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6 December 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, Lisa Brett and Ian Gilchrist

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, 13th December, 2013

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 13th December, 2013** at **2.00 pm** in the **Council Chamber - Riverside, Keynsham BS31 1LA.**

The agenda is set out overleaf.

A private workshop for Members on infrastructure investment will be held in the **Council Chamber – Riverside, Keynsham** at **12.30pm** and a buffet lunch for Members will be served there at **1.30pm.**

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, 13th December, 2013

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

A G E N D A

PRELIMINARY ITEMS

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

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

   (b) The nature of their interest.

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS (Pages 7 - 8)

   The attached letter, requesting the Fund to disinvest from tobacco products entirely, has been received from Bristol City Council.

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: 27 SEPTEMBER 2013 (Pages 9 - 24)

STRATEGIC REPORTS

8. ACTUARIAL VALUATION OUTCOME (Pages 25 - 30) *30 MINS*

9. CLG CONSULTATION - POOLING ACADEMIES (Pages 31 - 52) *10 MINS*

10. UPDATE ON 2014 LGPS AND CALL FOR EVIDENCE (Pages 53 - 62) *10 MINS*

11. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 63 - 78) *15 MINS*

Before discussing exempt appendices 2, 3 and 4, the Committee is invited to pass the following resolution:

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

12. INFRASTRUCTURE INVESTMENTS (Pages 79 - 120) *20 MINS*

MONITORING REPORTS

13. REVIEW OF INVESTMENT PERFORMANCE (Pages 121 - 168) *20 MINS*

14. PENSION FUND ADMINISTRATION (Pages 169 - 200) *20 MINS*

FOR INFORMATION

15. WORKPLANS (Pages 201 - 212) *5 MINS*

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

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council’s Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

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Bath and North East Somerset
Pension fund

reply to: Shahzia Daya
telephone: 0117 9222413
fax:
e-mail: Shahzia.Daya@bristol.gov.uk
our ref: JD5/390
your ref:
date: 14th October 2013

Dear Sirs,

Motion from full Council

At its meeting on 10th September, the Council resolved the following;

SMOKING is almost universally recognised as a killer and a major threat to public health. Council feels, therefore, that any action local authorities can take to highlight that danger in the public mind – and, in particular, among teenagers and young people – is worthwhile.

The council notes with concern the government's decision earlier in the summer to back off new restrictions on the promotion of cigarettes – in spite of the campaign for plain packaging led by city MP Stephen Williams, who in June this year was named an outstanding contributor to tobacco control by the World Health Organisation.

All-party agreement to demonstrate this council's opposition to all forms of public investment in tobacco companies would, therefore, be timely.

Council notes that the Avon Pension Fund (APF) continues to have quite substantial (in monetary terms) investments in the tobacco industry, including shares in British American Tobacco worth £8,681,361 (APF figures, March 31, 2013).

Although this represents a small fraction of the fund's total investments – and the council notes that a larger proportion of fund assets is currently allocated to a portfolio that excludes tobacco stocks – it is felt that withdrawal of APF's support for tobacco firms would send out a strong and valuable message.

The council, therefore, urges the Mayor to press the Avon Pension Fund and its many members – including neighbouring local authorities – to disinvest in tobacco products entirely.

Legal Services
P O Box 2156, City Hall,
Bristol BS99 7PH DX 7827 Bristol

Liam Nevin, Service Director

Website
www.bristol.gov.uk

The council believes that this would demonstrate in the strongest possible terms its commitment to the view that the damage done to public health by smoking must outweigh the importance of maximising profits in the investment decisions of the Avon Pension Fund.

Following a briefing with the Mayor, George Ferguson, I write to ask that the Pension Fund consider the Council's request as set out above.
Given the public health duties that Councils now have, consideration of certain investments would appear to be appropriate.

I look forward to hearing from you with your decision.

Yours faithfully

Shahzia Daya

Shahzia Daya
Service Manager: Legal Services
Bristol City Council

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 27th September, 2013, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Lisa Brett and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset 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: Rowena Hayward (Trade Unions), Richard Orton (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: Jignesh Sheth (JLT Benefit Solutions) and Tony Earnshaw (Independent Advisor)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager), Alan South (Technical and Development Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt, Councillor Clive Fricker, and Councillor Mike Drew.

21 DECLARATIONS OF INTEREST

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Officers reported that Steve Macmillan, the Pensions Manager, had undergone a triple bypass operation and was now recuperating. Members requested that their wish for his speedy recovery be communicated to him.

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

There were none.

24 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

25 MINUTES: 21ST JUNE 2013

The public and exempt minutes of the 21st June 2013 were approved as a correct record and signed by the Chair.

Agenda item 13: Statement of Investment Principles: Councillor Pearce informed the Committee that Bristol City Council had narrowly passed a resolution calling on the Mayor of Bristol to press the Fund and its employers to disinvest from tobacco. Councillor Pearce said that he had asked the Mayor for a response. Councillor Brett reported that the Bath and North East Somerset's Health and Wellbeing Policy and Development Scrutiny Panel had expressed its disapproval of investment in tobacco and that this has been communicated to the officers of the Fund. It was noted that this issue was discussed as part of the review of Responsible Investing in 2012, and that it will be reviewed next when the Committee has its annual review of Responsible Investing in 2014.

26 APPROVAL OF ACCOUNTS & GOVERNANCE REPORT AND ANNUAL REPORT & ACCOUNTS

The Finance & Systems Manager (Pensions) presented the accounts. He informed Members that these had already been approved by the Corporate Audit Committee. He drew attention to the changes made since the draft accounts were presented to the Committee at the June meeting, which were listed in paragraph 4.1 of the covering report.

Mr Hackett presented the Annual Governance Report. He said that the auditors had given an unqualified opinion on the Fund's financial statements. There was one misstatement and a few disclosure changes, which were listed on agenda page 61. Asked by a Member about a management response to the internal control issues noted on agenda page 63, he said that this had been tabled at the recent meeting of the Corporate Audit Committee. Officers said that a copy of this could be made available to any Member who required one.

Members then considered the Fund's Annual Report. A Member queried whether the number of Investment Panel meetings had been stated correctly. The Investments Manager said she would make sure the information is correct.

A Member asked whether there was a strategy for raising employers' contributions to 16%. The Head of Business, Finance and Pensions replied that there was a triennial valuation which looked at liabilities and contribution rates. The Member asked whether the Committee could influence this process. The Head of Business, Finance and Pensions replied that the Fund worked with the actuary to achieve a balance between affordability and the need to cover the liabilities. The Chair said that the issue was generally discussed between the actuary and the Fund's four largest employers.

RESOLVED:

1. To note the final audited Statement of Accounts for 2012/13.

2. To note the issues raised in the Annual Governance Report.

3. To approve the draft Avon Pension Fund Annual Report 2012/13.

27 FUNDING STRATEGY STATEMENT

The Investments Manager presented the report. She reminded Members that the Committee had agreed the broad principles to be included in the draft Funding Strategy Statement after the Committee workshop on 21 June 2013. The draft had been circulated to the employers, requiring them to return comments by 10 September 2013. Very few comments had been received. Individual employer results from the valuation would be disseminated in October and November. An Investment Forum had been arranged for 22 November 2013. The actuarial outcome would be reported to the Committee at the December 2013 meeting, which would be attended by the actuary.

RESOLVED to approve the Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, for general publication and distribution to the Fund's employing bodies.

28 LGPS 2014 UPDATE

The Technical and Compliance Manager updated Members. The Fund's responses to the two consultations that had been ongoing at the time of the last meeting were attached to the report. The Regulations for the new scheme were now expected to be issued in mid-October.

A Member asked whether any analysis was being done on the possible impact on administration costs of the new scheme. The Head of Business, Finance and Pensions replied that the Fund's officers had anticipated the impact and resourced appropriately.

A Member urged that there should be effective communication with employees about the new scheme.

RESOLVED to note the response made in August 2013 by Bath and North East Somerset Council in connection with the relevant consultations.

29 RESPONSES TO CLG DISCUSSION PAPER ON GOVERNANCE ARRANGEMENTS AND CALL FOR EVIDENCE

The Investments Manager presented the report. She tabled a copy of the Fund's response to the DCLG's call for evidence (attached as Appendix 1 to these minutes) The response to the governance paper supported the proposal for a national supervisory board but not the proposal for local scrutiny committees in addition to statutory committees. The call for evidence focussed on investment and administration costs, but in fact the key issue was liabilities, as had been pointed out in the responses of the majority of pension funds. The DCLG intended to consult on proposed changes to governance arrangements with a view to having the new arrangements in place in 2014/2015.

Members supported a national supervisory board, but not local scrutiny boards.

Members had a general discussion about some of the other ideas that were being put forward in relation to the LGPS, such as merging Funds and the joint administration of Funds.

RESOLVED to note the Fund's response to the governance paper and call for evidence.

30 INVESTMENT PANEL ACTIVITY AND MINUTES

The Assistant Investments Manager presented the report. He said that there were no recommendations to the Committee from the Panel. At the 18 July 2013 meeting, the Panel had agreed:

1. the emerging markets mandate specification and the make-up and timing of the selection panel;
2. the target allocation within the overseas regional equity portfolio and arrangements for annual rebalancing;
3. the changes to the allocation within the bond portfolio and timescale for the changes.

The Chair of the Investment Panel, Councillor Charles Gerrish, commented that the new system of Red Amber Green reporting on investment manager performance was extremely useful and that the subsequent performance of MAN vindicated the decision to disinvest from them.

A Member asked whether the Panel scrutinised overperforming managers to see if there were lessons that could be learned by other managers. Councillor Gerrish replied that the Fund's managers had varying mandates, so that direct comparisons between them were often very difficult. However, discussions with those managers who were performing well helped the Panel formulate questions to put to those who were doing less well.

A Member asked whether the Panel was able to respond quickly to events. Councillor Gerrish said that because of the change in delegations it was now possible to respond faster than it had been previously. However, any process inevitably took time. The Investments Manager said that it was important to make any changes at the right time as the costs of hiring and firing managers were quite significant.

RESOLVED:

1. To note the draft minutes of the Investment Panel meetings held on 18 July 2013 and 4 September 2013;

2. To note the decisions made by the Panel at the meeting on 18 July 2013.

31 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report. He asked Members to note that the funding level had increased by 5% to 74%, despite a fall in the value of the assets; markets had reacted negatively to the Chairman of the Fed's comments on the tapering of QE. He drew attention to the progress on implementing the new investment strategy detailed in section 6 of the report. The annual assurance on the control environment of third party suppliers had thrown up no issues to bring to the attention of the Committee.

Mr Sheth commented on the JLT report and the market background.

A Member referred to the repeated fines and compensation payments imposed on the financial services industry, which had totalled many hundreds of millions of pounds, but had not had any discernible impact on behaviour. These penalties had been paid with shareholder funds; he believed that the industry owed this money to shareholders. He suggested that if information about these penalties were presented in a more concrete and personalised way, e.g. if they were quantified in terms of the loss they represented to each pension fund member, there might be more pressure for reform. Mr Sheth responded that regulation of the industry had been strengthened in a number of ways since the financial crisis. There was further discussion about the regulation of the banking sector by members. A member drew attention to the LAPFF Quarterly Engagement Report, which gave information on the issues that LAPFF was pursuing with companies.

RESOLVED to note the information set out in the report.

32 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the budget report. The directly-controlled administrative budget was forecast to be £20,000 below budget because of late appointments of staff in the Benefits and Data Quality teams. Expenditure not directly controlled was forecast to be £960,000 over budget, because of increased investment management fees, reflecting the rise in the markets since the budget was set.

The Pensions Benefits Manager presented the performance report. He invited Members to note the information about the performance of the Pensions team given in section 6 of the report. He circulated an amended version of Annex 2 to Appendix 7 (deferred performance cases within target for the larger employers in the Fund) and drew attention to the great improvement in performance by Bath and North East

Somerset and North Somerset Councils. However, the performance of Bristol City Council had fallen significantly and they had cleared only 5 cases within target. Training had been provided to some staff of BCC, but they had changed their working practices without notifying the Pensions Team. Training had subsequently been provided to another group of staff. Electronic transactions had increased by 5.37% to 49%. He asked Members to note the very competitive administration costs of £17.34 per member of the Fund, compared with £21.42 for the average fund and £20.45 for the smaller comparator group.

A Member congratulated the Pensions Team on the increase in the proportion of electronic transactions and asked when it was likely to reach 100%. The Head of Business, Finance and Pensions replied that there was a strategy to increase electronic transactions. Employers were being encouraged to send data electronically, and the larger employers were increasingly doing so, though South Gloucestershire was lagging behind the other Unitary Authorities in the implementation of i-Connect. As part of the strategy employers could be charged more if they did not send data electronically. The Pensions Benefits Manager said that BCC previously had only two officers dealing with leavers. He reminded Members that employers who sent data late could now be charged.

A Member noted that the number of deferred members had doubled and asked about the impact on workload. The Head of Business, Finance and Pensions said that BCC had decided to opt all employees into the Fund under Auto-enrolment requirements. It was critically important that all employers recognised the need to invest in technology and provide information in a timely fashion.

A Member commented that the number of active elected members seemed very low. The Pensions Benefits Manager reminded Members that North Somerset members had elected to withdraw the scheme from its elected Members.

A Member commented that deferred members always accounted for most gaps in member data, because they often moved elsewhere. He said that another pension fund with which he was involved used a volunteer welfare officer to keep track of deferred members, paying the officer only their petrol costs. He thought that this worked quite well.

A Member noted the CIPFA benchmark data given in Appendix 8 and wondered whether benchmark data was available for investment costs. Referring to the risk register in Appendix 9, she said she thought that some risks were quite trivial and that she would like to know the net risk carried by the Fund. The Head of Business, Finance and Pensions responded that benchmark data was constantly being improved and that the Pensions Manager had given a great deal of attention to it.

RESOLVED to note:

1. Administration and management expenditure incurred for 4 months to 31 July 2013;

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 July 2013;

3. Summary Performance Report for period from 1 April 2011 to 30 July 2013;

4. Risk Register and 2013 CIPFA Benchmarking Comparators report.

33 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.46 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME
Bath & North East Somerset Council, Floor 3 South,
Riverside, Temple Street, Keynsham, Bristol BS31 1LA
Tel: 01225 477000 ~ Fax: 01225 395258
Website: www.avonpensionfund.org.uk

Direct Line: 01225 395306

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Date: 27 September 2013

Dear Ms Edwards

Call for evidence on the future of the Local Government Pension Scheme (LGPS)

Thank you for the opportunity to respond to the call of evidence on the future structure of the LGPS. The paper seems to make the assumption that the investment costs, investment performance and size of LGPS funds are correlated and therefore the funds are inefficiently managed. We do not believe there is evidence to support this assumption. The key problem all funds face is managing the liabilities which are determined by central government regulations not local policy. Therefore we believe that the focus of reform should be on enabling LGPS funds to work better together by reducing the restrictions around investment and procurement regulations and through the simplification of the LGPS regulations in general.

The Avon Pension Fund's response to the five questions is as follows:

Question 1 - How can the LGPS best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to become more efficient and to promote stronger investment performance?

The current structure of the LGPS Funds already has a high level of accountability to taxpayers and other parties for the following reasons:

(i) They are highly regulated and legislation requires detailed disclosures about local funds e.g. financial accounts, investment and administration performance and costs, and statutory policy statements.

(ii) Best practice governance arrangements ensure stakeholders are represented in the decision making process

Furthermore, the shadow National Scheme Advisory Board (the "Board") is now in place to ensure best practice is enshrined throughout the LGPS in respect of governance and transparency of data. Having established such a body, with wide representation, it would seem illogical to not allow it to fulfil its role.

The Avon Pension Fund ("the Fund") has a Committee and an Investment Panel, representing a wide range of stakeholders, which provides strong local accountability to members, employers and taxpayers. This is particularly important given the continuing fragmentation of the employer and membership base away from the local authorities. The Avon Pension Fund also has the benefit of independent challenge from two independent voting members, which helps to reinforce local accountability on a consistent basis irrespective of the political environment. A locally based governance structure also fits in with the government's Localism Agenda. As a locally based fund, it is able to hold a wide range of employer and member forums and events each year ensuring all stakeholders are fully informed and engaged with issues affecting the Fund and LGPS. These meeting are complemented by our website and communications activity.

The Fund adheres to a high level of disclosure with a significant amount of information made publicly available on our website, including meeting agendas, minutes, annual reports and statutory documents. The Fund discloses all administration and investment costs in its annual report. Administration and investment performance is disclosed quarterly in the committee and panel papers (see later answers for comments on comparing costs and performance)..

Whilst it may be possible to achieve economies of scale given the variation in the size of funds across the LGPS, cost efficiency cannot be the only objective to drive the governance structure. Local accountability and provision of a quality service to members and employers are also key objectives. Therefore determining the optimum size of any fund must take these into account.

Therefore it is not clear how changing the structure of the scheme will improve accountability and efficiency compared to the current structure which allows local funds to make local decisions to meet their own local circumstances.

Question 2 - Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

We would support the high level principles but believe they ignore the purpose of the LGPS - to provide a good quality pension service which should be another high level objective. Another high level objective should be enabling funds to work together more easily. If funds work collaboratively without incurring reorganisation costs, efficiency should increase and costs be managed more effectively.

Although dealing with deficits is a key issue affecting all funds it is difficult to understand how structural reform of the funds will resolve this issue as the scheme structure and more to the point the employee benefit structure is determined by legislation. The only way to meaningfully address the deficits, given the size of the liabilities, is to reform the benefits structure, in particular the accrued benefits which has not been addressed in the LGPS 2014 scheme.

Sustainable pensions require deficits to be managed, and the size of deficits far outweigh the costs of investments and administration, especially after the costs of transitioning to a newly reformed structure are taken into account. LGPS funds as currently structured have scope to mitigate liability risks through their investment and funding strategies.

Investment performance is key to minimising deficits given that it is the funds only controllable variable. A small deviation from performance targets will have a significant impact on the funding position compared to changes in the investment and administrative costs. As at 31 March 2013 the Avon Pension Fund is valued at £3.1 billion with total costs (administration and investment) of £13 million or 0.42% of the Fund's assets (of which 0.33% relate to the costs incurred in the management of the Fund assets). A 0.5% underperformance of investment returns would therefore cost the Fund c. £15 million i.e. more than the total costs. Given the 10 year investment return achieved by the Avon Pension Fund is 9.6% p.a., the total cost base of 0.42% is paid for by c. 4% of the money generated by investment returns annually.

Therefore the investment strategy and not investment costs are the driver of performance. The Fund regularly reviews it strategy, has built diversity and flexibility into the strategy to enable it to take advantage of market opportunities and ensures there is an appropriate balance between risk and return. The adoption of more diversified and risk focused strategies has increased the investment management fees. However, such strategies are expected to generate superior risk adjusted returns net of fees to assist in managing liabilities, especially in the short term.

Question 3 - What options for reform would best meet the high level objectives and why?

The options for reform being debated range from keeping the status quo, to increased collaboration, to regional/national mergers.

Status quo retains locally accountability with funds able to make decisions in respect of service delivery and investment strategy that it determines is in the best interest of the fund.

Currently there are a number of initiatives that demonstrate how LGPS funds can be structured, for example, LGSS in Northamptonshire and Cambridgeshire, Devon and Somerset's shared administration service, the South West (SW) framework agreements for specialist advice (in which the Fund participates) and the national framework agreements. These arrangements address efficiency and quality of service delivery, reducing procurement costs and increasing value for money, all of which are achievable through collaboration rather than merging of funds. The SW framework agreements have produced cumulative savings of £1.5m to date and will continue to generate savings into the future by minimising procurement costs and achieving competitive fees. The Fund will use the SW framework agreements when it re-tenders its actuarial and investment advisory contracts in 2014.

Many funds already work collaboratively at a local or regional level. For example, the SW funds are producing regional communication materials for the LGPS 2014 scheme, using generic materials from the LGE.

There are also initial signs of collaborative work within investments, for example, the collaboration by the five funds (Greater Manchester, West Yorkshire, South Yorkshire, West Midlands and Merseyside) to set up a £250m investment fund to invest in projects to promote economic growth. Such collective investment schemes could become an effective way for LGPS funds to work together to improve investment returns net of costs, but with each fund investing in line with its own investment strategy.

A recent analysis of LGPS funds by WM Performance Services shows a lack of correlation between the size of funds and investment performance.

Without overwhelming evidence to demonstrate that larger funds achieve superior investment performance it is difficult to argue for the creation of larger funds. The costs of transitioning towards a new structure, that would have to address the issue of local accountability, is likely to outweigh any savings through better economies for scale, especially in the short to medium term. In the short term it could potentially generate increased costs.

There are also a range of as yet unquantifiable risks associated with creating larger funds; the potential reduction in competition within the investment industry, the capacity to manage larger mandates which could deter specialist, boutique managers from bidding for mandates, greater concentration risk and potentially greater volatility of returns as strategy diversification is reduced.

To facilitate greater collaboration between funds, the regulations need to be clarified and simplified. The restrictions in the investment regulations need to be removed to enable collaboration on investment strategies and the procurement rules altered to reduce the bureaucratic process for establishing framework agreements and other innovative ways of working together.

In summary, collaborative working is enabling the LGPS to meet the high level objectives and therefore reforms should focus on enhancing these opportunities. There is already significant momentum around such initiatives and any gains could be lost if funds have to focus on transitioning to larger funds. In addition, uncertainty over the structure of funds could reduce the focus on investment strategy and could possibly lead to funds delaying or postponing investment decisions to avoid incurring advisory and transitional costs.

Question 4 - To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Our answer to Question 3 covers some of the secondary objectives, mainly cost effectiveness of administration and investment strategies.

