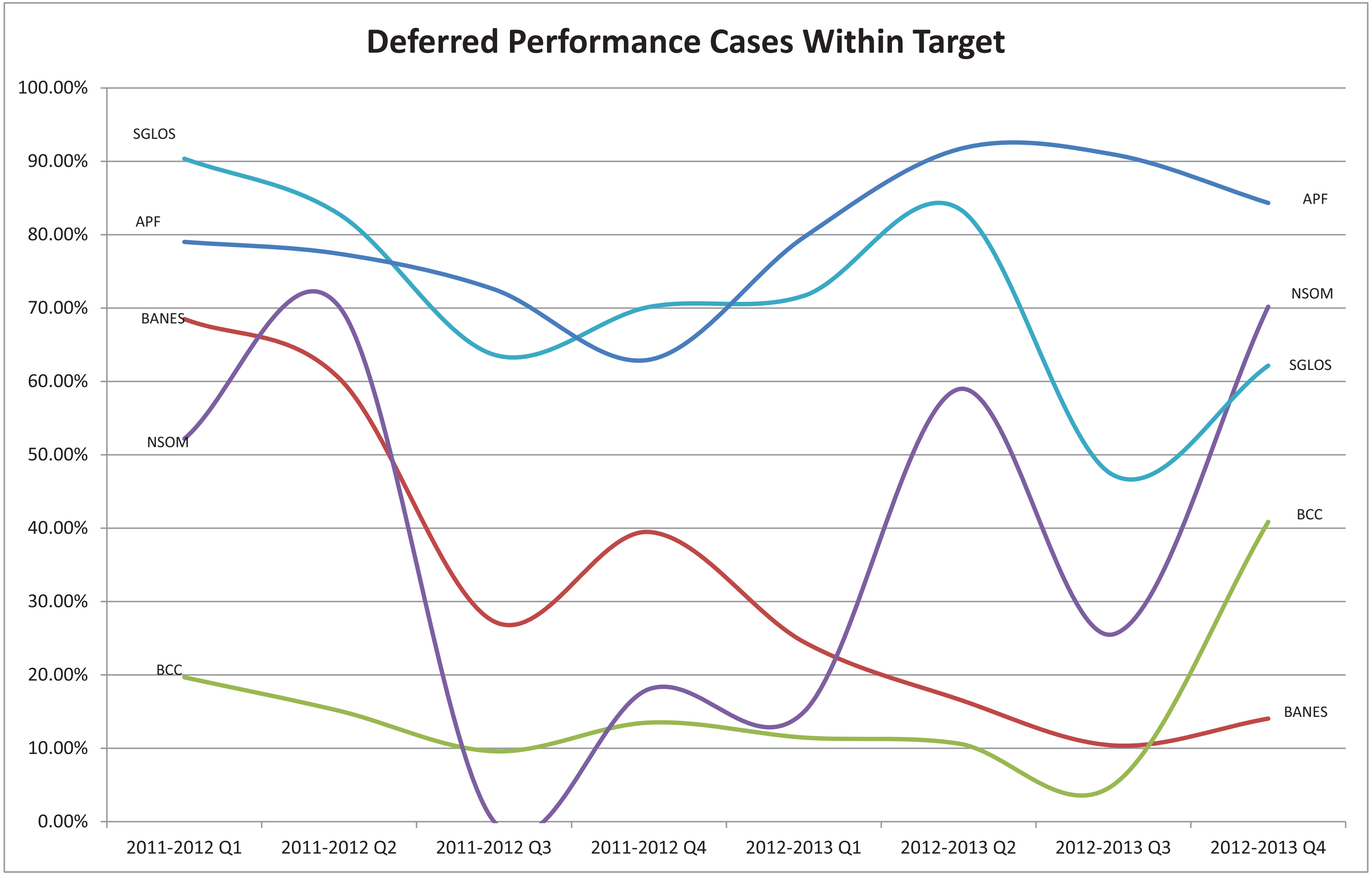
Appendix 7 Annex 2 Employers Deferreds



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Item 16 – Appendix 8 June 2013 Committee LGPS 2014 Project Plan Note

The LGPS 2014 will bring a radical change as to how pensions in Local Government will be administered going forward. Not only is there a different approach in the benefit structure with the introduction of a career average scheme but the continuing protections for existing members will require constant managing.

Also the proposed cost controls regulations could lead to the constant changing of accrual rates that would produce further complications for members.

To combat the initial changes that lie ahead a project plan has been set up to cover all areas initially affected by the forthcoming changes.

The regulations were initially expected to be in place by April 2013 but although a series of consultations on draft regulations have taken place, no actual regulations are expected until the end of June 2013. As some of the main details of the scheme are known some work in preparation is being done.

The biggest problem is that the longer it takes to get the regulations finalised, the later any software releases will be made available thus condensing the timescales for activating our plan of action.

The information below sets out the areas that have been identified as essential to manage the change.

Pension Area	New Scheme Implications
Technical	Department for Communities and Local Government are currently working on a series of draft regulations and have indicated that they intend to issue actual regulations in June 2013 The regulations for the 2014 Scheme are to be implemented from 1 April 2014 Benefit Structure Administration Transitional Governance and Cost Sharing Whilst the first three are required for the 1 April 2014 start date the last set of regulations will be introduced later as they are connected with the changes to the other public sector schemes The Technical Team will be giving instruction and guidance to all the other areas below
Communication	This is a key area going forward as information must be issued on a timely basis to the relevant sections The Local Government Association [LGA] is currently working on producing different forms of media. Written Website Visual

	Avon Pension Fund is represented on the LGA website working group The South West Area Pension Officers Group are currently setting up groups to look at areas for collaborative working The Avon Pension Fund website is being regularly updated as more information is released A newsletter will be issued to scheme members Communications will ensure production of all medias required
Systems	Before the new scheme regulations are implemented the administration software will require updating and this will require managing to enable a smooth transition The Systems team will liaise with Heywoods our software provider to get their expected timescale for the new scheme release. Avon Pension Fund have volunteered to be one of the test sites which will enable us to have advanced access to the new software Pension staff will be trained on the new release
Employers	The employers will be key to the successful transition of the new scheme. Employers will need to be given full details of the new scheme benefits and also the administration changes that need to be taken on board once the scheme is operational Employers will be requested to provide venues for employee roadshows
Scheme Members	The new scheme introduces radical changes for the scheme member and Website Including video clips Newsletter Roadshows Overview of changes Clinics: Following the implementation of the new scheme there will be the need for the resumption of more specific individual sessions especially for those nearing retirement The new Data Quality Team will monitor and manage office workflow during this period as pension staff including many from the benefits team will be given training on the new scheme changes and presentations before going out to give the presentations to the scheme members.

The following table shows the relevant activities over the next few months

Item 16 – Appendix 8 June 2013 Committee LGPS 2014 Project Plan Note

	Communications	Systems		Employers		Employees	
Apr-13	Contact LGA for timescales Consultation and Draft Regs [LGPS 2013/ Transitional/ Miscellaneous						
May-13				Organise Venues for Presentations		Employee Presentations Prepare and define/train staff	
Jun-13		Contact Heywoods for LGPS2014 software release timetable					
Jul-13	Actual Regs + Consultation Governance Admin Regs				LGPS 2014 Training on General Implications		
Aug-13							
Sep-13	Prepare Newsletter	Altair Release: Testing and staff training on release	Operational Letters				Factsheets
Oct-13							
Nov-13					LGPS 2014 Training on Operational implications		
Dec-13	Distribute Newsletter						
Jan-14						Employee Presentations	
Feb-14				Additional Presentations			
Mar-14	IMPLEMENTATION DATE						
Apr-14						Employee Presentations	
May-14		Altair Review					
Jun-14							