Additional points are:

(i) To improve greater flexibility of investment strategies and reduce investment fees, a complete revision of the Investment Regulations is required. This would enable funds to invest as they think appropriate and reduce money spent on obtaining "advice" as to whether an investment is permitted under the regulations. In addition, investing via collective investment vehicles will assist funds, especially the smaller funds, accessing the full range of investment opportunities at a lower cost.

A recent benchmarking survey (sponsored by Hymans Roberson) on LGPS investment management costs concluded that LGPS costs are comparable to a peer group of pension funds. The research shows that investment manager fees paid by LGPS funds are competitive and suggests that merging of funds will not significantly lower fees. It does note that lowering of fees on the more expensive alternative asset classes could be achieved through investing via collective investment vehicles.

(ii) Given the changes already made to the regulations to facilitate investment in partnerships, funds are able to invest in infrastructure, if it meets their investment objective. There are appropriate collective vehicles available for indirect investing and the proposed Public Infrastructure Platform should channel funds into UK public sector infrastructure as well as private sector projects. Therefore this should not be an objective of the reform.

(iii) Access to high quality staffing resource (assuming this to mean more experienced, better qualified and more skilled) will vary across the country. It should be recognised that there is a highly competitive market place for such staff, especially in investments, where local authority pay scales are not competitive with the private sector and creating larger funds will not necessarily address this issue. Collaboration between funds on expertise, for example informal "centres of excellence" for more complex strategies such as liability hedging, could provide better resources and expertise. The viability or not of this could be considered by the National Scheme Advisory Board in due course.

(iv) Again collaboration could be a way of utilising and scaling up in-house investment expertise without full merger or shared service.

(v) In respect to cost effective administration, another area where LGPS funds are incurring additional costs and having to manage significant risk is in the increasing fragmentation of the employer base. Avon Pension Fund has almost 200 employers and it continues to grow, mainly due to the creation of Academies and continued outsourcing by scheme employers. The experience of these new arrangements is that pension matters are not a priority for these new organisations who often find themselves in difficulties falling foul of regulations. Administration authorities have to work hard with employers to resolve these issues and ensure they understand their responsibilities. Therefore, it would help if the LGPS Regulations were strengthened in this area making clear the legal responsibilities of scheme employers and giving funds greater and more immediate powers to take punitive measures. This would give a better balance between enabling and encouraging free market competition and innovation in public service delivery with its impact on the LGPS funds.

Question 5 - What data is required in order to better assess the current position of the LGPS, the individual scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Whilst the LGPS generates a significant amount of data at the local level (especially in annual reports), analysis at the national level is limited to the WM Investment performance statistics, SF3 returns and the CIPFA Benchmarking club for administration costs (all of which the Fund participates in).

The provision of comparative data is very useful to funds in setting budgets, comparing performance and for disseminating cost and performance information to a wider audience. Therefore, development of the existing comparative data should be considered as part of the remit of the National Scheme Advisory Board. The analysis of any data must be meaningful, give consistent insight that can be used by funds in managing budgets and informing decisions and must be over relevant timescales.

In the case of investments, investment strategies are set over the longer term therefore, analysis over multi-year periods is appropriate. In addition, the analysis must include the level of risk associated with the overall strategy as well as returns. Investment costs are not currently benchmarked and as investment fees are usually referenced to assets under management, monetary costs identified in annual reports are not meaningful comparisons. Therefore costs should be benchmarked as a per cent of asset values or cost per member. Any analysis must be on a comparable basis with clear instructions on the costs to be included (for example, under current accounting conventions not all funds include pooled fund fees that are deducted at the pooled fund level in their annual report, thus understating fees). However, the fee rate charged for an investment mandate will vary according to the size of the mandate and the complexity or resources required for the mandate (for example, a UK equity mandate with a Socially Responsible Investing (SRI) approach may attract a higher fee than the same mandate without the SRI input). The disclosure and analysis of investment data and costs needs to be improved to give a meaningful comparison of efficiency and value for money across the funds. Ultimately what matters is the net investment return after taking into account fees paid.

Pension administration is more suited to benchmarking costs given the homogeneity of the processes. However, the current benchmarking focuses on costs and does not effectively incorporate value for money or quality of service. The data is not always consistently disclosed which can lead to misleading analysis. The Avon Pension Fund sets its own budget and clearly identifies the services it “buys” in from the council. Furthermore, the Fund has made significant decisions over recent years to invest in capacity, mainly IT systems and to a lesser extent staff, to ensure it increases productivity yet maintains a high quality service whilst implementing the new scheme. Such “investment” can increase short term costs significantly before generating lower costs per unit in the medium term. A facility for the cost of investing in software/hardware to be spread over the useful life of these assets should be incorporated into the benchmarking exercise. The output of the benchmarking analysis is detailed but it is not easy to identify whether funds are cost effective and providing value for money.

With a national body established, it would be sensible for the National Scheme Advisory Board to collect, analyse and publish data for the scheme as a whole and comparative fund data. This would assist local funds to benchmark their own performance and costs to inform decision-making. It would also increase transparency and accountability to the taxpayer, members and employers and demonstrate value for money. The Scheme Advisory Board should decide on the information to be collected and frequency of the analysis. As much of the information is already available, refining the analysis should not entail significant additional work or costs.

Conclusions

The Avon Pension Fund believes that current initiatives around collaboration and shared services determined by local funds are the most effective and appropriate way that the LGPS will improve efficiency and investment performance. The workload facing these funds is ever more demanding given the fragmentation of the employer base and introduction of the new scheme. Challenging funding positions require greater interaction with employers by funds and greater scrutiny of investment strategies and opportunities. All of this supports maintaining locally managed funds, collaboration and use of collective investment vehicles in areas that generate greatest value for money. The Avon Pension Fund’s policy is to participate in collaborative initiatives, either within the south west region or nationally and the Fund is exploring shared arrangements with other local funds.

Yours sincerely,

Tony Bartlett
Head of Business Finance and Pensions

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**13 DECEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**ACTUARIAL VALUATION 2013**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 The Actuary has calculated the contribution rates effective 1 April 2014 for the majority of the employing bodies within the Fund. Those outstanding are for bodies where special circumstances apply.

1.2 In due course (before 31 March 2014) the Actuary will prepare the actuarial valuation report which will be circulated to all employing bodies. In the meantime, the employing bodies have been notified of their revised rates.

1.3 The aim of the 2013 valuation was to maintain stable employer contribution rates where possible, and the Funding Strategy Statement (FSS), which was approved by the Committee in September 2013, set out the parameters as to how this objective would be met.

1.4 By utilising the flexibility allowed within the FSS, deficit recovery payments have been kept relatively stable. The basis for calculating the future service rate has been adjusted to take account of market yields; this has led to an increase in contribution rate for most employers.

1.5 The valuation has taken account of the new scheme (LGPS 2014). At the overall Fund level this has resulted in savings of c. 1.7% of pensionable payroll. However the impact is dependent on the membership profile (especially age) and therefore the results across the employers varies significantly with some employers experiencing *higher costs,* not savings.

1.6 This report examines the outcome of the valuation process for the whole fund and highlights the principal changes which have occurred since the 2010 valuation.

1.7 The Actuary will give a presentation on the outcome at the Committee meeting.

2 RECOMMENDATION

The Committee notes:

2.1 The outcome of the actuarial valuation 2013

3 FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates for all employers for the 3 years commencing 1 April 2014. The costs for completing the valuation are provided for in the 2013/14 budget.

4 BACKGROUND

4.1 The Local Government Pension Scheme (LGPS) Regulations require LGPS funds to have an actuarial valuation every three years. The 2013 valuation has a base date of 31 March 2013 with new employer rates effective from 1 April 2014.

4.2 This valuation is taking place amid significant funding pressures within the public sector. The valuation also incorporates the LGPS 2014 benefit structure. The LGPS 2014 does not affect the value of accrued service (or the past service deficit) as all accrued rights are protected. The new benefits structure will reduce the cost of future accruals; however the impact of this at the individual employer level will vary significantly. This is because there are protections in place for members aged 55 or over at 1 April 2012 and therefore the level of savings will depend on the age profile of the membership.

4.3 The actuary has structured the valuation having regard to the FSS and has used the flexibility within the FSS to accommodate the budgetary pressures facing all scheme employers.

5 ACTUARIAL VALUATION 2013 OUTCOME

5.1 The aim of the 2013 valuation is to maintain stable contribution rates where possible. The funding level has fallen from 82% in 2010 to 76%.

5.2 The initial outcome of the valuation is as follows:

	2010	2013
Deficit	£552m	£1,005m
Funding Level	82%	76%
Value of assets	£2,459m	£3,147m
Value of Liabilities	£3,011m	£4,152m
Average employee contribution rate	6.4%	6.4%
Average future service rate (employer)	11.8%	14.3%
Annual past service deficit payments	£33m *	£56m
Past service recovery period (years)	23	20

** 2010 payment is the annual payment for 2014/15, based on 23 year recovery period at 2010 and indexed at 4.5% p.a.*

In light of discussions with employers and the Fund, the Actuary will declare results allowing for short-term pay restraint (1% per annum for three years) in his formal actuarial valuation report. Incorporating this adjustment has the effect of increasing the funding level at 31 March 2013 to 78% and reducing the deficit to £876m (liabilities fall to £4,023m from £4,152m).

5.3 The FSS provides flexibility for the Actuary to take affordability into account when setting contribution rates and deficit recovery payments. In this regard the Actuary has

(1) Phased in increases in deficit recovery payment increases over 3 years

(2) Phased in increases in future service rates over a maximum of 4 years

(3) Applied yield reversion where appropriate. This does not alter the deficit values but adjusts the repayment plan by taking forward an element of higher yields.

5.4 The main drivers of the valuation outcome are:

(1) The investment return over the 3 years to 31 March 2013 was 8.3% per annum compared to an expected return in the 2010 valuation of 6.1% p.a. This excess investment return reduced the deficit by c. £189m.

(2) The discount rate used to value the liabilities is based on real yields derived from the market. Compared to 2010 the nominal yield on long term UK gilts has fallen from 4.5% to 3.2% in 2013. This has been offset slightly by a fall in the inflation assumption from 3% in 2010 to 2.6% in 2013. The Asset Outperformance Assumption has remained unchanged at 1.6% which means the discount rate used to value liabilities has fallen from 6.1% in 2010 to 4.8% in 2013. Overall these changes in the financial assumptions have increased the liabilities by £635m.

(3) The fall in long term interest rates has also affected the future service rate (FSR). The Actuary uses a "smoothed" discount rate to value future accruals, in order to keep the FSR as stable as possible in line with the Regulations. This has been achieved over recent valuations. However, the significant fall in long term interest rates means the basis used by the Actuary does not sufficiently reflect market rates and thus the cost of on-going accrual. Therefore, the discount rate used to value future service has fallen from 6.75% in 2010 to 5.6% in 2013.

(4) At each valuation the actuary uses an analysis of the life expectancy experienced by the Fund, other LGPS funds and the improvement trend models from the Continuous Mortality Investigation to assess the adequacy of the 2010 longevity assumptions.

The longevity assumption is made up of two elements, the current life expectancy (or baseline assumption) and an assumption of future improvement / deterioration around the baseline assumption. The Actuary has altered the baseline assumption marginally for the 2013 valuation reflecting the updated membership information to include the Fund's experience since 2010. In 2010 the assumption for the long term improvement rate was increased to 1.5% p.a. for valuing past service liabilities. The future accrual improvement assumption was maintained at 1% p.a. ahead of a new scheme being introduced and the expected cost control mechanism. However, LGPS experience has confirmed this is too low and the assumption has been increased to 1.5% for valuing future accruals in line with past service.

(5) In addition the Actuary has looked at life expectancy prior to retirement, ill health rates, retirement rates and the rate of dependants pensions coming into payment. Overall the demographic analysis decreased the past service liabilities by 0.8% and increased the future service rate by 0.6% of pay per annum. This includes the impact of changes made to the life expectancy assumptions (which in isolation were c.0.1% increase to past service liabilities and c.0.4% increase to the future service cost).

(6) Overall the changes in the financial and demographic assumptions have increased the FSR by 4.2%. This has been offset by savings from the new scheme of 1.7% at the Fund level, giving an overall average increase in the FSR of 2.5% of pensionable pay. This is before any allowance for the 50:50 option for members.

5.5 The changes are summarised in the following tables:

Changes to past service position since 2010 valuation

	£m
Deficit at 31 March 2010	**(552)**
Interest on deficit	(108)
Investment returns versus assumptions	189
Contribution paid versus benefits accruing	91
Salary gain (i.e. salary increases less than assumption)	52
Change in demographic assumptions	34
Change in financial assumptions	(635)
Member movement and other factors	(76)
Deficit at 31 March 2013	**(1,005)**

Changes to future service rate

Average Employer Rate at 31 March 2010	**11.8% of pay**
Change in membership profile	Neutral
Change in assumptions	+4.2% of pay
Impact of 2014 LGPS	-1.7% of pay
Average Employer Rate at 31 March 2013	**14.3% of pay**

6 COMMUNICATION WITH EMPLOYING BODIES

6.1 The 2013 actuarial report will be published by 31 March 2014. In the meantime, the employing bodies have been notified of their revised rates and officers are holding meetings with employers where required.

6.2 An Investments Forum was held on 22 November where the Actuary explained the results in greater detail.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment 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.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 This is reporting the outcome of a consultation process.

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 (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) 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	Actuary reports and presentations
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**13 DECEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**DCLG CONSULTATION – POOLING ARRANGEMENTS FOR ACADEMIES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – DCLG Consultation Paper Appendix 2 – Avon Pension Fund response		

1 THE ISSUE

1.1 A consultation paper was issued by the DCLG seeking views on introducing pooling arrangements for academies. The deadline for responses was 15 November. Given the mainly technical nature of the consultation, the response was cleared by the Chair and Vice-Chair.

1.2 The consultation was issued to local authorities, LGPS funds and academies.

1.3 This report sets out the background to the consultation and the Fund's response.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the Fund's response to consultation paper on Pooling Arrangements for Academies.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial considerations in this report. However, it should be noted that the revised arrangements for academies could increase administrative costs and actuarial costs. These costs would have to be met by the individual employers.

4 CONSULTATION PAPER ON POOLING ARRANGEMENTS

4.1 The driver of this consultation is that a *few* funds have prima facie not treated academies fairly in setting the contribution rates for schools converting to academy status and the government wishes to see greater consistency of contribution rate calculations. In particular some funds have used a shorter recovery period than that of the ceding local authority reflecting their assessment of the academy's risk. The DfE has since issued a form of a guarantee to strengthen the covenant of the academies.

4.2 Following advice from our Actuary, the Fund has adopted a fair and consistent approach, even though we were aware of the potential financial risks of such an approach at the outset. The letter of guarantee from the DfE has provided some comfort in terms of risk mitigation to the approach adopted. Our approach is in line with the policy position from the DfE that an Academy is meant to manage its own financial position as a standalone entity. Thus each Academy has been treated as a separate employer for funding and accounting purposes within the Fund.

4.3 When converting to academy status the Fund treats the new bodies as it does all other employing bodies. The future service contribution rate payable reflects the membership profile of that body, using the same actuarial assumptions for the rest of the Fund. On conversion, the new academy is allocated a deficit from its ceding local authority which is based on relative payrolls. The deficit recovery period is set at the same as that of the ceding authority. Thus any differences between the initial contribution rate and deficit payments will be due to the membership profile of the new body.

4.4 The consultation asks 6 questions:

(1) How can stability of employer contribution rates be best achieved?

(2) If pooling is introduced, what bodies should be pooled with academies? LEA schools, local authorities?

(3) If pooling is introduced should employers have a choice whether to join the pool and should the choice be permanent?

(4) Should actuarial assumptions for the pool be locally or nationally agreed?

(5) What provisions will be needed to be considered where transfer of assets and liabilities to academies has already been made?

(6) What other solutions are in place?

4.5 The Discussion paper from the DCLG is in Appendix 1 and the Fund's response in Appendix 2.

4.6 The Fund's response does not support pooling of academies. The response focuses on:

(1) The approach adopted by the Fund achieves fairness, transparency and stability without the need to pool employers.

(2) The employer contribution rate should reflect the on-going cost of the membership and there should not be cross-subsidies within the scheme. If adjustments are to be made to the "pooled" rate, as suggested by the paper, the resultant contribution rates will diverge as they do under the Fund's current approach.

(3) Pooling will not reduce administration costs. Individual employer records will still need to be maintained by both the Fund and actuary in order to calculate FRS17 disclosures and accurately manage exits etc. from the pool.

(4) If pooling is introduced, employers should preferably not have a choice and if given a choice, then it should be a permanent decision. This is to efficiently manage the administration of the pool.

(5) Actuarial assumptions should be agreed locally, in line with assumptions for other employers in the scheme.

(6) The communication exercise, should existing academies be pooled will be quite complex as many employers have limited understanding of the technical issues around valuing liabilities and treatment of deficits.

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 The Chair and Vice Chair and S151 Officer were consulted on the Fund's response before it was submitted.

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 - Business Support) 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	Mercer paper on consultation
Please contact the report author if you need to access this report in an alternative format	

Department for
Communities and
Local Government

Pooling arrangements for Academies within the Local Government Pension Scheme

Consultation

October 2013
Department for Communities and Local Government

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

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

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Contents

The Consultation Process and how to Respond

Basic Information

To:	This consultation is aimed at Academies, Local Authorities and Administering Authorities of the Local Government Pension Scheme.
Body responsible for the consultation:	The Department for Communities and Local Government
Duration:	This is a 6 week consultation which will conclude on 15 November 2013
Enquiries:	For enquiries and to respond to this consultation. Please e-mail Robert.ellis@communities.gsi.gov.uk
How to Respond:	When responding, please ensure you have the words Academy and the Local Government Pension Scheme in the email subject line. Alternatively you can write to: Local Government Pension Scheme – Academies and pooling in the Local Government Pension Scheme Department of Communities and Local Government 5/F5 Eland House Bressenden Place LONDON SW1E 5DU For more information, please see https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Freedom of information and data protection applicable to consultation

Representative groups are asked to give a summary of the people and organisations they represent and, where relevant, who else they have consulted in reaching their conclusions when they respond.

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

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

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

Overview

Topic of this consultation:	Arrangements for Academies to enter into pooling arrangements with the local authority.
Scope of this consultation:	This consultation seeks views on potential pooling arrangements, within the Local Government Pension Scheme Regulations, for Academies and Local Authorities.
Geographical scope:	England.
Impact Assessment:	Not required as there is no specific regulatory change being proposed.

Chapter 1

Introduction

Academies within the Local Government Pension Scheme

1. The Academies Act 2010 sets out the government's policy of improving education provision by encouraging the establishment of Academies that are independent of local authority control. There are more than 3000 Academies and the number will grow year on year.

2. Non teaching staff in Academies are eligible to join the Local Government Pension Scheme (the scheme) and the proprietor of an Academy is listed in Part 1 of Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008. An Academy is defined in the Regulations as a proprietor of an Academy within the meaning of section 579 (general interpretation) of the Education Act 1996, who has entered into Academy arrangements within the meaning of section 1 (Academy arrangements) of the Academies Act 2010.

3. Each Academy proprietor is a separate employer within the scheme and is set an individual employer contribution rate by the relevant scheme administering authority to secure sufficient funds to pay pensions to their non teaching staff.

4. In cases where a local authority maintained school converts to Academy status, staff members transfer from local authority employment to employment by the Academy or Multi-Academy Trust. The staff's pension rights are maintained during this transfer process. The Commercial Transfer Agreement between the local authority and the Academy or Multi-Academy Trust sets out responsibilities for Scheme liabilities. These arrangements can vary across local authorities. Commonly the ceding local authority will keep the liability for scheme members who are in receipt of benefits (pensioner members) and those that have deferred rights to benefits (deferred members). Academies will only have the liabilities for those staff transferred to their employment (active members). Under the Commercial Transfer Agreement, the local authority retains sufficient assets in the pension fund to fully meet all the liabilities of the pensioner and deferred members as there is no future local authority funding for these members. The remaining assets associated with the converting school are transferred to the new Academy. An actuary acting for the administering authority calculates the amounts to be transferred according to the standards and codes of practice of the actuarial profession.

5. The employer contribution rate set for the new Academy can be higher or lower than the rate for the ceding local authority and, in some cases the increase can be sufficient to act as a barrier to converting to Academy arrangements or introduce unexpected additional costs. The reasons cited for increased employer contribution rates are:-

    a) Differences in staff demographic between the local authority and the Academy. These variations result from separating the former school from the broader local authority group.

b) A changed forecast of investment returns between the date of the last Fund valuation in 2010 and the date when the Academy joins the scheme ie when its assets and liabilities are assessed as a new separate employer.

c) An Academy is a company limited by guarantee with charitable status and does not have the constitutional permanence of a local authority maintained school. In particular, prior to the Education Secretary's Minute to Parliament (see Chapter 2), administering authorities had concerns about how liabilities would be addressed should it ever have been decided to close an Academy for whatever reason. This has led to some local authorities being reluctant to enter into risk sharing arrangements with Academies. It also deterred some administering authorities from setting deficit recovery periods over a longer period of time which in some cases has led to higher employer contribution rates in the short term.

d) Some administering authorities assumed that Academies only have guaranteed funding for 7 years as this is the period of notice set out in the Funding Agreement between the proprietor of the Academy and the Secretary of State for Education. Academies do, in fact, have an open ended rolling funding agreement with the Education Secretary which includes a 7 year no fault written notice period.

6. The joint letter from the Secretaries of State for Education and Communities issued in December 2011 stated that should it be found that Academy arrangements are not proceeding such that their scheme costs remain stable, consideration will be given to the need for any regulatory measure to achieve this aim. While some administering authorities have implemented practical solutions to changes in the sector, it was considered that insufficient progress had been made to ensure the long term stability of scheme costs, with some Academies suffering, or at risk from, dramatic increases in employer contribution rates.