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**21 JUNE 2013**	**AGENDA ITEM NUMBER 17**
TITLE:	**LGPS 2014 UPDATE [INCL. RESPONSES TO DCLG CONSULTATIONS]**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Avon Pension Fund Response 3rd May 2013 with Annex 1

Appendix 2 – Avon Pension Fund response Transitional Regulations 2013 – 24 May 2013 with Annex 2

Appendix 3 Avon Pension Fund Response

Appendix 4 Membership of the LGPS Scheme Advisory Board

1 THE ISSUE

1.1 The purpose of this report is to present to Committee an update of current events concerning the new Local Government Pension Scheme 2014 [LGPS 2014], including the responses to the consultations received on draft regulations. Actual regulations are expected to be in place for implementation of the new scheme from 1 April 2014..

1.2 On 27 March 2013 three consultation documents with draft regulations were issued by the Department of Communities and Local Government '[DCLG],the first concerned further changes made to the Benefit Regulations as a result of the consultation responses received in February 2013. The closing date for response was 3 May 2013. The other consultations dealt with Transitional Regulations and Miscellaneous Regulations with a closing response date of 24 May 2013.

1.3 Copies of all responses made by Bath and North East Somerset as administering authority are attached as Appendices 1 – 3 together with accompanying annexes where applicable..

1.4 At the meeting officers will give a verbal update about further potential consultation on the structure of the LGPS funds and the issue of investment management fees.

2 RECOMMENDATION

That the Committee:

2.1 Notes the responses made in May 2013 by Bath and North East Somerset Council in connection with the relevant consultations

3 FINANCIAL IMPLICATIONS

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

3.2 There are no specific financial implications.

4 LGPS 2014: Responses to consultations on draft Regulations 2013

4.1 In view of the fact that the LGPS 2014 has to be operational from 1 April 2014 the period for response in each case was reduced from the normal 12 weeks

4.2 The first consultation concerned changes made to the benefit regulations previously consulted upon earlier this year. Most of these changes were of a technical basis involving regulations and their interpretation. A response was made to this on 3 May 2013 [Appendix 1 with Annex 1]

4.3 There was also a set of draft transitional regulations that outline how the current scheme benefits would be protected going forward. It also sets out how the underpin for members within 10 years of retirement from 1 April 2012 would be incorporated. This was required as a result of provisions outlined in para. 2.6 of the Treasury Paper in November 2011. A response was made on 24 May 2013..[Appendix 2 with Annex 2]

4.4 The last consultation although not directly concerning the LGPS 2014 set out proposed changes to the current regulations that are required before the new scheme starts. Most of these changes are functional regarding certain employers. There was a brief response made in respect of this consultation [Appendix 3].

4.5 Part of the transitional regulations concerns the position of Councillors being eligible for LGPS membership going forward. There is a separate consultation document on this matter that has been issued by DCLG for comments by 5th July 2013.

4.6 When making a response consideration is given to any submissions by other parties [especially Mercers the Fund Actuary and Local Government Association] and where appropriate our response will give further support for crucial points raised.

5 LGPS 2014: Other Developments

5.1 The changes to the Public Sector Pension Schemes coincide with the changes to the primary legislation which has been set out in the Public Sector Pensions Act 2013. This Act introduces a requirement for public service pension schemes to have a Scheme Advisory Board For the Local Government Pension Scheme (LGPS) this will be at the national (England and Wales) level and would be in addition to the local scheme boards and scheme managers for each fund. The statutory LGPS Scheme Advisory Board will be constituted through specific LGPS Regulations which are expected to be issued for consultation later in the summer

5.2 To inform and test the process of operation of the statutory Scheme Advisory Board, prior to its statutory formation in 2014, ministers have agreed the establishment of a Shadow Scheme Advisory Board (the Shadow Board) which is intended to hold its first meeting in June 2013. A copy of the membership of the Shadow Board and the process for the appointment of those is in appendix 4.

5.3 The Shadow Board will take recommendations from several sub committees whose membership will be set up on a similar basis to the Board. The sub committees may establish working groups where appropriate.

6 RISK MANAGEMENT

6.1 No specific issues to consider.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

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

Contact person	Alan South Technical Manager (Tel: 01225 395283)
Background papers	*Consultation documents and responses*
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Avon Pension Fund
LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council
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Tel: 01225 477000 ~ Fax: 01225 395258 ~ Email: pensionsedi@bathnes.gov.uk
Web: www.avonpensionfund.org.uk

AVON PENSION FUND

Philip Perry
The LGPS Pension Team
5/G6
Department of Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

Ask for: Alan South
Telephone: 01225 395283
Fax: 01225 395258
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS
Your ref.: Philip Perry
Date: 3 May 2013

Dear Philip,

Local Government Pension Scheme Regulations 2013
Response to Consultation

This is the response from Avon Pension Fund to the first part of the second consultation on the LGPS 2014 scheme issued in March 2013.

This part of the consultation mainly deals with the technical changes made to the draft regulations as a result of the initial consultation that ended in February 2013.

Whilst supporting the responses being submitted by Mercers, our Fund Actuaries, and also the Local Government Association [Terry Edwards] there are some points that either need emphasising further or adding and these are included in the attached Annex 1

Avon Pension Fund will be making a response to the other parts of the consultation in due course.

Yours sincerely

Alan South
Technical Manager
Avon Pension Fund

Annex 1

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Comments on Annex A

Avon Pension Fund Response: Additional Observations

Regulation 10 (7) states that an employing authority of any member shall provide "...information about the effects **on that member's** likely benefits consequent to that election
This will be administratively cumbersome. Referral to information would be more appropriate

Regulation 14 – Contributions during trade dispute absence

The 16% contribution rate has been well overdue a review to reflect the true cost of the benefits

Regulation 16 – Additional Regular Contributions
As stated in our previous response should this still be limited to £5000 maximum going forward

Regulation 19 – exclusion of rights to refund of contributions Regulation 19(2) should refer to "dependants" and not "dependents". This issue remains in the current draft.

Regulation 31 – Award of additional pension
Previous regulations afforded power to Fund Actuaries to assess this cost.
Now this rests with the Secretary of State as noted in our General Comments, we would recommend that this is opened up to allow Fund Actuaries to advise should Secretary of State advice be unavailable.

This should apply to any case where GAD delays producing information for DCLG and then charges for advanced calculations. Fund actuaries should be able to give interim factors and any charges incurred referred back to DCLG. If they are responsible for issuing such information then they must pay if they are not supplied on a timely basis. Also there must be some advance notification on changes to factors It is becoming a regular occurrence for GAD to issue factors at very short notice or even retrospectively.

Regulation 33 – Election for lump sum instead of pension

~~.~~This should refer to HMRC guidance also
As stated with our previous response the ill health retirement section needs a complete review

Regulation 37 – Special provision in respect of members receiving Tier 3 benefits

.

It is important to have clear and consistent application of approach across the entire LGPS which we assume will follow in due course

Regulation 39 – Calculation of ill health amounts

Based on our interpretation of the draft, there appears to be no facility (in regulation 39) to enhance Tier 2 benefits when it occurs as a result of a review of a Tier 3 benefit. This is because it only appears that an enhancement can be applied to an "active account" ie not the case for a Tier 3 review case.

Again a clear and consistent guidance of approach is needed and it may present practical issues (eg questions for employers to ask new employees on their joining to ascertain whether they would need to declare their previous benefits) on information gathering for the employer and the Fund

Unnecessary apostrophe

Schedule 1

"automatic re-enrolment date" means the automatic re-enrolment date chosen by a member's employer in accordance with section 5 of the Pensions Act 2008(**31**) and regulation 12 of the Occupational and Personal Pensions Schemes (Automatic Enrolment) Regulations 2010(**32**) for those of its eligible jobholders who are not active member's of the Scheme (or the date the employer would have chosen if the employer does not have any such employees);

Comments on Annex B

The policy decisions here must be made taking into account all information received from those with the specific expertise. The key point here is that there should not be any doubt once regulations are made as to how they should be administered.