7. The Academy programme is a major Government policy to raise standards in education and Ministers consider that specific regulatory intervention might provide a more stable solution for the schools and Academies sector. To support any stabilising regulatory solution for Academies and address some concerns that an Academy may be of weaker covenant than a local authority maintained school, a guarantee came into effect from 18 July which means that the Department for Education will meet any outstanding scheme liabilities on the closure of an Academy Trust.

Pooling arrangements that can operate in the Local Government Pension Scheme

8. A pool is a mechanism for two or more employers to share actuarial assumptions and risks relating to participation in the scheme as an employer. The scheme regulations do not expressly provide for pooling pension arrangements but employers can be brought together to share costs and risks For example, if more employees than actuarially assumed receive benefits as a result of ill health retirements, there could be an

additional charge to that employer (see Reg 41 of the LGPS (Administration) Regulations)[1]. This can expose smaller employers to very high increases in pension costs and pooling arrangements that involve similar sized employers, serves to spread this risk across a broader pool and reduce the potential volatility of contribution rates for all those involved.

[1] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg41

Chapter 2

Rationale to introduce Academy and Local Authority Pooling Arrangements

9. Local authority maintained schools and Academies are public bodies with state funding. Local authorities retain a duty to provide sufficient school places for children, through maintained schools or academies. There is, therefore, a rationale for linking the two types of bodies for scheme purposes.

10. A more structured regulatory arrangement for creating pooling mechanisms, whereby risks and costs are shared between Academies and the local authority should reduce the volatility of Academies' employer contribution rates but there may be a number of ways to achieve this aim. This consultation offers some options for pooling but invites comments about how best stability of Academy employer contribution rates can be achieved.

11. Options for regulations include:
    a) requiring that pension arrangements for an Academy, or several Academies, and the ceding local authority are pooled together should the Academy want this; or
    b) providing that the Academy, or several Academies, and the ceding local authority should be pooled together without any choice between the parties; or
    c) providing that the schools sector – Academies and local authority maintained schools – are pooled together.
    d) providing pooling arrangements for Academies only.

12. An advantage of any compulsion between the parties is stability across the pool. Frequent dipping into and out of a pooling arrangement alters the profile of the pool membership and scheme actuaries would not be able to have certainty about who would be in a pool at any one time. This then increases risks and costs, not just for Academies, but across the whole pool. Compulsion could, however, increase the costs of some Academies as the pool might generate an employer rate that is higher than that currently set for the individual Academy. However, the benefit of pooling pension arrangements is that there is a sharing of risks eg the additional costs of having more ill health retirements than previously anticipated by the fund actuary. There are various ways that pooling arrangements can be implemented which affect the balance between the cost and risk sharing which the administering authority, with the advice of their fund actuary, needs to consider carefully.

How Academy and local authority pools might operate

13. Any pooling arrangement could have different characteristics and this might include a requirement that:-

a) to join or leave a pool, an Academy would need to notify the administering authority six months before joining and, if leaving the pool, six months before the date of a scheme valuation exercise.

b) An Academy could decide whether to remain in or to opt out of the pool after every second scheme valuation or some such specified period.

c) The fund actuary determines the assets and liabilities as if the pool was a single employer and assets and liabilities are apportioned between the different employers so that each had a proportionate share.

d) Each employer's contribution rate would be set so that, overall, the cost of benefits and any deficit would be recovered over the same period for all employers in the pool.

e) Employers within the pool could retain freedom to use their discretions to manage their workforce but, to ensure costs did not unfairly fall on other employers in the pool, the administering authority could make an extra charge on that employer if;
   - the employer increases pay rates for scheme members above the assumed level;
   - they have used their discretion to increase the total service of a member or award additional pension (Administration Regulation 40[2]);
   - if members becomes entitled to benefits on the grounds of ill health, redundancy, efficiency or flexible retirement (Administration Regulation 41[3]);
   - a contribution towards the administration of the pension fund is due under Administration Regulation 42[4];
   - if the administering authority has incurred additional costs resulting from the level of performance of the employer (Administration Regulation 43[5]);
   - if due to late payment interest is due under Administration Regulation 44[6].

14. It should be noted that Academies would still be bound by the requirements of the Education Funding Authority, including the need to provide Financial Reporting Standards 17 statements each year. Individual employers would still be responsible for the appropriate proportion of the pooled deficits.

Department for Education guarantee for the management of pension liabilities should an Academy be wound up.

15. It is important that all the parties in the pool should be aware of their responsibilities should they leave the pool or, indeed, cease participation in the scheme. It would not be acceptable to leave unmet pension liabilities in the pool for other members of that pool to pay for through their employer contribution rate.

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[2] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg40;
[3] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg41 ;
[4] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg42 ;
[5] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg43
[6] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg44

16. The Department for Education has provided a guarantee[7] to scheme administering authorities that, in the event of the closure of an Academy Trust,[8] any outstanding scheme liabilities will not revert to the relevant scheme administering authority. Providing these assurances will give administering authorities the confidence they need to treat academies equitably and ensure that there is no significant divergence in employer contribution rates upon academy conversion.

17. Where an Academy Trust closes, the Department for Education will ensure that the closure is effectively managed and would in the first instance expect the liabilities to be met from the Academy Trust's available assets on closure. The Secretary of State for Education has the power to determine how the remaining assets of an Academy Trust are disposed of which means that any outstanding Scheme deficit would then be met by the Department in full.

18. A Frequently Asked Questions document explain more about the guarantee is attached at Annex A.

Managing liabilities should a local authority maintained school close

19. If it was ever decided that a local authority maintained school should close, it would be the responsibility of the relevant local authority to manage the transfer of students and staff and defray any property, rights and liabilities (including scheme assets and liabilities) to a successor body where there is one. If there is no successor school where, for example, falling rolls means that there is no need for the school in the locality, the local authority remains responsible for any unmet pension liabilities in respect of that former local authority maintained school.

Next Steps

20. Depending on responses to this consultation and Ministerial decisions, any regulatory solution may impact on arrangements made to date for existing converted Academies i.e. how scheme assets and liabilities were apportioned at the point of transfer. There will need to be an assessment of how this would be managed under any pooling arrangement and officials in the Departments for Education and Communities will continue to work together on what, if any, changes might be needed to any Academy documentation including the Commercial Transfer Agreement and how pensions deficits are dealt with.

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[7] Minute to Parliament dated 2 July 2013 - http://www.education.gov.uk/schools/leadership/typesofschools/academies/la/a00204881/lgps

[8] the company which runs the academy and called an "Academy Trust"

Chapter 3

Questions for Consultation

Taking into consideration the issues and options set out above, the Department would be particularly interested in your views in response to the following questions.

The practical considerations of a pool

1. The proposal for this consultation is that stability of a converted Academy's scheme employer contributions will be best achieved by pooling the scheme arrangements of Academies and the ceding local authority. Is this the best way to achieve the stability needed? And, if not, what are the other solutions?

2. What bodies should be included in the pool: Academies and local authorities, Academies and local authority maintained schools, or only Academies? Please say what other arrangements would achieve this aim.

3. If pooling regulations are introduced, should an organisation have a choice about membership of the pool, and should this choice be permanent?

4. Should actuarial assumptions used for all employers in the pool be agreed at local level with expert advice from the fund actuary? Or should expert guidance be developed for use by each fund?

Effect of introducing a pooling regulation when many maintained schools have already converted to an Academy

5. What provisions might be needed to avoid any additional costs where transfers of assets and liabilities have already been made as a result of academy conversions?

6. If any administering authority has satisfactory arrangements already in place, or is in the process of implementing solutions that satisfy all parties, please could you provide a brief description of them? It is not the intention to disrupt successful local solutions, but rather to encourage the sharing of best practise which might best meet Ministers' aims of similar and stable employer rates when a maintained school converts to academy arrangements.

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Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

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AVON PENSION FUND

Robert Ellis
Local Government Pension Scheme
Department of Communities and Local Government
5/F5 Eland House
Bressenden Place
London SW1E 5DU

Telephone: 01225 395306

Email: liz_woodyard@bathnes.gov.uk

Date: 13 November 2013

Dear Robert

Academies and pooling in the Local Government Pension Scheme

Thank you for the opportunity to respond to the consultation on pooling arrangements for academies within LGPS funds.

The driver of this consultation is that a *few* funds have prima facie not treated academies fairly in setting the contribution rates for schools converting to academy status. However, the Avon Pension Fund, advised by our Actuary has adopted a fair and consistent approach, even though we were aware of the potential financial risks of such an approach. The letter of guarantee from the DfE has provided some comfort in terms of risk mitigation to the approach adopted but is still short of an absolute guarantee.

Whilst this Fund's approach is fair and consistent to all the employers in the Fund and thus protects all employers in this Fund equally, there may be other reasons why other funds have taken a different approach and one which may it may not be deemed fair and consistent to the government. However given each Fund's statutory responsibility for funding and risk management, the treatment of academies should be left to the discretion of the administering authority who has responsibility, not to particular government departments, but to all the employers and members within the fund.

When converting to academy status the Avon Pension Fund treats the new bodies as it does all other employing bodies. The future service contribution rate payable reflects the membership profile of that body, using the same actuarial assumptions for the rest of the Fund. On conversion, the new academy is allocated a deficit from its ceding local authority which is based on relative payrolls. The deficit recovery period is set at the same as that of the ceding authority. Thus any differences between the initial contribution rate and deficit payments will be due to the membership profile of the new body.

This is reasonable to apply as otherwise the academy would be subsidising the council or vice versa.

At the first valuation post conversion, the academy's position is revised in line with the Funding Strategy Statement (FSS), as are all bodies within the Fund. The overriding objective of the Avon Pension Fund's FSS is to achieve stability in contribution rates. Our FSS sets out different maximum deficit recovery periods for similar groups of employers based on covenant risk. The maximum deficit recovery period for academies cannot exceed that of their ceding employer i.e. they are not treated differently. This policy has been enabled due to the letter of guarantee from the DfE. Had this not been forthcoming, academies would have been assessed with a weaker covenant and the maximum recovery period allowed would have been far shorter.

The DfE has to bear in mind that the majority of employers including academies find pensions matters very challenging and not easily understood. Given that many funds are already putting in place additional resources to deal with the issues arising with new scheme employers, further complicating matters with inequitable pooling arrangements and administrative arrangements would seem to be an unnecessary burden on the tax payer. It would be better if the DfE issues some best practice guidance for those few funds that are not viewed as treating academies equitably. This could be easily achieved via the new national scheme advisory board framework.

Taking the questions posed in the consultation the Avon Pension Fund's views are as follows:

1. The proposal for this consultation is that stability of a converted Academy's scheme employer contributions will be best achieved by pooling the scheme arrangements of academies and the ceding authority. Is this the best way to achieve the stability needed? And, if not what are the other solutions?

   As explained earlier, existing arrangements applied by many funds already treat academies fairly on conversion and do not give rise to "instability" for the academy. In this respect we do not agree with the premise of this consultation.

   Whether pooled or not, funds and actuaries will still have to keep individual employer data, cashflows and asset/liabilities in order to provide IAS 19 calculations.

   Fundamentally, we believe that each scheme employer should be responsible for its own financial position, and therefore pooling arrangements should not be the norm. The key to operating this arrangement is the fair and transparent allocation of deficit at inception and the funding principles applied in light of the DfE guarantee. Being consistent in the allocation/treatment of deficit with the contributions being paid by the LEA schools will give rise to stability at conversion but not necessarily on an on-going basis as contribution requirements will, in part, be determined by the experience of the Academies themselves.

   The issue becomes more complicated as academies merge or further divest themselves of services which in turn become employers within the *scheme. Pooling in these circumstances would add further levels of complication amidst a merry go round of cross subsidy*

2. What bodies should be included in the pool: Academies and local authorities, Academies and local authority maintained schools, or just academies? Please say what other arrangements would achieve this aim?

   As local authorities have no funding relationship with academies and academies have opted out of LEA control, academies should not be pooled with local authorities or local authority schools, in order that there is no cross-subsidising of pension costs (especially where there are significantly different trends in payroll growth) between the separately funded organisations. Therefore, the pooling arrangements should only include academies.

   If LEA schools are pooled with academies there may be practical implications for payroll if different employer contributions rates need to be applied and for funds in maintaining separate member records. This would mean extra administration costs and the creation of historic records. It would require agreement over the funding rules in the event there was a call on the DfE guarantee which does not apply to LEA schools.

3. If pooling regulations are introduced, should an organisation have a choice about membership of the pool and should this choice be permanent?

   *If regulations introduce pooling, organisations should **not** have the choice as it would be impractical to manage. However, if they are given the right to choose, then the choice made should be permanent. The pool should have clearly defined rules of operation, especially around exits. Bodies opting in and out of pooling arrangements will add significant extra work for the actuary and fund in managing entries/exits for the pool.*

   Another reason for not allowing the academy to choose is that employers often have limited understanding of actuarial issues and will opt for the approach that generates the lowest initial contribution rate. This could cause the costs for existing pool members to rise as those with higher "standalone" contributions elect to join the pool.

4. Should actuarial assumptions used for employers in the pool be agreed at local level with expert advice from the fund actuary? Or should expert guidance be developed for use by each fund?

   This should be left to local funds to ensure the underlying assumptions are consistent with other bodies in the fund. If determined centrally and not in line with other bodies within the fund, other bodies or groups of bodies would be entitled to having their own tailored assumptions.

   *If pooling is introduced, a **pooling agreement** would need to be in place that would set out all parameters for participation, including which discretionary pension costs are outside the pool, i.e. costs which are within the control of the pool member. These could include additional costs of redundancy on grounds of efficiency, pay awards higher than actuarial assumption for the pool. This would also need to be underwritten by the DfE on behalf of the pool, as opposed to the pension fund, since the fund* *would look to recover any shortfall in contributions if an organisation in a pool collapsed.*

5. What provisions might be needed to avoid any additional costs where transfers of assets and liabilities have already been made as a result of academy conversions?

   This is an issue that the actuaries are best placed to answer.

   Retrospective changes to existing deficits could be very complex to achieve, communicate and implement as there will inevitably be winners and losers from the process. ***All costs should be met by the DfE on behalf of the academies if the basis for change is to provide academies with "stability".*** *Administering authorities, local authorities and their LEA schools should not be responsible for the additional costs if implemented.*

   Our main concern would be with re-allocating existing deficits between academies and ceding councils. If the re-allocation results in significant increases for either party, then it would be unreasonable to immediately increase the deficit payment contribution given there will not be a parallel transfer of funding. This increases the Fund's overall risk.

   Point 13e in the consultation document highlights the significant complexity that will occur in pooling arrangements which would bring a disproportionate administrative cost for funds in monitoring the pool members, engaging with employers and risk management, given the significant number of academy conversions and service outsourcings taking place.

6. If any administering authority has satisfactory arrangements already in place, or is in the process of implementing solutions that satisfy all parties, please could you provide a brief description of them? It is not the intention to disrupt successful local solutions, but rather to encourage the sharing of best practise which might best meet Ministers' aims of similar and stable employer rates when a maintained school converts to academy arrangements.

   We believe our existing arrangements treat academies fairly as explained previously. At a time of severe cost pressures, we do not support any costly change in regulations merely to address an issue that a minority of funds have created. The main beneficiaries will be the actuaries in terms of the significant fees they will receive for implementing any changes.

Yours sincerely,

L Woodyard.

Liz Woodyard
Investments Manager

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**13 December 2013**	**AGENDA ITEM NUMBER**
TITLE:	**UPDATE on LGPS 2014 & CALL FOR EVIDENCE**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – LGPS 2014 – [Changes to Benefits] [Transitional] Protections and Councillors [TBC]		

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], All consultations on draft regulations have been reported at previous committees.

1.2 Actual Regulations outlining the benefit structure going forward were released on 20 September 2013.The transitional regulations dealing with protections for the current scheme benefits and also including the future of Elected Member's participation within the scheme were expected before the end of November 2013 but DCLG have recently indicated a revised date around mid-December. The implementation date for the new scheme is 1 April 2014.

1.3 As reported at the September Committee, there has been a delay in the production of the actual regulations which has restricted the period required for both administering authority and scheme employers to prepare processes and communications.

1.4 At the meeting officers will give a verbal update on any late developments on LGPS 2014.

1.5 There has been much analysis and debate surrounding the administration and investments costs of LGPS funds, especially on the variance in cost base between individual funds following the Call for Evidence earlier this year. Section 6 updates the Committee on the latest analysis and debate on this issue.

2 RECOMMENDATION

That the Committee:

2.1 Notes the current position regarding the changes to the LGPS in 2014.

2.2 Notes the information on administration and investment costs.

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: Regulations issued

4.1 It was intended that the actual regulations would have been available in the Spring of this year. However as a result of various consultations and incorporating the effects of the Public Sector pensions Act 2013, there has been a delay in producing the actual amending regulations.

4.2 The actual amendment regulations setting out the new scheme details going forward from 1 April 2014 were finally issued on 20 September 2013. The main changes going forward are set out in Appendix 1.

4.3 The Transitional regulations dealing with accrued benefits from previous legislation up to 31 March 2014 were expected to be out by the end of November 2013 but have been further delayed until sometime around the date of this committee. There are a number of issues including Elected Member membership that needs to be sent to Ministers before it can be laid in Parliament. If these regulations are laid before the meeting, details will be outlined in with the verbal update.

5 LGPS 2014: Other Developments

5.1 As a result of the new scheme coming into effect the production of Annual Benefit Statements for 2014 will not require a projection to retirement age as at the statement date there will be no potential future benefits under the current regulations at that point.

5.2 Currently there is a requirement to send out Annual benefit statements by the end of September. The new scheme has brought forward this requirement so that the statements from 2015 onwards are issued before the end of August.

5.3 The Pension section is working in various ways with local and national groups to achieve several administering and communication solutions.

6 LGPS Investment Costs

6.1 The significant area of focus within the recent Call for Evidence on the future structure of the LGPS was on investment management costs of LGPS funds. The LGPS has £167bn assets in total, and has annual investment management costs of £506m, i.e. costs of 30p for every £100 managed (based on published data).

6.2 There has been a lot of analysis and debate surrounding this issue, especially on the variance in cost base between individual LGPS funds. The paper from the Centre for Policy Studies "The LGPS: Opportunity Knocks" (November 2013) is the latest such analysis on the state of the LGPS. Much of the analysis (including that of the Centre for Policy Studies) is based upon the only data available across all LGPS funds: that supplied by funds in their annual returns to DCLG (SF3 returns) and in Annual Reports produced by individual funds. There are several shortcomings of the research based on these data sets:

a) The SF3 data reports only costs and fund size and therefore any conclusions drawn on the comparative cost of individual funds do not reflect any other factors that have significant implications for variance in costs. These include factors such as what asset classes the fund is invested in, and the implementation structure (mandates) of those investments - for example a fund that invests in listed equities on an internally managed passive basis will incur significantly lower costs than the same size fund that is invested in externally managed active private equity.

b) Data reported by individual LGPS funds in their annual reports is not always reported on a comparable basis - for example some LGPS funds include the fees paid on pooled funds in their accounts as investment management fees, whereas others simply include net returns on investments, which means that fees on pooled funds are omitted from the fee analysis in those cases (for most pooled funds, the fees are deducted from the fund value and are not invoiced directly to investors).

c) Neither seeks to evaluate the added value i.e. the net impact upon returns after fees, they only focus on monetary costs.

d) Neither do the costs reflect transitioning as funds adjust their investment strategy to global economic conditions to better manage risk, moving between asset classes and investment managers. As the strategies to manage risk and volatility are often more complex (e.g. inflation and interest rate hedging, illiquid & uncorrelated assets such as infrastructure) the fees are often higher than the traditional mandates. In addition, these are often implemented using overlay strategies (do not alter the underlying portfolio of assets) which add to the overall fees.

6.3 One of the objectives of the Shadow National Advisory Board is to produce consistent disclosure of all costs (administration and investments) incurred by Funds which will address some of the shortcomings of current published data.

6.4 Recently a number of the Fund’s managers have reduced fees in the light of increased competition and pressure on fees. The market is also starting to see managers offering specific fee discounts to LGPS funds by offering specific LGPS share classes.

Investment Cost Benchmarking Study

6.5 The Fund has participated in a benchmarking study carried out by CEM Benchmarking. The study aims to benchmark costs of LGPS funds with their peers and with private pension funds globally. The study analysed a universe of 355 pension funds globally, ranging in size from £27million to £408 billion. The median size was £2.9bn a very similar size to APF.

6.6 This study is probably the most comprehensive attempt to date to compare investment related costs on something approaching a comparable basis. The study requested detailed costs and fees on all individual investment mandates and undertook due diligence with funds so that disclosures were consistent. They used default fees in only 2 areas - for underlying funds in fund of hedge fund portfolios and real estate. They also omitted performance fees on private assets as the reporting is very complex and dependent on the stage of the investments. The study analysed the results for the 2012 calendar year only.

6.7 Key highlights from the study with reference to the Avon Pension Fund are as follows:

a) Value added measures the value above that generated if the Fund was invested on a passive basis and so evaluates the contribution of active management after costs. **APF's added value was +1% compared to the global median of +0.5%.** This analysis is supported by the Fund's own performance data which shows the value added by active managers was the major contributor to outperformance of the strategy over each of the last 3 years.

b) Total investment cost includes asset management costs, oversight, custody and other costs, but excludes transaction costs, private asset performance fees and actuarial fees. APF total investment cost was 47.2 basis points (bps), marginally below the global median of 48.6 bps.