1: Aggregation
2: Assumed Pensionable Pay (APP)
3: Periods of reduced or unpaid absence

If the ARC route is chosen this could be another reason to review whether a fixed maximum of £5000 will be adequate going forward

4: Revaluation
This is an extremely important area that must be resolved at the earliest opportunity. Particular attention should be given to the response submitted by Mercers

5: NPA/SPA link
.
6: Survivor Pensions
?
7: Employer Contributions
.
8: Certificates of Protection
COP's could be issued where members have a material reduction in contractual pay imposed by the employer. These certificates could be active for 10 years
COPs should be issued where the member suffers a reduction in hours due to certified ill health. The COP will be active for the period specified by the IRMP
In the case of COPs issued on health grounds, should the retirement also be on health grounds for the certificate to have any validity?

Whatever solution is adopted the regulations must be clear, In the 2008 regulations Regulation 10 on Final Pay was not drafted as intended and therefore led to some variable interpretations. This should not be allowed to happen here.

9: Interest
.
10: Pension Account adjustments
.
11: AVCs

12: Pensions Increase
Pensions Increases have always been outside the LGPS Regulations does it need to be brought in for the new scheme or will the overriding legislation still be sufficient?

13: Schedule 1 definitions

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Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council
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Tel: 01225 477000 ~ Fax: 01225 395258 ~ Email: pensionsedi@bathnes.gov.uk
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AVON PENSION FUND

Philip Perry
The LGPS Pension Team
5/G6
Department of Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

Ask for: Alan South
Telephone: 01225 395283
Fax: 01225 395258
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS
Your ref.: Philip Perry
Date: 24 May 2013

Dear Philip,

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2013: Response to Consultation Annex C

This is the response from Avon Pension Fund to the second part of the second consultation on the LGPS 2014 scheme issued in March 2013.

This part of the consultation mainly deals with setting out the protections for benefits accrued up to 31st March 2014. There are a number of very technical issues and our concerns are highlighted in Annex 1.

One particular major concern is Regulation 25 which could have very serious financial effects on employers. We strongly suggest that references to pre 2014 scheme benefits retaining the final salary must include a distinct separation for pay definitions.

To allow the new pay definition in the 2014 scheme to be used for calculating existing benefits would potentially increase costs for any employer whose staff work a substantial amount of non-contractual overtime. The earlier and new schemes must continue to operate in accordance with the pay definition set out in each of the relevant scheme regulations and not be transposed from one to the other.

One of the most difficult parts of responding is in understanding the intentions of the regulations in conjunction with the notes provided. The notes in some areas are vague as to what they are trying to achieve requiring more clarification to assess whether a regulation is fit for purpose.

As stated in a previous response it is imperative that the regulations are not open to different interpretations. These transitional regulations will be the definitive account of the current scheme benefits and protections going forward and clarity must exist for all stakeholders to be able to understand what benefit entitlements exist going forward.

Also with the different consultations and discussions the timetable of events has become unclear. It would be very useful if regular updates on what is happening and when thing are being scheduled could be released.

The regulations were due for April 2013 and are now delayed with different aspects still due to be released in June 2013. What is the timetable between now, April 2014 and beyond? Administering authorities are working on their own plans for implementation and need to be kept regularly informed of the up to date position.

As some of these transition regulations will require decisions before 1 April 2013 [purchase of additional benefits] and will need Government Actuary guidance and factors what arrangements are there to ensure that these do not arrive at the last minute as did the changes to ARCs this year.