6.8 The benchmarking exercise created a 'benchmark fund' for APF based on funds of a similar size and asset mix but not taking into account the method of implementation. Analysis showed the benchmark fund cost of 55.3bps, 8.1bps higher than actual APF costs. The difference between the fund and benchmark result from:

a) extent to which the fund uses a higher cost or lower cost implementation 'style' (internally managed portfolios are generally less expensive than externally managed, and passive management is less expensive than active management)

b) whether paying more or less for asset management, oversight and custody compared to similar sized funds with similar style and asset mix. Obviously there can be many variables that affect this including the level and standards of governance a fund applies and the "value" it places on risks to be managed which can vary even amongst mandates of a similar style and asset mix.

6.9 Specifically, the savings against the 'benchmark fund' arise from:

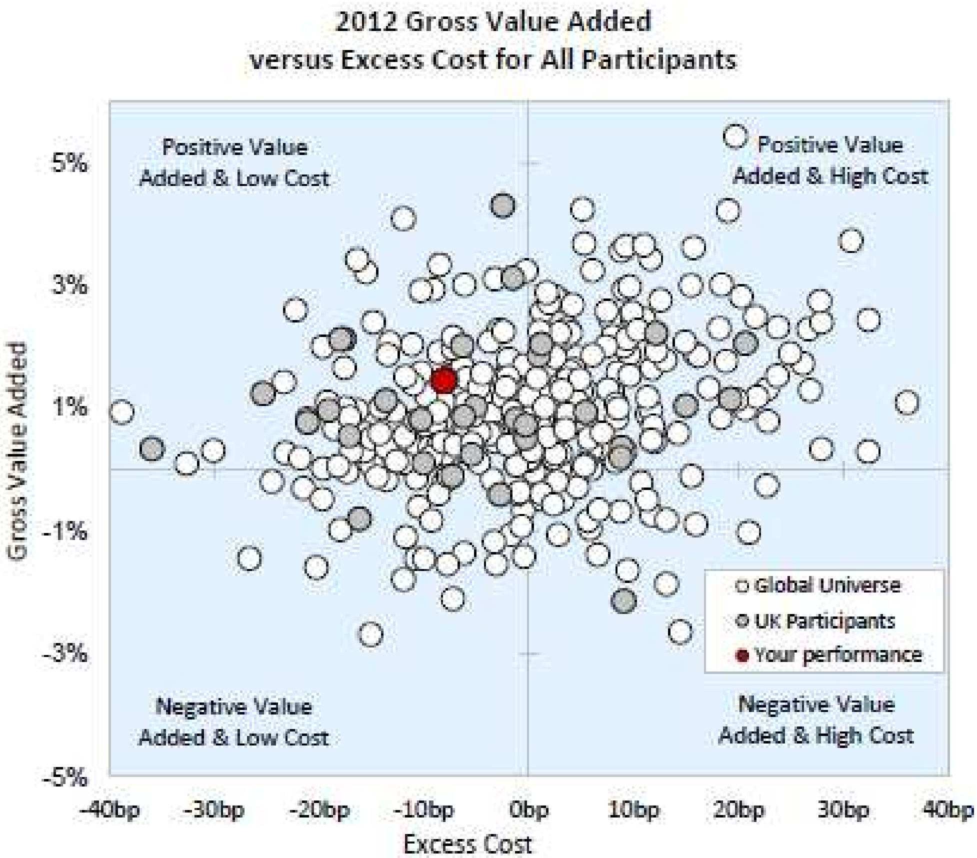
a) Implementation style – APF has a lower allocation (52%) to externally managed active mandates compared to the global median (68%) and LGPS median (70%). APF has a higher allocation (47%) to externally managed passive mandates compared to the global median (19%) and LGPS median (23%). Both these characteristics generate savings versus the benchmark fund.

Note: the areas where APF was more expensive versus the benchmark fund were in the lower use of internally managed funds, as APF manage no assets internally, and the higher use of the fund of funds structure (APF uses fund of funds structure for hedge funds and property exposure which is relatively more expensive than other structures).

b) Investment costs by asset class – APF's fees for passively managed mandates management are significantly lower than the global median and LGPS median.

c) Oversight, custody and other costs – APF's total costs of 2.8bps compared to the global median of 4.7bps. This saving is largely due to the lower custody costs incurred by the Fund due to its significant allocation to pooled funds. Obviously these costs are reflected in the net asset value of the pooled funds.

6.10 **Cost Effectiveness** - It is important to note that being high or low cost is not that meaningful in itself. The important question is whether the Fund is receiving sufficient value for any excess cost. The analysis of value added and total investment costs highlighted above is combined to evaluate overall cost effectiveness which is shown in the chart below. This concludes that APF has achieved a positive value added and at a lower cost than predicted by its benchmark fund and also shows how APF compares to the universe of funds analysed. This demonstrates that in achieving value added, the Fund has not had to incur costs at or above the benchmark fund costs.



6.11 The Fund recognises that further analysis is necessary and will continue to participate in this analysis as it develops to ensure meaningful comparisons are available to inform the on-going debate.

6.12 **Call for Evidence:** there were over 130 responses to the Call for Evidence. The current timescale of events on this going forward are as follows:

By 2/12/2013	Responses now being analysed by Shadow Board / LGA
By 9/12/2013	Hymans Robertson independently reporting to DCLG
On 16/12/2013	Shadow Board meeting to consider both sets of analysis
By end of year	Shadow Board recommendations to go to DCLG then on to Ministers
Spring 2014	Consultation from DCLG on flight of travel going forward

7 RISK MANAGEMENT

7.1 No specific issues to consider.

8 EQUALITIES

8.1 None as this report is primarily for information only.

9 CONSULTATION

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

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider are contained in the report.

11 ADVICE SOUGHT

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

Contact person	Alan South Technical Manager (Tel: 01225 395283) Liz Woodyard, Investments Manager (Tel: 01225 395306)
Background papers	*Regulations and accompanying notes;* *Call for Evidence;* *Centre for Policy Studies: LGPS Opportunity Knocks (2013)*
Please contact the report author if you need to access this report in an alternative format	

Item 10 Appendix 1

LGPS 2014 – Changes to Scheme [Benefits]

• **Benefits**
Not Final Salary but Career Average
New Calculation basis [Build up / accrual]
All actual pay used to calculate pension
Actual pay x 1/49 = Pension built up each year {Calculation example attached]
Increased in line with inflation [subject to Treasury Order each year]
• **Member Contributions**
9 Banded Rates between 5.5% and 12.5% [Bands adjusted by CPI each year]
Average member contributions 6.5%
Deducted from all actual earnings including all overtime
Majority of members will pay either the same as currently; some will pay less
• **Pension Accounts: including**
Pension build up on membership of the LGPS since April 2014
All annual CPI revaluations
Previous LGPS benefits on service prior to 2014: calculated on final year's pay
Tax free lump sum accrued prior to 2008: calculated on final salary
Transfers into the LGPS
• **Temporary reduction in contributions: 50/50 Option**
pay half contributions - get half member's pension
but get full death in service and ill health benefits
Re-instated into main section every 3yrs in conjunction with auto enrolment
• **LGPS 2014 – Pension Payable after leaving scheme from**
Normal Retirement Age [NRA] = State Pension Age
Optional – between Ages 55 and 75 [Actuarial Reduction if before NRA]
Redundancy and efficiency cover provided from age 55
Ill health retirement at any age (subject to two years membership)

LGPS 2014: Career Average [Assumed CPI 3%]

Year	Pensionable Pay	Accrual Rate	Pension
1	£10,000	X 1/49	£204.08
2	£10,500	X 1/49	£214.29
3	£11,000	X 1/49	£224.49
4	£11,500	X 1/49	£234.69
5	£12,000	X 1/49	£244.90

yr 1		£204.08
CPI	3%	£210.21
yr 2		£214.29
Accrued		£424.50
CPI	3%	£437.23
yr 3		£224.49
Accrued		£661.72
CPI	3%	£681.57
yr 4		£234.69
Accrued		£916.26
CPI	3%	£943.75
yr 5		£244.90
TOTAL		£1,188.65

[Under Current Scheme 5 x 1/60 x £12,000 = £1,000.00]

LGPS 2014 – Changes to Scheme [Protections / Councillors]

If available to be included in verbal report

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**13 DECEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Minutes from Investment Panel meeting held 15th November 2013

EXEMPT Appendix 2 – EXEMPT Minutes from Investment Panel meeting held 15th November 2013

EXEMPT Appendix 3 – Summaries of Investment Panel meetings with Investment Managers

EXEMPT Appendix 4 – Diversified growth fund mandate: Appointment decision

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing 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 formal Investment Panel meeting since the September 2013 committee meeting, on 15 November 2013. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in the Appendices. The Panel also held a Selection Panel meeting and a Meet the Managers Workshop during the quarter.

1.3 The recommendations and decisions arising from these meetings are set out in paragraph 4.1.

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meetings held on 15th November 2013

2.2 the recommendations and decisions made by the Panel this quarter as set out in 4.1

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 in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 The following recommendations and decisions were made by the Panel this quarter:

(1) Investment Panel Meeting 15 November 2013: The Panel agreed the policy framework for infrastructure to be recommended to Committee (see agenda item 12).

(2) Meet the Manager Workshop, Schroder Global Equity, 15 November 2013: Following changes to the team and a period of under-performance the Panel will continue to closely monitor performance to evaluate the impact of the recent changes made by the manager. A summary of the meeting is provided at Exempt Appendix 3.

(3) Selection Panel meeting 3 October 2013: The Panel appointed Barings and Pyrford to manage the Fund's diversified growth allocation. Exempt Appendix 4 provides a brief summary of the decision.

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 – Business Support) 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

Friday, 15th November, 2013, 2.00 pm

Members: Councillor Charles Gerrish (Chair), Councillor Mary Blatchford and Councillor Ian Gilchrist, Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor)
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)

34 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

35 DECLARATIONS OF INTEREST

There were none.

36 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt and Roger Broughton.

37 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There was none.

39 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

40 MINUTES: 4TH SEPTEMBER 2013

The public and exempt minutes of the meeting of 4th September 2013 were approved as a correct record and signed by the Chair.

41 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2013

The Assistant Investments Manager presented the report. He said that the Fund had increased by 2.6% over the quarter and had outperformed the strategic benchmark over the quarter and the year. Of the 5 managers rated as Amber in the RAG report (Exempt Appendix 3) 3 had continued to improve, while 2 had deteriorated. He drew attention to the update on the implementation of the investment strategy contained in section 4 of the report. Rebalancing had taken place in October, and overweight equity had been reduced and the proceeds reinvested in corporate bonds.

A Member questioned the statement in paragraph 3.8 at the bottom of agenda page 14 that the issue of the Fund being practically the only investor in the SSgA European fund “was last addressed by the Panel in November 2011”, whereas in fact it had appeared regularly on agendas. The Investments Manager replied that it was not a new issue, though it had been monitored constantly. The Chair agreed with the Member that the issue had been monitored by the Panel and that the Panel was satisfied with the situation.

Mr Finch and Mr Sheth commented on the JLT investment report. Mr Finch noted that MAN was struggling, vindicating the Committee’s decision to disinvest from them, even though JLT had advised at the time holding and watching them a little longer. He said that there were very few negatives over the quarter, apart from emerging markets. Overall managers were doing pretty much what the Fund wanted them to do. Mr Sheth commented on the performance of individual managers.

The Chair asked about the impact of the fall in the dollar. Mr Sheth said that it made some countries’ exports less competitive. Mr Finch, however, said that it had to be remembered that in Asian countries a high proportion of the population was under 25: growth in domestic demand could offset poorer export performance.

A Member noted that Blackrock appeared in the middle of the charts on page 13 of JLT’s report, which seemed natural enough since almost half the Fund was invested in them. Mr Finch said that was how Blackrock was intended to perform and they were performing their expected role. The Blackrock portfolio comprised long-term assets which were fairly static. The Member asked whether it was typical for a local authority pension fund to have this type of dominant portfolio. The Investments Manager replied that most, but not all, funds had a passive fund, which helped manage overall investment costs.

The Independent Adviser suggested that the structure of JLT’s report should reflect the new investment structure of the Fund. Mr Finch agreed that this was a good idea.

Before discussing the exempt appendices, the Committee **RESOLVED**

> “that 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 the duration of the discussion of exempt appendices, 3, 4 and 5 of 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.”

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

42 INFRASTRUCTURE

The Investments Manager presented the report. The Panel was being invited to approve the proposed policy framework. She reminded Members that it had been agreed to take the issue to the full Committee, because Infrastructure would constitute a new asset class. Mr Finch would lead a briefing session before the December meeting of the Committee. There were many different ways of investing in infrastructure, so it was proposed to delegate as much of the detailed decision making to officers and the Panel as possible. If the framework was too prescriptive it would prevent the Fund from taking advantage of available opportunities. Infrastructure was not like the Diversified Growth Fund or Emerging Markets where a fairly tight specification could be drawn up in advance. Mr Finch agreed that infrastructure was a broad category with many access routes. What was the point of having an infrastructure asset class? The answer was to take advantage of its different characteristics, which would provide additional diversification and an ongoing income stream.

The Chair said that there a number of issues to be considered. One was whether to invest in listed or unlisted companies. The other was UK versus global. There seemed to be far greater infrastructure opportunities outside the UK. A Member noted that one of the things the Fund was looking for was UK inflation protection, which might be easier to secure from UK rather than global assets. The Chair said that a third issue was whether infrastructure investment should be done directly in individual projects, or through a fund of funds structure. The Investments Manager said this would not be specified in advance; a tender would be issued and submissions reviewed. Mr Finch said that an important factor would be the speed that funds were able to make investments; the aim was to get projects going and to start earning returns as soon as possible.

A Member asked about the tender process to be followed. The Investments Manager replied that a significant issue was whether to go through the Official Journal of the European Union (OJEU) process or not. The OJEU process imposed a number of conditions that may restrict the opportunities. The Member said that an issue she would be concerned about would be the level of debt in particular projects. The Assistant Investments Manager suggested that leverage was an inherent part of infrastructure projects but most pooled funds are not leveraged at the fund level. The Member, however, thought that the protection against interest rate changes was required.

A Member raised the possibility of reputational risk, for example through investments that harmed the environment. The Investments Manager responded that once a manager had been appointed, it would not be possible to control what they invested in. The Committee could only exercise control at the tender stage and through the due diligence process. The Head of Business, Finance and Pensions suggested that environmental regulation was so strict that there was little to fear, but the Member felt that this did not apply in emerging markets. The Investments Manager responded that the Fund would not necessarily need to invest in infrastructure in emerging markets to achieve its objectives. She suggested that there could be a discussion with the Panel on how to weight different aspects in the tender evaluation process.

A Member noted that a pension fund was a major investor in the Bath casino project. The Investments Manager replied that the Fund would only be able to invest directly in a limited number of projects, and so would not get the diversification that was desired by the direct investment route. Skilled investment managers experienced in structuring deals and finance were also required to achieve the best returns.

The Chair wondered whether having an investment partnership with other pension funds would give extra bargaining power. Mr Finch suggested that a company could be created as a joint investment vehicle. Alternatively agreement could be reached about collaborating at the tender stage, so that data gathering would only have to be done once by one of the partner funds.

The Chair wondered how the rate of return should be specified, as a percentage or linked to inflation. Mr Sheth said that it could be specified in a number of ways.

At the conclusion of the discussion, it was **RESOLVED**

1. to recommend that proposed policy framework as amended should be presented to the Committee for approval at the December 2013 committee meeting;

2. To delegate the tender process to officers who will consult the panel as required.

43 WORKPLAN

RESOLVED to note the workplan.

The Assistant Investments Manager asked Members to note that, since it had been agreed to meet each of the Fund's managers every two years, it would be necessary to have more workshops either immediately before or after meetings.

The meeting ended at 3.52 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-1584-13

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 13 December 2013

Author: Matt Betts
Report Title: Investment Panel Activity Appendix 1 – Minutes from Investment Panel meeting held 15th November 2013 EXEMPT Appendix 2 – EXEMPT Minutes from Investment Panel meeting held 15th November 2013 EXEMPT Appendix 3 – Summaries of Investment Panel meetings with Investment Managers EXEMPT Appendix 4 – Diversified growth fund mandate: Appointment decision

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.

Bath & North East Somerset Council

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 appendices contain 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 appendices also contain 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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of the Local Government Act 1972.

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**13 December 2013**	**AGENDA ITEM NUMBER**
TITLE:	**INFRASTRUCTURE INVESTMENTS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – JLT Infrastructure Report		

1 THE ISSUE

1.1 The revised investment strategy allocates 5% of assets to infrastructure within the “growth” or return seeking portion of the Fund. The allocation is funded by a reduction in the allocation to hedge funds.

1.2 The Investment Panel have received training and considered advice from the investment advisor and a practitioner and are recommending the proposed infrastructure policy framework to the Committee for approval. There will be a pre-Committee meeting session for Committee members that wish to understand JLT’s report in greater detail.

2 RECOMMENDATION

That the Committee

2.1 **Agrees the proposed policy framework (in section 6).**

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2013/14 budget for investment advice relating to investing in infrastructure.

4 BACKGROUND

4.1 The Fund's revised investment strategy agreed in March 2013 included a new allocation to Infrastructure of 5% of Fund assets.

4.2 An allocation to infrastructure meets the Fund's investment objectives as follows:

(1) Provides a source of returns as part of growth portfolio

(2) Reduces risk and increases diversification of returns within the investment portfolio

(3) Provides predictable income with a link to inflation

(4) Can generate income to meet the Fund's cashflow requirements

4.3 The proposed framework identifies how the investment in infrastructure should be structured to best achieve these objectives, and represents the start of the process to implement the allocation to infrastructure.

5 INVESTING IN INFRASTRUCTURE

5.1 JLT's report at Appendix 1 restates the role of infrastructure in the Fund, the characteristics of infrastructure investments, how investors can access infrastructure investments and the issues to consider.

5.2 The report recommends the framework as set out in Section 6 below.

5.3 It should be noted that an investment in Infrastructure attracts higher levels of manager fees than other more traditional asset classes, as the process of making investments in unlisted infrastructure is more resource intensive than equity or bond mandates. Expectations for fee levels are discussed in JLT's report.

5.4 The proposed framework delegates all decisions to invest in individual infrastructure assets or projects to the appointed investment manager. The investment manager will decide whether the Fund invests in local infrastructure projects, determined by any such project meeting the investment criteria set by the manager. The manager's evaluation of all projects will be based on the risk return characteristics of each project and the role each project plays in the portfolio to diversify and manage overall risk. For this reason, there is no specific allocation for investment in local infrastructure.

5.5 Infrastructure is potentially an asset class for which environmental, social and governance ('ESG') factors form an intrinsic part of the investment analysis of each particular project. For example, construction is expected to utilise the best technology to ensure efficient buildings complying with latest environmental regulations – not doing so represents certain risks to the portfolio. Indeed, many infrastructure projects address ESG issues such as climate change by investing in the upgraded technology. The tender evaluation process will assess the extent to which a manager incorporates ESG factors into their analysis. Therefore a specialist ESG fund is not required to ensure these factors are considered.

5.6 Leverage is an inherent part of the financial structure of many infrastructure projects and is expected to be used at the asset level. The extent to which managers assess the risks associated with the amount of leverage employed in the underlying infrastructure projects will be evaluated in the tender process. In contrast some fund managers may use leverage at the fund level for operational reasons or to increase returns. The Fund would not invest in a fund where the manager seeks to generate returns by using leverage at the fund level.

6 PROPOSED POLICY FRAMEWORK

6.1 To meet the strategic objectives of the Fund, the proposed investment in infrastructure should incorporate the following characteristics:

(1) Target a return of gilts +2.5% p.a., as set out in the SIP; (this is currently equivalent to a 7% return p.a. over the long term)

(2) Invest in an unlisted fund investing in unlisted infrastructure assets, based on the low correlation with equity markets and to take advantage of the illiquidity premium;

(3) Implement a global mandate giving the infrastructure manager the discretion to select where investments are made (geographically) to take advantage of all opportunities based on the risk/return characteristics of each deal. It is expected that the majority of exposure will be in developed markets and in core investments.

(4) Enable investment across core, value-add and opportunistic assets to ensure a steady and predictable yield whilst still meeting the return target of gilts +2.5%;

(5) Diversification across sectors to reduce sector concentration risk within the portfolio;

(6) Allow greenfield investments in addition to brownfield in order to meet return target of gilts +2.5% p.a.

(7) Allow debt to be considered under manager discretion for effective risk management of the portfolio

(8) No leverage at the fund level to enhance returns (accepting that a small amount of leverage maybe required over short term periods for operational reasons). Evaluate whether an appropriate limit on use of leverage in underlying investments is necessary or indeed feasible (especially if investing via pooled funds).

(9) Preference for one manager to manage the whole allocation but retain flexibility to appoint two managers if this is necessary to achieve the spread of investments needed to meet strategic aims. Invest in either in a direct fund structure or a fund of funds structure

(10) The tender process will evaluate how each manager manages the various risks associated with infrastructure investing including financial (for example leverage), ESG, regulatory, and reputational risks, as well as how they select investments and allocate geographically.

7 IMPLEMENTATION ISSUES

7.1 **Tender Process:** As infrastructure investing is often implemented via a private investing model, the investment may be made via pooled funds, which would mean OJEU requirements are not applicable. The flexibility of a non-OJEU process could be beneficial in this instance where it will be necessary to evaluate a broad range of potential approaches to investing. In addition, the Fund will want to consider all fund raising opportunities, not just those funds raising funds at the time of the tender. However, regardless of whether it is an OJEU process or not, the Fund will apply the same level of rigour to the tender analysis and evaluation.

7.2 **Potential collaboration:** In addition, Officers will consider the potential to collaborate with other LGPS funds that are looking to invest in infrastructure with a view to sharing some of the costs of the selection process. Any collaboration will not impact the mandate specification or evaluation criteria chosen by the Fund.

7.3 **Implementation:** Implementation of the tender process will be delegated to Officers and the Investment Advisor, and the Investment Panel which will be involved in the tender and selection process as required, given the specific characteristics of the asset class.

8 RISK MANAGEMENT

8.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

9 EQUALITIES

9.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

10 CONSULTATION

10.1 N/a

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 This report is for information only.

12 ADVICE SOUGHT

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

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

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Avon Pension Fund

Infrastructure concept report

Contents

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1 Introduction

This report has been provided for the Avon Pension Fund ('the Fund') by JLT Employee Benefits ('JLT') following the investment strategy review earlier in 2013 which resulted in the agreement that an investment in infrastructure should be made, targeting 5% of the Fund's overall portfolio. The purpose of this report is to restate the rationale for including infrastructure within the Fund's investments, and explain the characteristics of the various options available within the infrastructure universe.

We believe that infrastructure assets are a genuine alternative to global equities and diversified growth funds ('DGFs') as part of a pension scheme's growth strategy, and should be embraced in a disciplined framework to form a core part of a pension scheme's overall investment strategy. The diversification away from typical equity markets and the predictable, index-linked cashflows that are available from infrastructure investments have attracted inflows from institutional investors. The return profile is also particularly attractive to those defined benefit pension schemes which have/are expected to become cashflow negative in the near future, such as many of the Local Government Pension Schemes ('LGPS').

The Fund does not currently invest in infrastructure and so an allocation will diversify its growth assets from current holdings in UK and overseas equity funds as well as fund of hedge funds and property alongside the new allocation to DGF's. Infrastructure is evolving as an asset class and will continue to evolve over time and any approach taken by the Fund will need to take this into account. We would also refer you to our glossary of terms that are specific to infrastructure investing in section 7.

Throughout this report, we will be referring to infrastructure equity – the real assets; infrastructure debt – the bonds that are issued to finance the purchasing of the real assets; and, listed equity – the assets available for purchase on stock markets. For the avoidance of doubt, when equity is referred to throughout the report, it will be pre-fixed with either infrastructure or listed.

Summary of conclusions

During the investment strategy review that was conducted in 2012 and 2013, the following extracts from the Fund's Statement of Investment Principles ('SIP') were highlighted:

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.
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.

Source: Avon Pension Fund Statement of Investment Principles

When looking to appoint an infrastructure manager, it is important that the objectives of the appointed manager(s) are consistent with the objectives highlighted in the SIP. In reference to these objectives, this report concludes that:

- **Expected return:** An investment in infrastructure can produce a sufficient return over the long term consistent with that required by the Fund to meet its liabilities:
  - The SIP defines this expected return from infrastructure as the return on Gilts + 2.5% p.a.;
  - The majority of the investment should be in infrastructure equity rather than debt to meet these objectives:
    - Although discretion to invest in debt should be allowed to manage risk;
  - Investment across all stages (e.g. greenfield, brownfield, fully operational) will need to be considered to meet the target returns;
  - There should be an ability to seek opportunities at a global level rather than just in the UK;
  - There should be an ability to source opportunities across the risk spectrum to target the optimal risk / return profile.
- **Risk reduction and diversification:** Investment in infrastructure can offer real diversification benefits to investing in listed equities and other growth assets:
  - There are genuinely different drivers for the returns from infrastructure investment compared to investing in equities and other growth asset classes;
  - This is expected to provide diversification from equity investment and from other growth asset classes;
  - However, investment should be in unlisted (i.e. not quoted on the stock market) infrastructure projects to achieve the required level of diversification.
- **Interest rate and inflation risk:** Infrastructure does not provide an immediate direct link to the long term interest rates and inflation expectations that cause volatility in the value placed on the liabilities in the way that, for example, an index-linked gilt does:
  - However, the relatively predictable (compared to equities, for example) cashflows that are often linked to inflation provide a link over the long term to the nature of the Fund’s liabilities.
- **Cashflow risk:** An investment in infrastructure can help the Fund to meet its cashflow requirements:
  - The strategic review showed that the Fund will need to use an increasing amount of investment income and possibly the sale of assets to meet the cashflow requirements arising from its liabilities;
  - Whilst infrastructure is illiquid, it is expected to produce investment income over the medium to long term:
    - Just because an asset is liquid, it does not mean it is suitable to regularly meet the Fund’s cashflow requirements, as it could result in selling assets at a relative low point.

Next steps

Infrastructure forms a key part of the Fund’s revised investment strategy. Following this report, we recommend that the next steps taken are to:

- Decide upon the broad criteria for any manager search(es);
- Consult with other LGPS regarding any potential collaboration to align any similar search activity and potentially share costs;
- Undertake any manager search(es);
- Update the Fund’s SIP to reflect any changes in investment strategy, including the production of a letter to satisfy Section 36 of the Pensions Act 1995. This letter consolidates the investment advice that is required to be taken from an individual who is authorised by the Financial Conduct Authority (‘FCA’) to give advice.

Within this report we do not provide wider advice on the overall asset allocation or on the Scheme's other assets, as these were provided in the 2012 investment strategy review.

2 The infrastructure concept

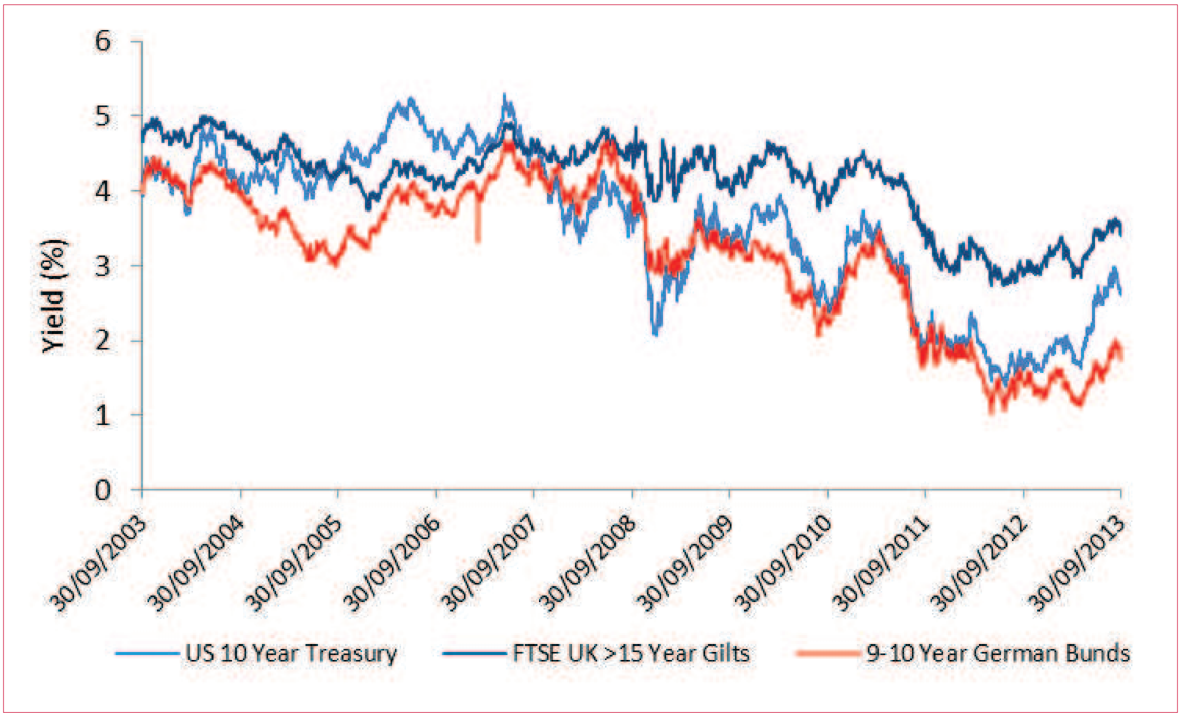
2.1 What is infrastructure?

As an asset class, infrastructure has a very broad remit and can encompass anything from an individual hospital or prison, all the way through to a wind turbine, oil pipeline or water company. As diverse as these assets may seem, they do in fact have some features in common, which is how we define infrastructure. We believe that infrastructure assets are assets which are essential within the global environment, often operating within regulated sectors, and providing monopolistic-like opportunities to allow long-term operating contracts with secure revenue streams.

Infrastructure has come to the forefront of private investments in recent times for a variety of different reasons. With the increasing population worldwide, and the rise in those moving out of poverty and into the middle classes, there has become a much greater need for infrastructure on a global basis to further facilitate growth. Whilst in developed regions there is also a need to some extent to replace and/or upgrade existing infrastructure assets which are no longer as efficient or demand has increased since original construction.

The UK Government's National Infrastructure Plan, November 2011, highlights over 500 projects 'in pipeline' that will require investments of more than £200bn by 2020. When the figures are looked at on a global scale, the gargantuan size of the investment requirement becomes clear. A 2007 OECD report estimates that the total spending requirement for world infrastructure to 2030 (incl. additions and renewals) is over $71 trillion. Despite this, there has been a significant shortfall in the funding as a result of the 2008 financial crisis, and governments worldwide cutting back on expenditure. As a result, the private sector has taken up some of this shortfall. Investors are required to take on certain risks but, most importantly, it is the capital that institutional investors are able to deploy, and the long term nature with which they can make allocations, that has led to the opportunity for pension schemes to invest in infrastructure.

Another side effect of the financial crisis in 2008 has been the flight to safety of many investors. This severely reduced the yields of government bonds around the world, as can be seen in the graph below.



Source: Bloomberg, JLT Employee Benefits

With yields at near historic lows, pension schemes and other investors around the world have turned to alternative assets to meet the yield requirements of their portfolio. Yield and stable cashflows are two of the characteristics which make infrastructure such an attractive investment opportunity to pension schemes.

As well as the search for yield that investors have been undertaking, there is the need to hedge liabilities against the possibility of future inflation rises. Whilst this can be done through index-linked bonds, the market for these is very small relative to the inflation-linked part of the UK pension schemes' liabilities.

The demand for these index-linked bonds, can be seen with the recent issuance of UK Index-linked gilts which was more than twice oversubscribed which drives up the price and further depresses the gilt yield. There is also a corporate index-linked bond market; however, this is still very small with about 70 UK companies having c. £35bn in issue.

As such, we believe that pension schemes need to look elsewhere for index-linked cashflows, and infrastructure fits into this category.

2.2 Drivers of return

The drivers of return for infrastructure assets are somewhat different to those of typical equity assets. A number of these are explained below:

- Assets are monopolistic in nature, with high barriers to entry:
  - This is beneficial for an investor, as the assets are more likely to remain in use, with less competition – making the cashflow more predictable over time.
- Economies of scale:
  - These can be achieved throughout the construction phase of an infrastructure project, as well as in the operation and management of the asset. It enhances the return to the investor.
- Inelastic demand for services:
  - This allows for greater returns for the investor, as an increase in price of a service would not typically lead to a corresponding drop in usage;
  - It therefore also means that there is less inherent volatility than, for example, the equity market which is heavily driven by business and consumer sentiment.
- Regulation of infrastructure sector:
  - Typically, infrastructure assets are within sectors which are highly regulated (such as water companies). This strong regulation increases the certainty of returns and makes them more predictable.
- Period of time that the asset is operational:
  - The majority of fixed costs of the assets are needed in the early stages of the projects life. However, the factors noted provide greater certainty of the cashflows over the longer term.
- Inflation-linked income:
  - Many sub-sectors of infrastructure have contracts in which revenue is directly linked to inflation. Any increases in inflation would therefore lead to a corresponding increase in the payments received, hence providing a link to the liability profile of the Fund.
- Foot fall:
  - Assets are able to generate additional revenue if the foot fall is greater than that which was forecast. This links the returns to how the economy is faring. However, it is important to note that infrastructure managers tend to prefer availability payment mechanisms (fixed payments that do not depend on the level of usage), as they prefer certainty of returns as opposed to the potential variability in returns from changes in foot fall.

The above shows that the drivers of returns of infrastructure show some genuinely different characteristics compared to equities. Whilst some of these drivers between these asset classes will be correlated, there is genuine diversification from equities in making an investment in infrastructure. It is still necessary to take risk, as explained later, to achieve the required equity like returns over the longer term, but the diversification helps to address a key objective of the Fund's investment strategy, of reducing risk.

2.3 Risks associated with investments into infrastructure

There are inherent risks with infrastructure investing that are very different to that of an investment in a typical equity fund. A description of the most common risks in infrastructure investing are provided below;

- Reputational risk:
  - An example would be adverse media coverage following an operational malfunction. Such potential risks can be mitigated as far as possible by having the correct governance in place, to ensure these errors do not occur.
- Operational risk:
  - Operational risks can be more of an issue if the fund does not have a controlling stake in the asset, as they would not be responsible for the management. As long as those with a controlling stake install the correct management, and the business is well governed, these risks can be managed.
- Political risk:
  - This is a very important risk to consider when investing in infrastructure, as an unstable political economy, with exposure to unstable regulation, could have a major impact on the returns of an asset.
- Financing risk:
  - Given that infrastructure managers use leverage on a deal basis when investing in infrastructure, there is a risk involved with having to re-finance at higher costs at a future date. In addition the infrastructure manager will need to manage the financial risk when planning an exit from an asset.
- Construction risk:
  - Construction risk is applicable during the initial phase of development as often there are a lot of unknown factors in relation to the build time and the cost. This can have a severe effect on the return of the asset, as its effective life could be greatly reduced. This construction risk explains why greenfield investments are typically higher up the risk-return spectrum.
- Throughput risk:
  - This is a risk that would be specific to a certain asset, and would arise if the forecasted expectation of use was less than estimated prior to investment. Infrastructure managers typically like to invest in such assets on an availability payment basis, whereby they are paid a fixed amount irrespective of usage. Whilst this may reduce the potential returns of a high use, successful asset, it allows for more stable, predictable cashflows.
- Counterparty risk:
  - Similar to the throughput and construction risks, this is a risk that is specific to an individual asset. This would arise from one of the stakeholders (typically the asset operator) breaking a contract that had been agreed upon. This is minimised through due diligence that would be carried out by the infrastructure manager prior to any investment being made.

2.4 Sub-sectors

The table below looks at the various sub-sectors that are within the infrastructure sector. The characteristics within table are discussed fully in section 4. A description of each of the sub-sectors, and the types of investment within each is considered after the table.

	Capital intensive	High barriers to entry	No demand risks	Regulated	GDP correlated	Monopolistic	Direct inflation linkage*	Long term offtake contracts**
Water and wastewater infrastructure	✓	✓	✓	✓	×	✓	✓✓	×
Gas and electricity transmission	✓	✓	✓	✓	×	✓	✓✓	✓
Toll roads	✓	✓	✓/×	×	✓	×	✓	×
Airports	✓	✓	×	✓/×	✓	×	✓	×
Oil/gas/chemical storage	✓	✓	✓	✓	×	×	✓	✓
Car parks	✓	✓	×	✓/×	✓	×	×	×
Ports	✓	✓	×	×	✓	×	×	×
Rail	✓	✓	✓/×	✓/×	✓/×	×	✓	×
Telecommunications	✓	✓	✓/×	✓/×	×	✓/×	×	×
Renewables	✓	✓	✓/×	✓/×	×	×	✓✓	✓/×
Social infrastructure	✓	✓	✓	✓/×	×	×	×	✓

Source: First State, JLT Employee Benefits

* ✓✓ - strong, direct inflation linkage; ✓ - some inflation linkage; × - no inflation linkage

** an agreement between a producer of a resource/service and a buyer, to purchase/sell units of future production.

In summary, there is significant diversity between the characteristics of the different infrastructure sub-sectors. We believe that all of these sub-sectors are appropriate for the Fund when considering an infrastructure investment, as each deal within each sub-sector will be unique, and the infrastructure manager should have the ultimate discretion when it comes to portfolio construction, albeit with certain concentration and risk limits, and diversification requirements. An infrastructure manager would not invest in a sub-sector unless there was sound investment reasoning behind it and this should be evaluated during any selection process.

Water and wastewater infrastructure

The provision and management of water and wastewater facilities are typically highly regulated. As such, these assets offer more visible and predictable cashflows and return, and are operated on a monopolistic basis with very high barriers to entry. The cashflow profiles of these assets are usually linked to inflation, and they typically have capital investment programmes that are taking place on a long term basis.

Gas and electricity transmission

Typically, these assets have been operated and provided by the state; however, more recently there has been an increase in supply from the private sector. One such example of this is the increase in Master Limited Partnership ("MLP") investment opportunities in North America. A MLP is a publically traded limited partnership, that typically invests in the transportation and processing of oil and gas. The benefit of investments such as these is that they typically have stable operating cashflows, and low correlation to both equities and commodities.

Toll roads

When it comes to the operation of toll roads, there are a number of different structures which can be used. These include:

- Pay for use – each driver pays a toll for use of road;
- Shadow toll – government contribution for each driver who uses the toll road;
- Availability payments – government contributions, but no traffic risk.

A toll road investment normally involves taking a stake in the toll road operating company, which then owns, operates and maintains the asset. The benefits of a toll road investment in the long-term include inflation linked cashflows with limited operational risk. Typically, an infrastructure manager would prefer to receive availability payments, as this transfers the traffic risk onto the government, providing a more visible cashflow profile of the asset.

Airports

Similar to toll roads, an investment in an airport would typically be made through the operating company which owns, operates and maintains the assets according to the terms of a government lease. Unlike toll roads they have a more diversified income stream with income from air travel as well as retail and property. This reduces the volatility of the asset, though airports are still highly correlated with GDP and passenger growth/capacity.

Oil/gas/chemical Storage

An investment in oil, gas or chemical storage would typically comprise of owning the physical assets such as pipelines, storage tanks, or the vaporisers required for safe storage of liquefied natural gas. Revenues within this sector are normally generated from long-term capacity utilisation agreements, and can be heavily regulated if the chemical or commodity is viewed as strategically important within the region the infrastructure is required.

Investments within this sector can provide long-term inflation linked cashflows with the opportunity of capital growth.

Car parks

Within car parks, there are two very different sectors; on street and off street. On street parking is typically a very labour intensive operation, with low margins, whereas off street parking is capital intensive and often requires the ownership of the physical infrastructure on an outright basis (or long-term concession contract), dependent on the geographic location.

Similar to the cashflow profile of airports, car parks are highly correlated to GDP, but they also offer strong inflation linked cashflows.

Ports

An investment in a port typically involves taking a stake in the physical assets that are required for the handling of cargo to and from commercial vessels. The revenue of ports is often supported by transport and export companies taking out long term leases of berths and container facilities within the port. Ports also offer the prospect of capital growth and income diversification from developing land surrounding the port facilities.

The monopolistic nature of ports means they offer an attractive investment opportunity in certain circumstances, and there is also portfolio diversification from unique, long term cash flows whilst remaining correlated to GDP.

Rail

Rail investments are a very popular investment for infrastructure managers, and they usually comprise investments in the physical assets on which the rolling stock is run, both passenger and freight services. Revenue from rail services is often supported by rail companies entering into long term agreements for use. Due to the very high barriers to entry, and regulation within the rail sector, the assets are typically monopolistic in nature, although face tough substitution competition from other forms of transport.

Telecommunications

An investment in telecommunications would involve purchasing the physical assets such as underground cables or wireless towers. The cashflow profile is typically not linked to inflation, and the investment relies more on capital growth for returns. This capital growth is achieved as a result of the business proving it is able to generate stable revenues and risk management.

There is the risk within the telecommunications sector that other infrastructure assets do not normally face in their expected life, of becoming obsolete as technology advances and as innovation occurs within the sector.

Renewables

Given the tariffs that have been available to those who invest, this has been a relatively high growth area for infrastructure managers in the last few years. The pre-defined tariffs and regulations within industries such as wind and solar energy allow managers to obtain visibility of their cashflows into the future, which are also linked to inflation. Typically, these types of assets are also uncorrelated with economic cycles.

As well as solar and wind power, we have also seen interest around biomass, geothermal and hydroelectric energy. Investments such as these fit very well alongside environmental, social and corporate governance (‘ESG’) and socially responsible investing (‘SRI’) policies.

Social infrastructure

Social infrastructure includes the construction and operation of hospitals, schools and prisons, and may include social housing. Historically, these typically used to be provided by the public sector, but are now increasingly being provided in partnership with the private sector. These assets tend to be more longer term in nature than other infrastructure assets, and typically have a lower return profile – although do typically come with lower risk.

Social housing

Social housing is essentially the provision of affordable accommodation to people on low incomes. In the UK there are approximately 1,700 housing associations covering around 2.5 million homes. However, a social housing study conducted by Barclays in Q3 2012 estimates that there is unsatisfied demand for a further 1.8 million homes.