Yours sincerely

Alan South
Technical Manager
Avon Pension Fund

Annex 1

STATUTORY CONSULTATION: DRAFT LOCAL GOVERNMENT PENSION SCHEME

(TRANSITIONAL PROVISIONS AND SAVINGS) REGULATIONS 2013 (ANNEX C)

Transitional Regulations 2013		
Regulations No.	**Subject**	**Comment**
2	Revocation	Inconsistent date between note on page 18 and draft regs 2014 instead of 2008
3 and 11	Membership pre 1 4 2014	It was again mentioned that a member could retire before NRA and draw the pre 2014 benefits unreduced if met the 85 year rule but keep any benefits in the 2014 scheme deferred until NRA
4	Statutory Underpin See examples set out within the response submitted by our Fund actuary [Mercers]	Para 2.6 of the Treasury Paper : Public Service Pensions: good pensions that last was issued in Nov 2011and set out the intention of the underpin “for those public service workers who, as of 1 April 2012, have ten years or less to their current pension age, the Government’s objective is that they will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. “ This gave the impression that at Normal Pension Age a member would be no worse off under the 2014 scheme than the current scheme. It did not specify when the member had to retire to achieve any underpin The draft regulations do not appear to achieve this as some members who retire earlier than NRD will be worse off due to the application of 2014 scheme conditions being used in calculations for the underpin calculation Example 2008 NPA 65 2014 NPA 66 (SPA) Retires 64 No Rule 85 **Underpin** 7yrs pre 2014 2008 1yr reduction 1yr reduction 5yrs post 2014 2014 2yrs reduction 2yrs reduction[draft] or To avoid being worse off at NPA 1yr reduction[Treasury Paper]

9	Transfers	Needs more clarification as not clear of intention. Refers to service for 2014 scheme benefits this should be benefits accrued
10	Interfunds Protection with breaks of service within public sector	There does not appear to be enough clarification as to how this is intended to work. Is it limited to one break of 5 years or can it be cumulative. E.g. leaves LGPS joins another public sector scheme employment within 2 years then leaves for 2 years then rejoins another public sector employment then rejoins
11	Retirement Benefits	See 3 above
15	Discontinuance of paying additional contributions for scheme benefits [ARCs/MARCs/Added Years	As this will apply from 1st April 2014 the necessary guidance and GAD factors will be required well in advance of this date. This exercise has already been done for ARCs in 2013 due to revised factors, due to the change in the discount rate, being produced by GAD at very short notice. This will not be an easy communication informing affected members that they will have to reassess their position again after such a short period of time.
25	Calculation of Final Pay	This is not clear as it appears to allow final pay for pre 2014 scheme protection to be calculated as under the 2014 scheme final pay criteria including non-contractual overtime. This could cause an extra cost for employers who have a large number of staff who undertake non-contractual overtime

Special Cases

Members who have transferred under special terms within the regulations [Learning Skill Council and NHS] should retain protections but only as much as they would have received at their previous scheme. It would be inappropriate for such members to be better off than their previous entitlement purely on the basis of having transferred with protections. There needs to be some correlation as to changes that will occur to their previous pension schemes in 2015.

Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council
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AVON PENSION FUND

Nicola Rochester
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Department of Communities and Local Government
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Bressenden Place
London SW1E 5DU

Ask for: Alan South
Telephone: 01225 395283
Fax: 01225 395258
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS
Your ref.: Nicola Rochester
Date: 24 May 2013

Dear Nicola,

Local Government Pension Scheme (Miscellaneous) Regulations 2013: Response to Consultation Annex D

This is the response from Avon Pension Fund to the consultation on the amendments required under the current .LGPS regulations issued in March 2013.

The majority of changes apply to specific employers where there is no need for a response.

Regulation 7 does however raise one issue on possible confusion with terminology.

It is understood that “person” can be legally accepted to cover business organisations that have been formally registered such as partnerships, corporations or associations.

However in the context of pension scheme regulations the term “person” is regularly used to define an individual who is or is not eligible to join the scheme. Indeed in Regulation 6 there are numerous references to this. It would be clearer if another term could be used in the new regulation 38 to distinguish between different entities. If this is not possible then perhaps a definition of “person” specifically included within this regulation.