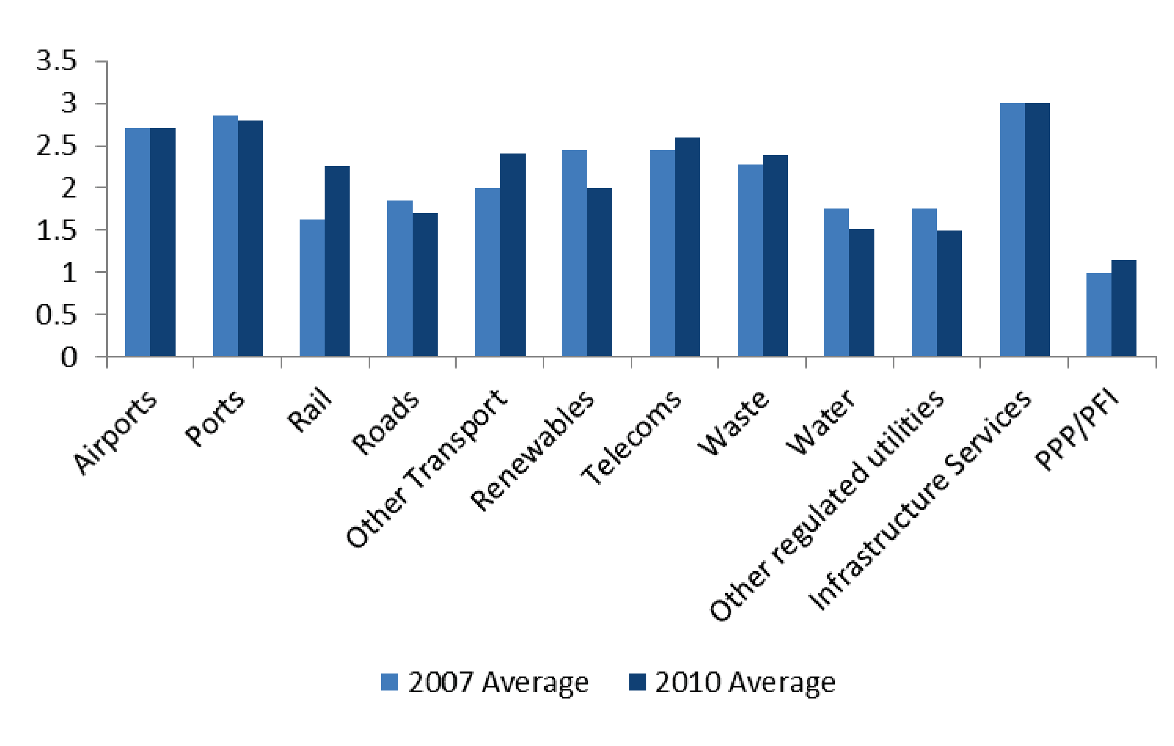
When referring to social housing, it is important to know exactly what it is we are referring to, as social housing could fit in different parts of a portfolio based on the way exposure is gained. There are three primary ways that exposure is gained:

- Index-linked social housing bonds are typically bonds issued by the housing associations in order to build, develop or maintain their social housing projects. As such, we would suggest these are categorised within a bond portfolio. The Fund's Corporate Bond portfolio with Royal London currently invests in bonds issued by housing associations.
- A development partnership is a direct investment via a special purpose vehicle in a housing association that is usually fully leveraged. These funds would typically be used to build new homes, and as such there are significant risks that need to be taken into account such as construction risk and other risks surrounding the development phases of the project. These do, however, offer investors greater potential returns, but we believe these would not fit in a core infrastructure portfolio and are rather more like private equity investments in nature.
- A sale and leaseback approach to investing in social housing would involve purchasing the existing assets of the housing association and then renting them back to the association over the long term. We believe that an investment such as this would fit within the property portfolio of the Fund, given the opportunities' characteristics. Schroder (who manage the Fund's UK Property portfolio) actively evaluate such opportunities as they arise.

Whilst there are many ways to invest in social housing and the index-linked characteristics that they have, we do not believe that they are suitable for an explicit allocation within an infrastructure portfolio. We believe that any investments into social housing should be left to the appointed infrastructure manager(s) discretion, based on whether the investment characteristics meet the investment strategy.

Relative sub-sector returns

The internal rate of return ('IRR' – see glossary) expectations from a survey by Deloitte for the different sub-sectors can be found in the graph below. These are not absolute IRR expectations, and are scaled from zero to three, with 3.0 being high and 0.0 low. As such, they will not tie-in with the IRR expectations within the table on page 17. This is one attempt at a direct comparison between the expectations for the returns of the different sub-sectors.



Source: Deloitte, The fork in the road ahead: An in-depth analysis of the current infrastructure funds market, 2011

There are two categories within the above chart which require further explanation as follows:

Infrastructure services are categorised as being the operational and management entities which are responsible for upkeep and maintenance of electricity transmission plants, gas and oil pipelines and renewable energy projects such as wind farms.

Public Private Partnerships ('PPP') are contractual agreements between public bodies, local authorities or central government, and private companies to deliver a public, social or economic infrastructure project. Private Finance Initiatives ('PFI') are a form of PPP developed by the UK government, whereby private companies carry out construction work and maintenance on projects, which are then rented back to the public sector.

3 The role of infrastructure within the Fund

3.1 Why invest in infrastructure?

There are a number of different reasons why infrastructure assets are relevant to Avon Pension Fund's strategy, the main ones include:

Diversification

Infrastructure assets can provide predictable cashflows and returns through all market cycles, which is more important with ever increasing market volatility. The assets and returns also have low correlations with global equity markets.

Inflation hedge & liability matching tool

Any increase in prices within an economy are often directly priced into the income of an infrastructure project due to the contracts underpinning the cashflows. Providing there is strong regulation, this is the case for assets on a global basis, as well as in the UK. This will offer protection against possible future increases in inflation. Whilst the Fund's liabilities are sensitive to UK inflation, an increasing globalised world means that UK inflation is increasingly influenced by global inflation and therefore exposure to global inflation is a reasonable proxy for the Fund's UK inflation sensitive liabilities. These cashflows make infrastructure ideal for matching the long-term inflation linked liabilities of the Fund.

Cashflows

These are usually predictable due to the monopolistic nature of the infrastructure assets. Large portions of the cashflows are agreed by the contract. High barriers to entry also help maintain stable cashflows over the length of the investment which assists a pension scheme investor with its cashflow management. Distributions to investors are often made quarterly or bi-annually.

Illiquidity premium

Due to the long-term nature of infrastructure assets, pension schemes are able to benefit from the lack of liquidity in this market. This goes hand-in-hand with the long term nature of pension scheme liabilities, particularly in the case of LGPS which remain open to new members and future accrual.

Responsible investing

In the same way that an active equity manager must take account of the risks from environmental, social and governance ('ESG') factors in assessing the opportunity a stocks presents, an infrastructure manager must also satisfy himself that these factors have been suitably taken into account when assessing a project. For example, construction is expected to utilise the best technology to ensure efficient buildings – not doing so represents certain risks to the portfolio. It is not expected that a specialist ESG fund is required to ensure these factors are considered.

3.2 The investment needs of the Fund

Income requirements

The need for income within the Fund is becoming more important given its cashflow negative position (excluding investment income). Infrastructure provides a very good return profile based on this need, as a large portion of the return (often c.50-70%) comes from income, with the remainder coming from capital appreciation of the underlying assets. This percentage is dependent upon the exact nature of the asset, as well as it's expected life time. This stable income can then be used rather than to sell assets in order to cover the Fund's cashflow requirements. Compare this to otherwise raising income by liquidating the Fund's equities: whilst equities are liquid, they are volatile which means relying on them to meet cashflow could result in selling at a relative low point and therefore compromising the Fund to meet its long term objectives.

The predictable, stable, cashflows generated by infrastructure assets are more often than not linked to inflation (CPI or RPI). These are an excellent hedge against potential inflation increases in the future. However, when looking at inflation-linked cashflows, it is important not to consider them in isolation. If the factors related to operating an asset are also tied to inflation, then the real cashflow may not in fact increase as expected.

Investment objectives

Therefore infrastructure meets the Fund's investment objectives as follows:

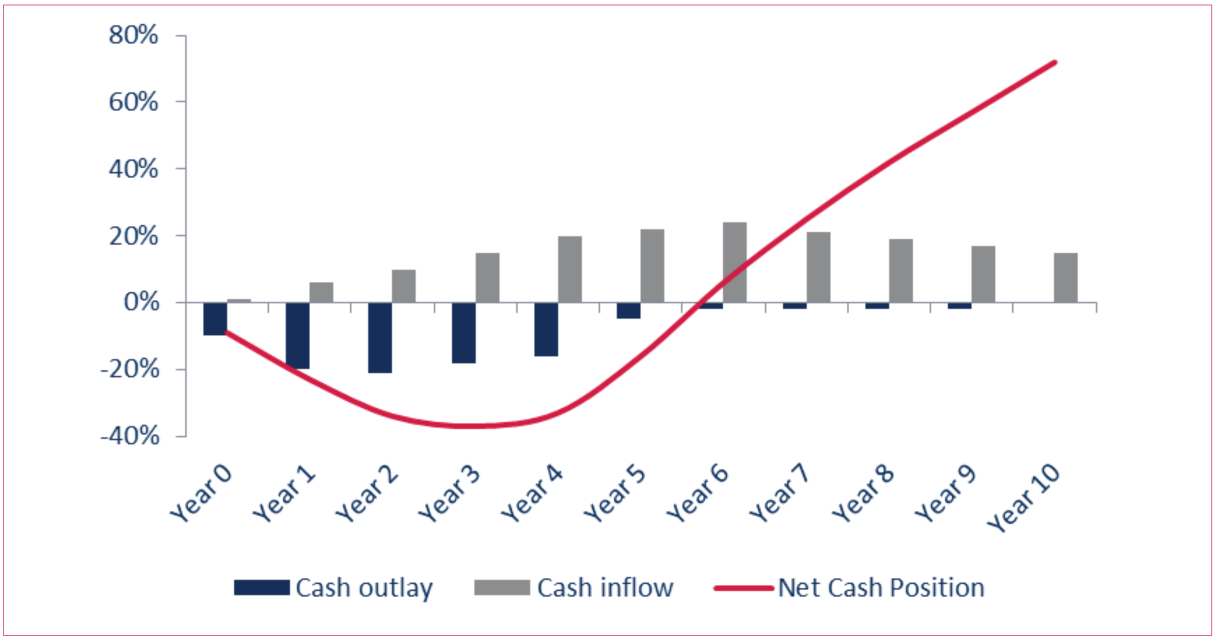
Required return	The requirement for infrastructure investment in the economy (both UK and overseas) and the need to attract capital from institutional investors means that an equity like return is possible from infrastructure investment, thus consistent with the Fund's required rate of investment growth from the assets. The level of return available is discussed in more detail in the next section. The previous sections also show how there are different drivers of returns for infrastructure compared to equities and it is reasonable that the Fund access as many opportunities as is reasonable possible.
Managing risk	Whilst some infrastructure projects can be as risky or even riskier than certain equity investments, the fact that there are different drivers of returns leads to genuine diversification and therefore there is an expectation that infrastructure will not be perfectly correlated to equities (i.e. it will not fall and rise at exactly the same time). Furthermore, diversification across different sub-sectors, different risk profiles and different regions will further enhance diversification.

Liability profile	The focus on stable, index-linked cashflows shows how an investment in infrastructure can help satisfy the need that the Fund's assets better reflect its liability profile. However, it should be remembered that the value of the infrastructure assets will not move directly inline with changes to the value placed on the liabilities (which are affected by long term interest rates and inflation expectations). Therefore whilst this investment is made with the liability profile in mind, it belongs in the growth rather than stabilising portfolio.
Liquidity profile	It is important to understand that an investment infrastructure can be extremely illiquid. Indeed, the "illiquidity premium" is expected to be a source of returns. However, it is sensible to allow part of the Fund to be invested in illiquid assets given the long term nature of the Fund's investment strategy. The Fund will require readily realisable assets and investment income to meet its cashflow needs – infrastructure is expected to help in the latter of these (investment income).

4 Characteristics of infrastructure investments

4.1 Private investment model

When investing in infrastructure, it is important to understand exactly how committed capital will be invested, as it is not as simple as investing in a traditional equity fund. Similar to investing in private equity structures (as per the Global overseas property mandate managed by Partners Group) the return profile will follow a j-curve, with investments being drawn down over a number of years, and the subsequent positive cashflow also taking a number of years to develop. The chart below shows the life of an infrastructure asset, from the construction phase with cash outflows to the operational phase with cash inflows. The chart is an example of how the j-curve works, with the blue bars representing cashflows into the investment (i.e. out of the Fund) in a particular year and the grey bars representing cashflows out of the investment (i.e. back into the Fund) in a particular year. The red line shows the net cash position at any particular point (i.e. the sum of the total cashflows in and out of the investment over the entire period to date).



Source: JLT Employee Benefits

By diversifying an investment between multiple infrastructure investments via a fund, the likelihood is the drawdown period and therefore cash inflow requirements will be 'lumpy'. As such, cashflows will need to be carefully managed to minimise the need to realise assets from other parts of the Fund's investment portfolio in order to meet any cash calls from the infrastructure investments.

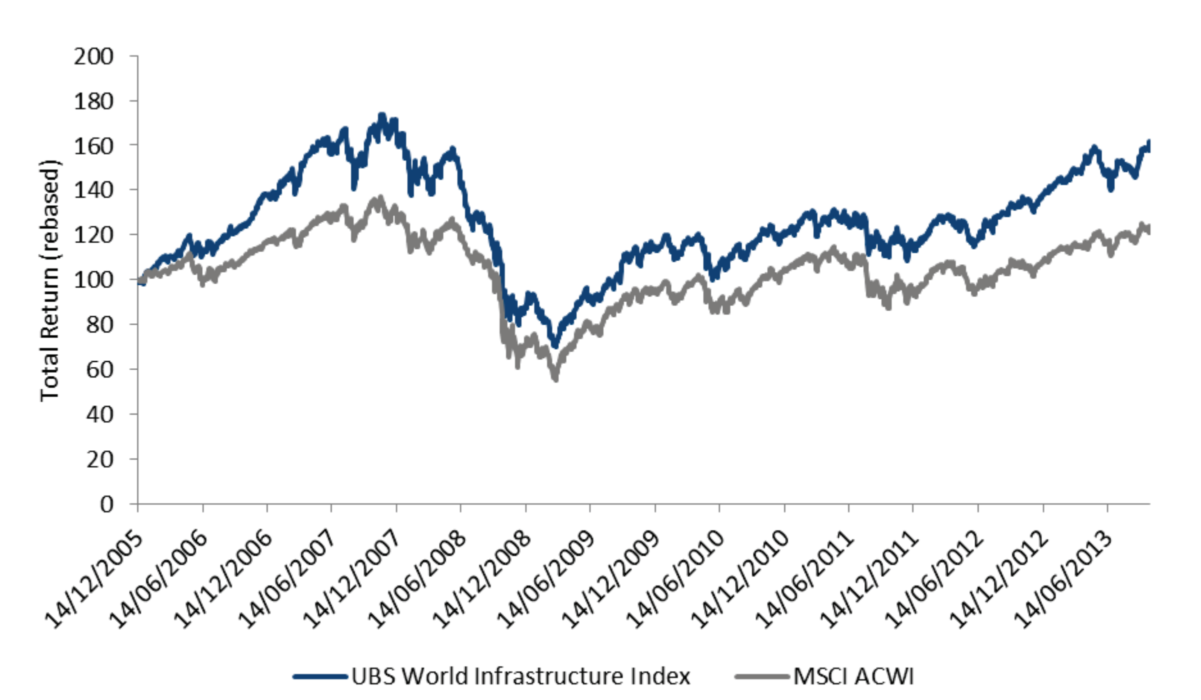
As well as investing via more than one fund, there are a number of different ways to invest in order to shallow out, and minimise the negative part of the j-curve in order to start receiving an instant yield (cash outflow). One approach is to invest in funds that are already past their first close, with one or two investments already made. Another way would be to invest in an open-ended fund, where there is already an existing pool of assets that the investor would receive a yield from. The third approach would be to invest into secondary funds, which would typically already have invested in assets, making the fund more visible. The difference between closed-ended and open-ended funds is looked at more closely in section 5.

4.2 Considerations when investing in infrastructure

Listed vs. unlisted

There are two main ways in which exposure to infrastructure can be gained; through either the listed or unlisted approach. The first fundamental decision that must be made is whether to invest via a listed or unlisted product. A listed product typically invests in the publically traded shares of infrastructure companies. This is an option which provides the most liquidity; however, listed infrastructure investments do typically have very high correlations with equity markets.

The graph below shows the returns of the UBS World Infrastructure Index, just one of a number of such listed infrastructure indices, against the MSCI All Counties World Index, with both being rebased on 14 December 2005.



Source: Bloomberg, JLT Employee Benefits

Although the UBS World Infrastructure Index has outperformed the MSCI ACWI over this period, there has been a correlation between the two indices of 0.85, so it does not really achieve one of the main aims of the infrastructure investment – to diversify the portfolio away from equities. As such, we believe that the best way to gain exposure to infrastructure assets is through private markets, where you can achieve better diversification along with the additional benefit from the illiquidity premium.

Equity vs. debt

Once the decision on whether to invest in a listed or unlisted product has been made, the next decision is whether to invest in equity (the real assets within a fund) or debt (the bonds issued to finance the purchase of assets) – if the unlisted approach is taken.

The reasons for investing in infrastructure equity have been set out in section 3 of this report and, whilst similar, there are a few different arguments for investing in infrastructure debt.

Infrastructure Debt is similar to equity in that the assets typically have a long life, which supports the long term nature of the Fund with its long term liabilities. The capital market dislocation of 2008 and the drying-up of bank funding for infrastructure debt vehicles has resulted in an increased risk adjusted return available to investors. As well as these factors (set out in section 3) which are analogous with the infrastructure equity, there is also the stability of ratings, with infrastructure debt typically having a strong historical rating from the rating agencies. Historical records show that along with the low record of default, there have also been high recovery rates – a beneficial combination for investors.

Infrastructure debt is typically a better match to the liabilities of a pension scheme, based on the contractually fixed return that is guaranteed. It is therefore a lower risk investment for the lender. However, unlike infrastructure equity, there is not the same opportunity for capital appreciation. Given the return characteristics of infrastructure debt, we believe that this would be a better match for the stabilising part of the portfolio as opposed to the illiquid growth portfolio, as we do not believe that a portfolio of infrastructure debt alone will meet the return objective of equity-like returns. That said, infrastructure debt can act as a good diversifier within an infrastructure portfolio, and any inclusion for either diversification or risk management reasons should be at the discretion of the manager, and they should be permitted to have a small allocation to infrastructure debt within the overall fund.

Core, value-add or opportunistic

Within the infrastructure equity asset class, we believe that opportunities can be grouped into three distinct categories, each of which has its own distinguishing characteristics. The expected return characteristics and yield are our prudent, realistic expectations of what is obtainable within the asset class, and may differ slightly from the views of infrastructure managers.

	Core	Value-add/core plus	Opportunistic
Expected net IRR (return p.a.)	6-8%	10-12%	15%+
Yield (p.a.)	4-5%	5-6%	6-7%
Characteristics	High yield with strong inflation protection, limited use of leverage and lower potential for capital gains	Medium yield with some inflation linkage, relatively higher levels of leverage and some potential for capital gains	Low yield with little inflation linkage. Much higher volatility but targeting significantly higher returns from capital appreciation

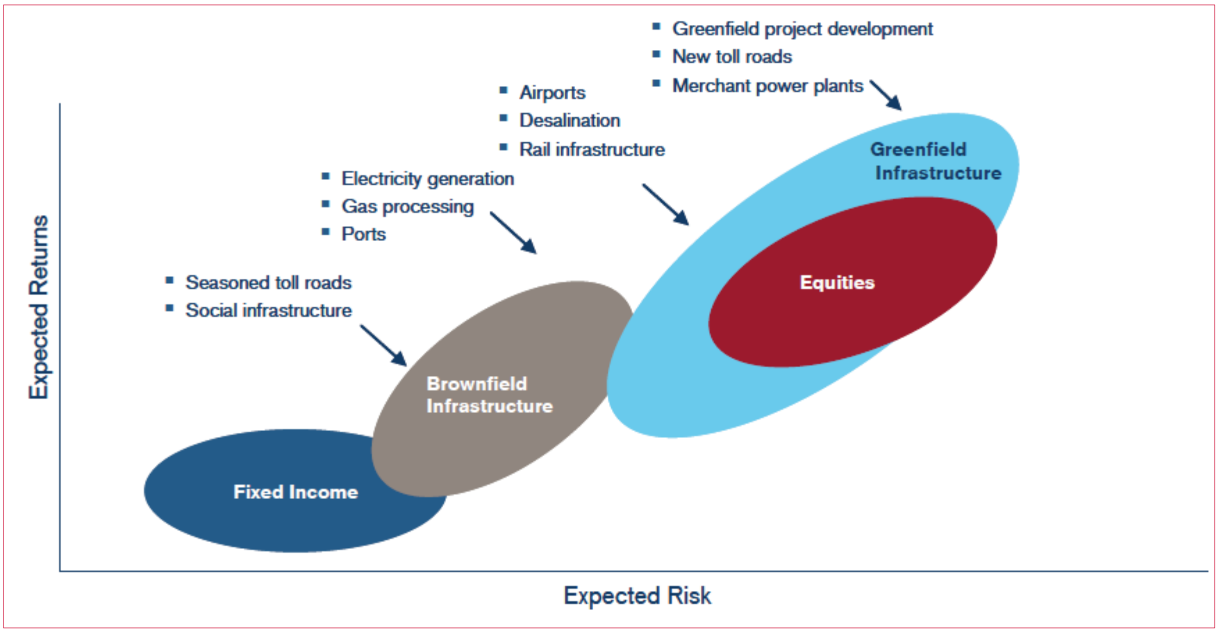
UK vs. global

There are some very important considerations that need to be taken into account when looking at the geographical remit to invest in infrastructure. Whilst we believe that a global opportunity set is the best way to approach the infrastructure investment issue, there are a number of reasons why infrastructure managers focus on UK, US, European and Australian assets. The main reason is the regulation in these developed regions is significantly stricter than would be found in the developing countries – allowing more accurate investment assumptions to be made, and less risk to be taken. We do, however, believe that there are opportunities outside of Europe and North America, and as such, a global mandate would be the best way to capture all of the possible opportunities as it would allow the selected infrastructure manager(s) to use their discretion in terms of geographical allocation. This being said, a cautious approach should be taken when it comes to potential investments in emerging markets, as the risks of investing in infrastructure projects in these regions are significantly greater.

Brownfield vs. greenfield

Infrastructure investments are mainly considered to be either brownfield or greenfield investments; Brownfield is defined as previously developed infrastructure projects and typically invests in fully operational assets where there is a track record of operation and a yield is earned immediately. One specific risk with a brownfield investment is whether there are any disposal costs to consider at the end of the useful life of the asset. These assets typically have a moderate level of return but with lower risk. Greenfield investments involve investing at the development stage of a project. This can therefore include both planning and construction risk, and a yield is not earned until post commissioning of the asset(s). The return is expected to be higher than brownfield investment due to greater capital appreciation potential but there is greater risk, as well as a period of time where there is no yield from the asset. In between greenfield and brownfield sits another category often referred to as 'yellowfield' where existing Infrastructure assets require work to either upgrade or replace the asset. Although construction work is involved it is considered lower risk than greenfield as more information is available to evaluate risk (such as operational history, revenue and 'foot fall' for example).

The chart below looks at a number of different sub sectors within the infrastructure asset class, and also shows the two stages (brownfield and greenfield) on an expected risk vs. expected return basis. The chart also includes where classic fixed income and traditional equity asset classes would fit into the graph, to allow a full comparison between the asset classes.



Source: Credit Suisse Asset Management, for illustrative purposes only

Also note that assets within the same sector can behave differently depending on for example, the contracts, and therefore move further along the risk spectrum. As well as the contract affecting the behaviour of the returns, there are also other factors which can influence the risk-return profiles of investments within the same sector.

The capital structure used to invest in the asset can play a very important role in this. For instance, if leverage is used alongside equity to make the investment, then you would expect to move up and to the right on the above graph, as that leverage should hopefully supplement the returns compared with not using leverage.

Another factor which can affect the return is geography, and more importantly the political, economic, and regulatory environment stability. For instance, an investment in an electricity generation plant in the UK is likely to have a far lower risk-return profile than the same asset in central Africa. Assets in countries with greater political instability are going to be higher risk, and command greater returns as a result; and, it is typically these countries that have weaker regulatory environments.

The foot fall of an asset can also affect the expected return of an asset, if the experienced foot fall is different to that which was forecast. However, as mentioned in section 2.2, infrastructure managers tend to prefer availability payment mechanisms as this reduces the variability of returns and provides a contractually agreed return.

Management of assets

Once an asset has been purchased, or a contract for the lease has been agreed, there are two ways in which the asset can be managed; passively or actively. The infrastructure manager would typically only partake in passive management if it was a minority shareholder in the investment, and so would have no involvement in managing the asset. The infrastructure manager is more likely to want to undertake active management as the controlling shareholder, as this gives them much greater control and autonomy when it comes to managing and operating the asset.

Once an infrastructure asset has been purchased, and contracts agreed, the asset then needs to be managed. This is almost as important for the potential return of the asset as the contract negotiations guaranteeing return are. As a result of this, the majority of infrastructure funds hire specialists within each sector to run the assets, as the expertise is key to ensuring the asset is operated and maintained in the most efficient manner. When investing on a global basis, it is important that those who are managing the assets have local knowledge to facilitate a smooth and efficient operation of the asset.

We believe that active management is the preferred method of managing the assets once they have been purchased, as this allows for greater control over the risks which could arise from mismanagement and poor governance. However, if a manager was to invest as a minority shareholder - and therefore not have the ability to manage the asset actively - we would expect that the manager would only invest alongside another investor that it had conducted due-diligence on and was happy to invest alongside, based on their ability to manage the asset and ensure good governance.

Size of Assets

The size of the deal within any of the sub-sectors will vary on a deal-by-deal basis, as a general rule, the most expensive assets will be those which are monopolistic in nature, have very high barriers to entry, and serves vast portions of the population.

In terms of deal flow of an infrastructure manager, we would expect them to have a number of small deals (tens of millions of pounds), increasing to a few deals worth billions of pounds, dependent on the size of the fund. The size of the fund is an important consideration when looking at the assets, as a £2bn fund will not use 25% of its capital for one deal/asset, so will restrict potential opportunities to invest in £500m+ deals. A fund of this size would typically make investments from £50m to £400m.

We believe that the sweet-spot for the majority of infrastructure managers is deals in the hundreds of millions (£100-£400m, depending on fund size), as this allows sufficient diversification without spending significant amounts of time negotiating a lot of very small deals.

The largest ‘core’ deals (which are typically established assets with a steady yield) are likely to be expensive and moving more into the private equity buy-out world. This will push up the price valuations of these assets and reduce the overall return to investors.

Summary

The investment in infrastructure must be structured appropriately to ensure it has the desired characteristics to meet the investment objectives. From the analysis above, we believe that in order to meet the strategic objectives the Fund should look for investments with the following characteristics:

- Invest via the unlisted approach with real assets:
  - This is essential to ensure true diversification from the Fund's listed equity investments;
- Invest in infrastructure equity (i.e.; fund's which purchase real assets)
- To manage risk and dampen volatility, allow an element of debt at the manager's discretion
  - In general, infrastructure debt is not expected to meet the required return of the Fund's growth assets over the longer term;
    - However, from time to time there may be opportunities that allow a superior return to be achieved than normal from debt with a much lower corresponding level of risk than an infrastructure equity investment;
    - There may also be times when the return or risk from available projects is not appropriate for investment and an investment in debt could provide a suitable alternative
  - In the above way, the tactical use of debt at the manager's discretion can help to dampen the volatility of the infrastructure investment
- A broad mandate is needed, allowing access to core/value-add/opportunistic in order to achieve equity-like returns
  - Similar to some of the reasons for allowing the infrastructure manager to allocate to debt, it is important to allow the manager to allocate between the different broad risk categories to meet the objective, albeit with some limits for the asset allocation to ensure the overall risk profile remains appropriate
  - The attractiveness of opportunities will vary over time and allowing as wide an opportunity set as possible for the investment manager, subject of course to some limits, allows them to use their judgement and skill to enhance returns and manage risk
- Ability to invest on a global basis to take advantage of all opportunities within the market
  - The need for infrastructure investment and the opportunity set within the UK is strong. However, the reasons why an infrastructure investment is suitable for the Fund, as highlighted, mean that investing in opportunities on a global basis is appropriate
  - At different times, there may be attractive and superior opportunities overseas. Allowing a skilled infrastructure manager with the required research capabilities can add significant value.
  - It also provides diversification from the UK environment which could suffer unique regulatory issues or, given the interest in this asset class, insufficient opportunities.
- Consider investment in greenfield assets in order to meet return target
  - Greenfield investment is considered riskier than brownfield investment due to the risks in the construction phase. There is also potentially a longer period before the asset begins to provide a return.
  - However, there is expected to be a premium from this additional risk and therefore allowing a skilled investment manager to make select investments in greenfield projects to compliment investments made at other stages will help the infrastructure manager and therefore the Fund's allocation to meet the required returns.

In summary, it will be important for any mandate to be properly specified in terms of limits on the types of investments to ensure the required risk and return profile can be met. Within this though it is important to offer a wide opportunity set to the investment manager(s), by region, asset class (equity vs debt), target return and stage of project to allow the infrastructure manager to manage risk as well maximise the probability of meeting the return objectives.

5 How to access infrastructure funds

Closed-ended vs. open-ended

There are two common vehicle structures that can be used by an infrastructure manager; an open ended vehicle and a closed ended vehicle. These have slightly different characteristics, each with benefits and disadvantages.

Whereas a closed ended vehicle has a set lifetime (typically c. 10-15 years for infrastructure), an open ended fund has no set lifetime and offers periodic windows where investors are able to invest or redeem units, subject to the liquidity of the fund. This is the primary advantage of the open ended structure, as investors are able to redeem their money far more regularly than possible with a closed ended structure. By not having a set lifetime, the infrastructure manager is then also able to decide when to purchase and sell assets, rather than being forced to sell at the end of the fund's life under the closed ended structure. This can be a benefit in the instances where the vehicle holds an asset which is appreciating and providing a stable inflation linked cashflow that the Fund may wish to remain invested in. An open ended structure also allows for the investor to see cashflows from a much earlier time, as they are investing in a vehicle that already has money invested in a visible portfolio, minimising the drawdown on the j-curve.

However, there are also many advantages to the illiquid, fixed lifetime structure that is offered within a closed ended vehicle. As liquidity is less of an issue, the infrastructure manager is able to invest in opportunities which are generally more high risk and, as a result, gives higher returns as investors are unable to redeem their investments on a monthly basis. This allows the manager to focus on investing to maximise returns for the investor, rather than ensuring there is sufficient liquidity within the fund to allow investors to redeem contributions.

When the costs and benefits of each are weighed up against one another, there is an argument for investing in both the closed ended and open ended structures. However, over time, the closed ended structure has become the primary strategy that infrastructure managers have preferred when setting up infrastructure funds, as they are generally simpler and more efficient when it comes to administration.

Direct vs. Primary vs. Secondary

Within the individual funds, there are also three main ways in which exposure to infrastructure assets can be gained; direct or co-direct investments, primary fund investments, and secondary fund investments. Each of these methods of investing requires a team with a slightly different skill-set, as each method is not alike.

Direct and co-direct investments involve the infrastructure manager sourcing individual deals, and investing in them by themselves, or alongside another manager. In these types of investments, the infrastructure manager would also be responsible for ensuring the asset is properly maintained and operated. In many instances, rather than purchasing the real asset, the manager will negotiate a contract which entitles it to the returns of the asset, making the contract negotiations a key part of the investment process. This is typically the most cost effective way to invest, however requires the greatest level of due-diligence and also poses the greatest risk. Investing in this way would also reduce diversification within the portfolio, however we believe there are funds that invest in direct and co-direct investments that are of sufficient size to ensure that diversification is not an issue.

An investment in a primary fund involves becoming a Limited Partner ('LP'), and investing in a General Partner ('GP'). This requires a different skill-set, as rather than sourcing the deals directly and negotiating contracts, this is left to the GP. As such, the research into the GP is the most important factor in a primary fund investment. A primary fund investment is typically more expensive than a direct investment; however, the risk is greatly reduced. As an LP, you are only liable for the amount of money you have invested. This approach allows for a moderate level of diversification, as the GP would be investing in numerous assets.

The third approach is an investment in a secondary fund. This involves purchasing units of a fund from pre-existing investor commitments. Whilst there is a market for secondary investments, it is not as large as the market for primary investments. However, there are a number of benefits. As the funds are typically more mature than a primary fund, there is a greater visibility on the assets that are being purchased. This also allows for faster yield generation and has a shallowing affect on the j-curve. There is also the potential to purchase units at a discount to Net Asset Value ('NAV') on the secondary market, which has the potential to boost returns.

We believe that the best structure for Avon to invest in infrastructure would be via either a single pooled fund, or a fund of funds. Whilst a fund of funds structure would allow for greater diversification, this comes with an additional layer of fees. Whilst we believe that there are infrastructure funds investing in direct an co-direct investments that are of sufficient magnitude to achieve adequate diversification, with the benefit of lower fees, both this method and a fund of funds structure that invests in primary and secondary funds remain viable options and both should be considered in fulfilling the brief that is outlined in the following section.

Vintage year exposure

The time frame of when money will actually be invested is a very important factor to consider when reviewing infrastructure investments, similar to private equity. The reason for this is that the deals that would have been available in 2007-2008 for example are very different to those that are available today. There will be inherent 'vintage year' diversification within any investment into a closed ended infrastructure fund based upon the length of the investment period to final close.

In order to further diversify the vintage years that investors are exposed to, there are a number of options that could be considered. The first option would be to have an allocation to a secondaries fund (or a fund which considers secondaries as part of its investment strategy), as a vehicle such as this would take vintage years into account to ensure a diversified portfolio.

The second option to be considered when looking to diversify the vintage year of the underlying assets is to consider investing in a fund of funds product. These types of funds typically look at primary and secondary investments in other funds, so any investment would be spread throughout a much greater number of infrastructure assets which have been invested over many different vintages. The downside with an investment in a fund-of-fund investment is the added layer of fees, which should be considered alongside the potential benefits and the expected net return.

Fund Availability

One primary difference between an infrastructure fund and a typical equity fund, is the availability of funds to invest in at the time each investor is looking to invest. When tendering for an infrastructure manager, it is very unlikely that all known infrastructure managers will be able to participate in the process. The opportunity set for the tender will be defined by those infrastructure managers that are raising funds at the time of the search. Fundraising often lasts for 12 months or more.

Dry Powder

Dry powder relates to the amount of money which has been committed to infrastructure managers, but which is yet to be invested. Preqin, the data provider estimates that as at September 2013, the total level of dry powder within unlisted infrastructure is $90bn. This is well over double the level of dry powder in December 2006 (pre- global financial crisis) that was estimated at $40bn. The primary reason for this has been a weak deal flow pipeline as a result of the global financial crisis, which has provided a hangover with all the additional money unable to be invested. With such high levels of surplus cash, there is pressure for infrastructure managers to invest, and this has pushed up the competition, and price, for infrastructure assets. It can also lead to a cash-drag on performance as the money remains un-invested.

Limited Partnership structure

The traditional ownership structure of an infrastructure vehicle is via a limited partnership agreement ('LPA'). The limited partner investor (i.e.; The Avon Pension Fund) is typically protected by law from losing anything but the original capital invested, and the general partner ('GP') retaining the liability of the overall fund and its underlying assets which it manages.

We believe that a LPA is the preferred vehicle for investing in infrastructure though, as it removes any of the liabilities from the investor.

Leverage

One factor that needs to be considered when making an investment in infrastructure is leverage. The purpose of the leverage is to supplement equity when purchasing the assets, in order to supplement returns. This is beneficial to the infrastructure manager and the investor based on the ability to borrow at a low cost.

Inherently within the underlying infrastructure transactions there is leverage, but this would be on a deal-by-deal basis rather than the fund as a whole being leveraged. Given the demand for infrastructure assets, often the only way to be able to compete is by including leverage on deals for the assets that are purchased. Leverage is also used at the asset level in order to enhance returns and is often the most tax efficient way to finance infrastructure purchases. We believe leverage is only appropriate for individual deals and not at the fund level.

Fees

Given the structure of infrastructure funds, there is also a difference in the way that fees are applied when compared to a more traditional equity fund. There are a wide variety of fee models used within each type of investment method i.e. an open ended fund, closed ended fund and a fund of funds, and the comments below can apply to all. With a fund of funds structure, there will of course be the fees at the underlying fund level and those fees payable to the fund of funds manager, so there could be a variety of fee structures within the Fund's allocation.

Typically, an infrastructure fund will charge a management fee on all committed capital, including that which is undrawn. There is typically a performance fee, which is usually based upon the NAV of the fund, but which is also subject to a hurdle rate and a high watermark, with some form of catch-up. What this essentially means is that a performance fee will be calculated using the NAV – assuming that a certain return is being generated (the hurdle). This hurdle would typically be different based on whether the fund was core, value add/core plus or opportunistic, so as to not just incentivise the infrastructure manager to go into the riskiest assets to maximise their profit.

A high watermark is in place to ensure that the manager is not rewarded for good performance unless the fund is above a critical NAV that has been previously reached - i.e. if the fund was to fall in value by 30%, the manager would not receive any performance related fee until the previous value of the fund is reached. This is again to incentivise the infrastructure manager to achieve predictable, long-term growth.

The catch-up rate refers to the way in which the fees are proportioned beyond the hurdle rate. This can vary, but if the catch-up rate was 50% to both the investor and the manager, then for profits above the hurdle rate the investor and the manager would split, 50/50, the profits above the hurdle rate, until they have reached a pre-agreed upon profit split or 'carry'.

It should be noted that fees to invest in Infrastructure are typically more expensive than other asset classes due to the high level of management resources required. This may include the hiring of skilled people with local knowledge, the cost in financing an asset through structuring leverage deals, the operational management of the asset and the management of exit strategies. Headline investment management fees can vary from around 0.5% p.a. to 1.25% p.a., typically with core investment at the lower end and value add at the higher end. Over the lifetime of an investment, the overall fees for a balanced portfolio, including performance fees and the operational fees, could be in excess of 2% p.a.

Risks associated with fee structure

The inherent risk involved with such fee structures, where the manager remuneration is based on the NAV of the fund, is that the fund manager will wish to ensure they are above the preferred return, as this will make their 'carry' available to them, and therefore when approaching the performance hurdle the potential incentives mean that their actions may not be completely aligned with those of investors. However, high watermark, escrow and claw-back arrangements ensure that risk is maintained at a sensible level, as losses would be detrimental, not only to the investor but also to the GP, as some of their profit share could be withdrawn. Overall, we believe that there are sufficient incentives in place within the typical infrastructure vehicle fee structure to mitigate against misaligned risk taking.

Another risk within infrastructure funds is disposal risk. If the fund was hovering just below the hurdle rate, there is the risk that the infrastructure manager may dispose of an asset in order to boost return and their profit share as a result. Within a closed ended fund there is also the possibility that the manager will behave differently as he knows that he will definitely have to dispose of the asset at the end of the infrastructure vehicle's life.

NAPF's Pension Infrastructure Platform

The Pensions Infrastructure Platform ('PIP') has been in the pipeline for sometime, and deadlines have been passing with no further information being released. From our conversations with fund managers, we believe that the PIP will face a strong headwind from its launch, based solely on the mandate that it has set itself. The PIP has a target size of £2bn, and is expected to invest solely in core UK infrastructure assets, which are mature to avoid construction risk. It is also expected to operate at low levels of leverage, with no more than 50% on a deal by deal basis. These are the assets that are typically very highly contested for, within the infrastructure market due to their low risk and stable return characteristics.

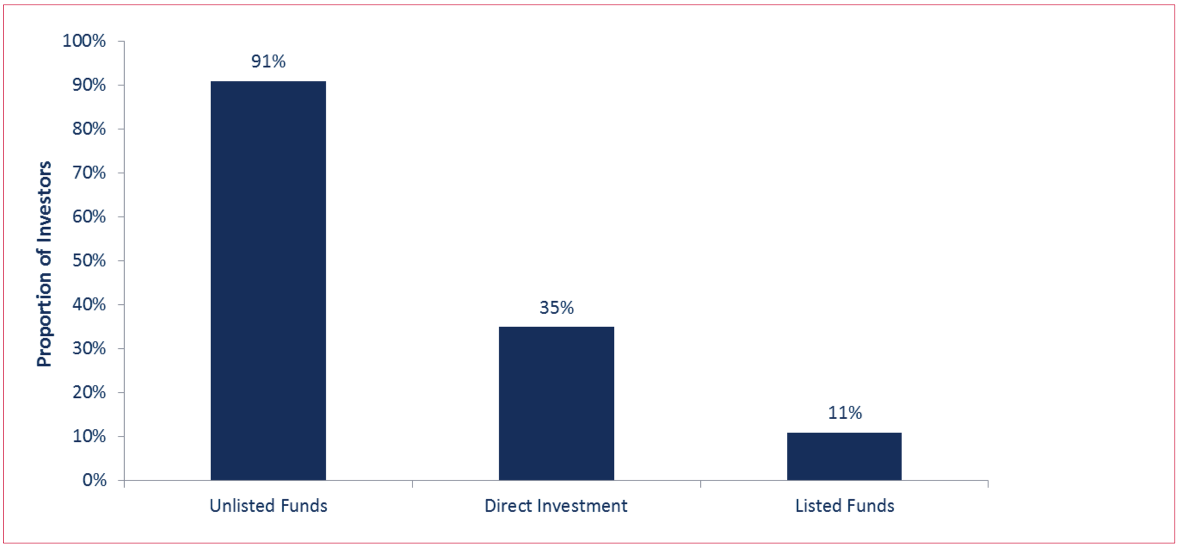
Given the above factors, further details released at the NAPF Annual Conference & Exhibition in October 2013 pointed to the fact that the PIP is likely to be open to construction risk, as there are now sufficient ways to manage this, and that it would be a 10 year vehicle. It was also said that an infrastructure manager was very close to being appointed, and the expectation was that the first investments would be made by the end of 2013.

The NAPFs PIP may be eligible to tender for the Fund's mandate should it feel that it is in a position to satisfy the criteria set out by the Fund, but we do not believe that the Fund should delay the tender process to allow time for the PIP to develop.

It should be noted that the PIP model may potentially provide a cheaper way to access UK Infrastructure for investors. However as the full details of the scheme are not yet known we do not know whether it would meet our mandate criteria.

Current preferred route to market

The graph below, taken from a recent survey conducted by Preqin, shows the preferred route to market of worldwide investors searching for new infrastructure investments in the second half of 2013 and the first half of 2014. The majority of investors are looking to invest via unlisted funds, but some investors are looking to invest via combinations of the three, which explains the bars totalling more than 100%. A direct investment would involve the Fund purchasing an asset directly, and then being responsible for its operation and management.



Source: Preqin

Given the lower correlation with equity markets and the illiquidity premium on offer, we advise that Infrastructure through an unlisted fund is suitable for the Avon Pension Fund's allocation.

6 Draft policy framework

The next stage is to finalise the policy framework that should be adopted.

Having reiterated the rationale and described the drivers, characteristics and implementation issues within this report we propose the following framework.

6.1 Proposed policy framework and constructing the portfolio

In terms of an appropriate framework for the Fund, we acknowledge that a 5% strategic allocation to infrastructure implies an investment of c. £150m into the asset class. This is a sizeable allocation which would allow exposure to a diverse range of infrastructure investments.

With the allocation to infrastructure forming part of the Fund's illiquid growth portfolio, we would recommend that the Fund invests in an infrastructure fund focussing on infrastructure equity (real assets), rather than infrastructure debt (bonds used to finance purchases of the real assets). Whilst infrastructure debt would not meet the return target by itself it could be considered as a small part within an Infrastructure growth portfolio as an additional diversifier and risk management tool under any manager's discretion.