Yours sincerely

Alan South
Technical Manager
Avon Pension Fund

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Membership of the LGPS Scheme Advisory Board [Shadow Board]

Seat	Representative	Appointment/Nomination Process
Chair	Independent	Proposed by members of the Shadow Board Working Group selected by LGA and Trade Union representatives and approved by the Local Government minister
Scheme Employers		
Employer (LA –Fund)	Pension Committee elected member	Nominations from Administering Authorities. Appointment by political group leaders at LGA who will spread the four seats across the parties, fund types and England and Wales
Employer (LA –Fund)	Pension Committee elected member	
Employer (LA –Fund)	Pension Committee elected member	
Employer (LA –Fund)	Pension Committee elected member	
Employer (Non–Fund)	LGPC member	Nominated and appointed by LGA
Employer (Non-LA)	Education sector	Nominated and appointed by a panel of Education Sector Employers which must include at least University and Colleges Employers Association (UCEA), Association of Colleges (AOC) and Academy Finance Directors
Scheme Members		
TU	UNISON officer	Nominated and appointed by the trade unions with a duty to represent all scheme members not just union members
TU	UNISON lay member	
TU	GMB officer	
TU	TU GMB lay member	
TU	TU Unite officer	
TU	TU Unite lay member	
Advisers		
Actuarial	Local Government ACA Sub-Committee	Nominated by ACA*
Legal	Legal Appointed by Shadow Board	Appointment process to be agreed
Local Authority Treasurer	Association of Local Authority Treasurers	Nominated by the Association of Local Authority Treasurers
Local Authority Fund Practitioner	LGPS officer	Nominations from Administering Authorities. Appointment by election of those authorities (1 vote per authority)
Public Finance and Accountancy	CIPFA officer	Nominated by CIPFA
Observers (appointed by the LG minister but working group recommendations are below		
DCLG	DCLG Officer	Nominated by DCLG
The Pensions Regulator [TPR]	TPR Officer	Nominated by TPR
NAPF	NAPF	Nominated by NAPF

*If the Shadow Board decides that this person would be required to give specific rather than general advice then an appointment process would have to be undertaken to select a particular firm of actuaries rather than an ACA representative

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**21 JUNE 2013**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2014** **Appendix 2 – Pensions Benefits Workplan to 31 March 2014** **Appendix 3 – Committee Workplan to 31 March 2014** **Appendix 4 – Investments Panel Workplan to 31 March 2014** **Appendix 5 – Training Programme 2013-14**	

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 2014 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 2013 - 14 is included as Appendix 5.

1.4 The workplans are consistent with the 2013 - 16 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 2014 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 The workplans and training plan will be updated with projects arising from the strategic review when these are agreed.

4.3 The provisional training plan for 2013-14 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 2014

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 as part of monitoring process See IP workplan for Panel meetings	ongoing
Review of investment strategy	Projects arising from review delegated to Panel for implementation or further investigation further.	Commence 2Q13
Triennial valuation	Approve FSS and consult with employers On-going covenant assessment Disseminate results to employers	June/July 2013 4Q13
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	September 2013
Investment Forum	To discuss actuarial valuation outcome and changes to investment strategy	Next due 4Q13
Budget and Service Plan 2014/17	Preparation of budget and service plan for 2014/17	March 2014
Statement of Investment Principles	Revise following any change in Fund strategy/policies.	On-going
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter

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WORK PLAN POSITION AS AT 31 MARCH 2014 APPENDIX 2

WORKPLAN - PENSION <u>ADMINISTRATION</u> TO 31 MARCH 2014

Project	Proposed Action	Report
Pen Admin Strategy & *SLAs* review	The *Pensions Administration Strategy* effective from April 2011 is due to be reviewed 2 years after its inception. The generic Service Level Agreement (*SLA) will* also be reviewed.	N/A
i-Connect software – to update member data on ALTAIR pension database automatically monthly	*i-Connect* middleware to provide monthly update to APF pension database purchased by the Fund and four unitaries. Their staging dates are now past and APF is working on testing the software. Bristol has gone live and B&NES and North Somerset are expected to go live next month. S Glos has deferred its take up until June 2013 at the earliest. Continuing to monitor the position and aim for all 4 unitaries to on-board/live by September 2013. All payroll extracts from unitaries received (except S Glos) and i-Connect in test – need to go live for these by April 2013 Market to other employers during 2013/14 once testing complete and proved workable.	N/A
Employer Self Service	Employer Self Service rolling out of top ten employers (size) and then to others so full electronic delivery is achieved by the end of Q3 2013 including employer training	N/A
Move to Electronic Delivery of generic 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 1 further notice of the Fund's intention to cease to send them paper copy communication in favour of electronic delivery (unless they opt out from this). From Q3 2013 Campaign to increase the sign up of members to Member Self Service (*My Pension on line)* to allow electronic access to documents.	N/A
Year end and 2013 Actuarial Valuation and Annual Benefit Statements	By the deadline of 30th April 2013, 76% of employers submitted year end information covering 94% of the active membership. Those 40 or so employers who were non-compliant will be charged £250 and a further £100 for each month or part thereof that they fail to submit accurate year end information. This is in accordance with the Scale of Charges agreed by the Payment Schedule approved by the Pensions Committee in accordance with the Pensions Administration Strategy. Detailed member data is due to be sent to the Actuary by 31 July 2013 and Annual Benefit Statements must be sent no later than 31 October 2013. Data Queries from the Actuary the will need to be resolved.	
Strategy to communicate proposed govt changes to LGPS benefits	To follow through the project plan to effectively communicate the proposed changes to LGPS in 2014 and what it will mean for members/employers utilising electronic (website), paper and face to face meetings with employers' and their staff.	Sep 2013
Member opt out rates	Monitor and report on these to Committee at each meeting	Every meeting
AVC Strategy	Finalise new AVC Investment Strategy and review the investment report currently being prepared by Mercers on funds investment performance	Sep 2013

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Appendix 3

Committee Workplan to 31 March 2014

SEPTEMBER 2013
Review of Investment Performance for Quarter Ending 30 June 2013 (including review of Internal Control Reports)
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 30 June 2013 and Risk Register Action Plan
Approval of Funding Strategy Statement
Report on Investment Panel Activity
Review of Administration Strategy
Review of AVC arrangements
Approval of Final Accounts 2012/13 prior to formal approval by Corporate Audit Committee
Workplans
Planned Workshops

DECEMBER 2013
Review of Investment Performance for Quarter Ending 30 September 2013
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 30 September 2013 and Risk Register Action Plan
Report on Investment Panel Activity
Workplans
Planned Workshops

MARCH 2014
Review of Investment Performance for Quarter Ending 31 December 2013
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 31 December 2013 and Risk Register Action Plan
Budget and Service Plan 2014/17
Report on Investment Panel Activity
Audit Plan 2013/14
Workplans
Planned Workshops

Appendix 3

Committee Workplan to 31 March 2014

Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2014

Panel meeting / workshop	Proposed reports
18 July 2013	• Emerging Markets Mandate • Manager Selection Process (training) • Equity Portfolio – regional allocations within passive portfolio and implementation timetable • Meet the managers workshop (RLAM)
4 Sept 2013	• Review mangers performance to June 2013 • Projects arising from Investment Strategy Review • Meet the managers workshop (Schroder Global Equity and Schroder UK property)
15 November 2013	• Review mangers performance to September 2013 • Projects arising from Investment Strategy Review • Meet the managers workshop (Managers to be confirmed)

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Appendix 5

Avon Pension Fund Committee Training Programme 2013-14

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 Quarterly monitoring of manager performance

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	On-going through monitoring of strategy
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	2Q13 Workshop for valuation and Funding Strategy Statement