As outlined in section 4.1, within the infrastructure universe it is possible to gain exposure through listed or unlisted funds. We would recommend that the Fund invests in private, unlisted, infrastructure funds. This is in recognition that listed infrastructure, which effectively is investing in the listed equities of infrastructure companies, has historically provided returns that are highly correlated to listed equity market returns. The fact that the Fund's revised investment strategy consists of a 50% allocation to listed equities also backs up the reasoning for investing in unlisted infrastructure, as there may well be instances of doubling up on exposure to certain listed equities in the allocation to infrastructure, listed equities and possibly even within diversified growth funds.

From the 2012 investment strategy review undertaken for the Fund by JLT, the JLT long term forecast for infrastructure was quoted as 7.0% p.a.. This is consistent with the SIP quoted return of Gilts + 2.5% p.a. over the long term. However, given the cashflow nature of the underlying assets within infrastructure, returns tend to be measured in internal rate of return ('IRR') terms. Often, the IRR will be quoted alongside a number that represents the value of the investment plus money returned as a multiple of the initial investment. This is often not directly comparable with the type of return quoted in the SIP and as used for the majority of the Fund's other investments. It is therefore important to assess the infrastructure returns in IRR terms given the nature of the investment, but to also be able to refer to the traditional means of measuring performance (i.e. as quoted in the SIP) because this is relevant for assessing the success of the investment strategy relative to the liabilities.

We would therefore suggest that the Fund should target an investment return, represented by the IRR, of 10-12% to ensure consistency with the stated objective within the SIP, of 7% p.a.. That is, given that the infrastructure investments are expected to occur in a staggered process (i.e. the drawdown process), it is important that the IRR targeted is above the required return as stated in the SIP. We believe the 10-12% IRR target is achievable by focussing on infrastructure equity rather than debt and through active fund management. We would recommend that this target be achieved by investing in funds offering a range of core, value-add and opportunistic infrastructure investments, to ensure diversification across geographical regions, sectors and also a mix between greenfield and brownfield investments. Section 4 highlights the different characteristics of the sectors.

Section five highlighted how an individual fund that invests in direct and co-direct investments could provide sufficient diversification. A fund of funds approach, investing in primary and secondary investments is likely to be able to achieve an even greater level of diversification than an individual fund, but would attract an additional layer of fees. Given that both structures could fulfil the brief, we believe that both should be considered by the Fund.

Another means of achieving the necessary level of diversification would be to appoint more than one manager. Whilst an investment of £150m could potentially be split across up to two infrastructure managers, we do not believe this is justified given the targeted allocation of 5% and given that diversification is possible through a single manager. That is, we believe that the following brief can be fulfilled either by a sufficiently large single fund investing in direct and co-direct investments, or through a fund of fund structure:

- An explicit investment into core / value-add / opportunistic infrastructure, on a global basis;
  - Focussed on core infrastructure equity within developed economies such as the UK, Europe, North America or Australia, but with the opportunity set to invest in value add and opportunistic assets if the characteristics are right;

We believe that it is most appropriate for the core infrastructure investment to be in stable economies which is highly regulated. However, we do not believe any further restriction on geography should be imposed. For example, a manager may be concentrated within the UK because a high level of diversification by sector and type of investment is available in what the manager believes are attractive opportunities. When it comes to value add or opportunistic infrastructure investments, whilst these are available in developed, regulated markets such as the UK, Europe, North America and Australia, the infrastructure manager should have the discretion to invest on a global basis to best take advantage of any opportunities.

It should also be remembered that, whilst there are a number of very credible infrastructure managers in the market, it is unlikely that they will all be raising funds at the time that the Fund goes out to search in relation to the mandate. In addition, potential collaboration with other LGPS could be considered if the mandate specifications are the same and the investment timeframe matches.

Given the additional fees and additional manager to monitor, we recommend that the Fund should look to appoint one manager for infrastructure investments. The Fund should invest either in a fund with exposure to direct and co-direct investments or a fund of funds structure, which offers access to a mixture of core, value added and opportunistic infrastructure investments. The one requirement of this investment is the size of the fund. Investing in a single direct / co-direct fund could potentially lead to concentration risk by geographical region, sector etc., although we believe there are funds available that have sufficient scale to mitigate these risks. As mentioned in section five, the fees associated with accessing core/value-add/opportunistic investments typically vary, and, as such, in completing due diligence on a manager who offers access to all three areas, questions should be asked to ensure that the manager is not excessively incentivised to invest in the higher fee bearing investments.

Nonetheless, should the Fund look to increase its exposure to infrastructure in the future beyond the current target of 5%, particularly if targeting a specific opportunity, it may be appropriate to consider an additional manager at that time.

Whilst fund of funds come with an additional layer of fees, as mentioned in section 4.1., this should be considered in the context of the additional diversification that is offered. This is not an unfamiliar concept to the Avon Pension Fund: the overseas property exposure is gained through a fund of funds structure managed by Partners Group. This includes direct / co-direct, primary and secondary investments. Similarly, some infrastructure managers do use fund of funds within their investment strategies to offer diversification alongside primary and secondary investments. This would be a factor to be considered in the due diligence on the investment managers, to ensure that they are not incentivised towards one type of investment over another, as the transparency of fees in cases such as this starts to reduce. It is important to note that fund of funds are not the only way to gain vintage diversification, as a single fund can also invest in a number of projects and secondaries and therefore diversify by vintage year.

6.2 Recommendation

We recommend that in order to meet the strategic objectives of the Fund in relation to an investment in infrastructure, the investment should take into account the following characteristics:

- Aim to achieve a return of gilts +2.5% p.a., as set out in the SIP;
- An unlisted fund investing in unlisted assets, based on the low correlation with typical equity markets and to take advantage of the illiquidity premium;
  - Managed by a single investment manager either in a direct / co-direct fund structure or a fund of funds structure;
- Allow debt to be considered under manager discretion for effective risk management of the portfolio;
- Invest across core, value-add and opportunistic assets to ensure a steady and predictable yield whilst still meeting the return target of gilts +2.5%;
- Implement a global mandate giving the infrastructure manager the discretion to select where investments are made to take advantage of all opportunities based on the risk/return characteristics of each deal, albeit with an expectation that the majority of exposure is in developed, highly regulated markets and in core investments;
- Subject to sufficient diversification by sector and stage of project as noted below, further constraints on geographical location should not be imposed
  - The opportunity set should be global but investments in a region should not be made if they offer sub-optimal returns and protections;
- Diversify across sectors to reduced sector concentration risk within the portfolio;
- Allow greenfield investments in addition to brownfield in order to meet return target of gilts +2.5% p.a..

6.3 Next steps

Infrastructure forms a key part of the Fund's revised investment strategy. Following this report, we recommend that the next steps to take are:

- Decide upon the broad criteria for any manager search(es);
- Consult with other LGPS regarding any potential collaboration to align any similar search activity and potentially share costs;
- Undertake any manager search(es);
- Update the Fund's ('SIP') to reflect any changes in investment strategy, including the production of a letter to satisfy Section 36 of the Pensions Act 1995.

7 Infrastructure glossary

Brownfield

Brownfield investment involves an existing asset or structure that requires improvements, repairs, or expansion. The infrastructure asset or structure is usually operational and may already be generating income.

Carried interest (Carry)

A share in the profits of an infrastructure fund. Typically, a fund must return the capital given to it by limited partners plus any preferential rate of return before the general partner can share in the profits of the fund. The general partner will then typically receive a 15 to 20% carried interest. Also known as 'carry'.

Catch-up

A specific clause in the agreement between the general partner and the limited partners of an infrastructure fund relating to the remuneration of the general partner. Once the limited partners have received a certain portion of their expected return, the general partner can typically receive the majority of profits until the previously agreed-upon profit split is reached.

Deal flow

A measure of the number of potential investments that a fund reviews in any given period.

Drawdown

The general partner will call upon investors to provide monies for investment in underlying companies. Each of a series of requests for investment capital from the limited partner to the general partner is referred to as a 'drawdown'.

Dry Powder

Dry powder is the amount of money that has been committed to an infrastructure manager, but has yet to be invested.

Due diligence

The investigatory process performed by investors to assess the viability of a potential investment and the accuracy of the information provided by the target company.

General partner (GP)

A class of partner in a limited partnership agreement. The general partner retains liability for the actions of the partnership. The GP is the fund manager while the limited partners (LPs) are the institutional and high net worth investors in the partnership. The GP earns a management fee and a percentage of profits (see carried interest).

Greenfield

Greenfield investment involves an asset or structure that needs to be agreed and constructed. Investors fund the construction of the infrastructure asset and potentially, the ongoing maintenance when it is operational.

Internal rate of return (IRR)

This is a measure of the performance of an infrastructure investment based on the initial investment costs and the investment proceeds over the period of investment. The internal rate of return for a fund is based on the cashflows into and out of the fund, as experienced by an investor. The annual rate of return would typically be lower than the IRR, representing the fact that not all monies are invested immediately.

J-Curve

The curve realised by plotting the cashflows generated by an infrastructure fund against time (from inception to termination). It is so-called because initial cashflows are negative and over time these 'below the line' investments are (hopefully!) equalled and exceeded by the returning cash flow distribution from the infrastructure commitments to the limited partners. Once these are net positive they are referred to as 'above the line'.

Leverage

This term refers to the use of debt to acquire assets, build operations and increase revenues. By using debt, a company is attempting to achieve results faster than if it only used the cash available from pre-leverage operations. The risk is that the increase in assets and revenues does not generate sufficient net income and cashflow to pay the interest costs of the debt.

Limited partnership

A legal entity composed of a general partner and various limited partners. The general partner manages the investments and is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment. The general partner receives a management fee and a percentage of profits (see carried interest), while the limited partners receive income, capital gains and tax benefits.

Limited partner (LP)

An investor in a limited partnership. The general partner is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment. The limited partner receives income, capital gains and tax benefits.

PPP/PFI

Public Private Partnerships ('PPPs) are contractual agreements between public bodies, local authorities or central government, and private companies to deliver a public, social or economic infrastructure project. Private finance initiatives ('PFI') are a form of PPP developed by the UK government.

Secondary market

A market for the sale of partnership interests in infrastructure funds. Sometimes limited partners choose to sell their interest in a partnership, typically to raise cash or because they cannot meet their obligation to invest more capital. Certain investment companies specialise in buying these partnership interests, often at a discount.

Yellowfield

Existing Infrastructure assets that require work to either upgrade or replace the asset. Although construction work is involved it is considered lower risk than greenfield as more information is available to evaluate risk (such as operational history, revenue and 'foot fall' for example)

Vintage year

This refers to the year in which the infrastructure fund was raised.

JLT Employee Benefits

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**13 December 2013**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 September 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 30 September 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

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 from 1 April 2013 will affect the next triennial 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 (section 3). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 This quarter the 2013 valuation has been used to update the funding position. The base position is the 2013 outcome which allows for short term pay growth, as declared by the actuary.

4.3 Key points from the analysis are:

(1) The funding position has risen to 84% (from 78% funding level declared for 31/3/13) and the deficit contracted to £606m (from £876m at 31/3/13).

(2) Since March the funding position has improved driven by rising real bond yields (nominal bond yields have risen from 3.2% to 3.5%; long term CPI inflation has fallen from 2.6% to 2.5%).

(3) Investment returns are marginally behind the valuation assumption over the first six months of the year since March (negative returns in the quarter to end June, but positive returns in the quarter to end September). However, this is offset by the positive move in real yields (from the funding perspective).

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £74m (c. +2.6%) in the quarter, giving a value for the investment Fund of £3,193m at 30 September 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 focuses on strategic performance of the Fund, with a summary of 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 Returns**
Periods to 30 September 2013

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	2.6%	13.9%	n/a
Avon Pension Fund (excl. currency hedging)	2.2%	13.7%	8.4%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	1.9% *(+0.7%)*	11.9% ***(+2.0%)***	8.2% *n/a*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	2.6% *(=)*	14.3% ***(-0.4%)***	8.3% *n/a*

5.2 **Fund Investment Return:** Asset class returns were mixed in the quarter with small declines in US and Emerging Market equities. European and UK equity markets performed well over the quarter whilst Gilts and corporate bonds produced modest quarterly gains.

5.3 Over the one year period there have been positive returns across all asset classes except fixed interest gilts and overseas fixed interest bonds. Property and hedge funds are showing the weakest returns within the growth portfolio, although both 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.

5.4 **Fund Performance versus Benchmark: +2.0% over 12 months, attributed to**

(1) Asset Allocation: The underweight to fixed income gilts, hedge funds and property (which all performed less well) contributed 0.4% to the outperformance over the twelve month period. The currency hedging programme contributed 0.2% over 1 year.

(2) Manager Performance: In aggregate, manager performance contributed 1.4% of the outperformance over the 12 month period, relative to the strategic benchmark.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund underperformed the average fund due to lower than average allocation to equities which experienced a strong year.

5.6 **Currency Hedging:** This quarter Sterling strengthened against the Dollar, Euro and Yen resulting in the returns from equity assets denominated in these currencies decreasing in Sterling terms. On the c.£929m assets in the programme, the total effect of underlying currency movements had a negative impact of -5.3% over the quarter, with the hedging programme offsetting this by 1.3% resulting in a net currency return on the assets in the programme of -4%. In terms of the Fund's total return, the hedging programme added 0.4% from the Fund's total return in the quarter and 0.2% over the year.

B – Investment Manager Performance

5.7 In aggregate over the 3 year period the managers' performance is in line with the benchmark. 10 mandates met or exceeded their 3 year performance benchmark, which offset underperformance by the Hedge Funds and TT. Genesis, RLAM, and Jupiter all continue to significantly outperform their 3 year performance targets.

5.8 Following the decision to divest, the vast majority of Man's portfolio has now been redeemed leaving a small amount of more illiquid assets to be realised over the coming months (less than 3% of Man's portfolio).

5.9 As part of the 'Meet the Managers' programme, the Panel met with Schroder Global Equity on 15 November 2013. The summary of the Panel's conclusions can be found in Exempt Appendix 3 to the Investment Panel Activity Report.

5.10 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. This quarter there have been no changes to the RAG status of any of the managers. 5

managers are amber rated, 3 of which are showing progress towards achieving a green rating. The only Red rated manager is Man from whom the Fund is in the process of divesting.

6 INVESTMENT STRATEGY

6.1 Changes to the Investment Strategy agreed in March 2013 are in the process of being implemented and progress is as follows:

	Project	Progress
1	DGF Mandates	Completed: Mandates fully invested.
2	Emerging Market Equity Mandate	On track: Tender submissions being evaluated. Due Diligence undertaken w/c 18 November. Appointment decision due w/c 2 December
3	Restructuring passive equity portfolio	On track: Conversion to income distributing funds to coincide with funding of DGF and EM mandates
4	Rebalancing bond portfolio	Completed: Strategic allocation between UK gilts and corporate bonds implemented 16 August
5	Infrastructure	On Track: Background paper for discussion at this meeting.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires automatic rebalancing between the allocations to Liquid Growth assets (equities and diversified growth funds) and Stabilising assets (Bonds) to occur when the liquid growth portion deviates from 75% by +/- 5%, and allows for tactical rebalancing between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 In consultation with the Investment Advisor, Officers undertook rebalancing in October to reduce the overweight to equities as the allocation was approaching the automatic trigger point for rebalancing. The latest Equity:Bond allocation is 77.8 : 22.2 as at 27 November 2013. This remains within the tactical range for rebalancing. Officers will continue to incorporate any rebalancing considerations as the new strategy is implemented.

Cash Management

7.3 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.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and during the quarter were invested in line with the Fund's Treasury Management Policy. The latest updated version of the Treasury Management Policy was approved on 22 March 2013.

7.5 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. Following the March Committee's approval of the revised Treasury Management Policy, the Fund has also been depositing cash with NatWest since the beginning of April.

7.6 During the quarter there was a net cash outflow of c. £2.6m 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.

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	222
Resolutions voted:	2,759
Votes For:	2,693
Votes Against:	68
Abstained:	7
Withheld* vote:	22

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

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

9 RISK MANAGEMENT

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

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) 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 – 30 SEPTEMBER 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	327.3	12.4	168.3	143.9		20.8							672.7	21.22%
North America	165.4	11.0				108.8							285.2	9.00%
Europe	146.3					30.7		37.5					214.5	6.77%
Japan	42.5					11.1		38.0					91.6	2.89%
Pacific Rim	52.8					9.0		30.1					91.9	2.90%
Emerging Markets					146.2	17.2							163.4	5.15%
Global ex-UK							223.4						223.4	7.05%
Global inc-UK	317.1												317.1	10.24%
Total Overseas	***724.2***	***11.0***			***146.2***	***176.8***	***223.4***	***105.5***					***1387.1***	**43.99%**
Total Equities	**1051.5**	**23.4**	**168.3**	**143.9**	**146.2**	**197.6**	**223.4**	**105.5**					**2059.8**	**65.23%**
BONDS														
Index Linked Gilts	186.2												186.2	5.87%
Conventional Gilts	93.9	14.0											107.9	3.40%
Sterling Corporate	17.8								196.0				213.8	6.74%
Overseas Bonds	75.8												75.8	2.39%
Total Bonds	**373.7**	**14.0**							**196.0**				**583.7**	**18.41%**
Hedge Funds										221.2			221.2	6.98%
Property											233.3		233.3	7.26%
Cash	4.9	13.6	2.9	8.1		5.7					6.4	33.3	74.9	1.82%
TOTAL	**1430.1**	**51.0**	**171.2**	**151.9**	**146.2**	**203.3**	**223.4**	**105.5**	**196.0**	**221.2**	**239.7**	**33.3**	**3172.9**	**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 30 September 2013

Contents

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1 Executive Summary

This report is produced by JLT Employee Benefits ("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

- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level increased by approximately 1% over the third quarter of 2013, all else being equal.
- This was driven by:
  - A small positive asset return, following positive returns from most managers and asset classes.
  - This was slightly offset by an increase on the value placed on the liabilities, due to a 0.1% decrease in the discount rate. This increases the value placed on future pension payments and hence increases the value placed on the liabilities, all else being equal.

Fund performance

- The value of the Fund's assets increased by £74m over the third quarter of 2013 to £3,173m. The total Fund (including the impact of currency hedging) outperformed the Fund's strategic benchmark over the quarter by 0.7%, producing an absolute return of 2.6%.

Strategy

- Equity markets were mixed over the last quarter, with the best returns from Europe (+6.9%) and the UK (+5.6%), whereas the USA and Emerging market equities produced small negative returns of -1.0% and -2.2% respectively.
- In equity markets over the last twelve months, Japan and Europe were the best performers with returns of 31.2% and 27.1% respectively. The three year equity returns remained ahead of the assumed strategic return but were lower than in last quarter's report as the strong markets of 2010 fall out of the analysis.
- Gilt and corporate bond markets produced modest quarterly returns as gilt yields stabilised. Over the three year period returns remain ahead of the assumed strategic return.
- The Overseas Fixed Interest return has fallen to 0.1% p.a. over three years. This has been affected by rising yields within European bonds, and more recently by the view that the US Federal Reserve would start 'tapering' its Quantitative Easing.
- Both Hedge funds and Property remain below their assumed strategic returns but there has been some improvement over the last year.

Managers

- Returns from all managers were positive in absolute terms over the last quarter, with the exception of Genesis, who returned -0.8%. The best performing funds were SSgA European equities (7.0%) and TT UK equities (4.3%). All of the other funds returned between 0% and 3%.
- Genesis' longer term returns fell significantly over the last quarter, with their one-year return falling from 10.2% to 3.6%, and their three-year return falling from 6.1% p.a. to 1.8% p.a. This is in line with emerging market equities as a whole and not due to the manager, who continue to meet their objective.

- TT outperformed the benchmark over three years but did not meet their three-year target. Negative relative returns over three years were produced by the hedge fund managers.
- All of the other managers met their three-year target returns.
- TT made changes in Q4 2011 that have had a positive effect on performance. They have underperformed this quarter but the one and three year returns remain above the benchmark. However their three-year return of 1.3% p.a. above the benchmark is below their target of +3-4% p.a.
- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds remain at a size such that Avon's investment now represents almost all of the pooled fund holdings. However, the Panel has previously concluded that the funds could be sustained even if the Avon Pension Fund was the only investor.

Key points for consideration

- Emerging market equities have underperformed developed market equities significantly over the past three years due to slowing growth in emerging markets and improving sentiment in developed market equities.
  - This short term sentiment provides potential opportunities for long term investors such as the Fund.
- The Fund's returns over the past three years have benefited from a high allocation to equities and from its bond holdings, with both returning significantly above the assumed strategic return over this period.
  - Returns from both asset classes are unlikely to be as high over the following three years given current low bond yields and deleveraging consumers and governments.
  - The Fund's exposure to alternative asset classes and changes being made as a result of the recent strategic review should provide diversification to equities and bonds.
- Whilst the Panel has investigated the issue of the SSgA regional funds being dominated by the Avon investment and is comfortable with this position, monitoring of the size of these funds by Officers should continue.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of September 2013.

Market Statistics

Yields as at 30 September 2013	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.41
Real Yield (>5 yrs ILG)	-0.04
Corporate Bonds (>15 yrs AA)	4.32
Non-Gilts (>15 yrs)	4.51

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.12	-0.23	0.24
UK Gilts (>15 yrs)	-0.02	0.51	-0.44
Index-Linked Gilts (>5 yrs)	-0.01	-0.13	-0.52
Corporate Bonds (>15 yrs AA)	-0.20	0.30	-0.63
Non-Gilts (>15 yrs)	-0.16	0.26	-0.46

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	1.3	-4.4	6.3
Index-Linked Gilts (>5 yrs)	0.5	6.6	8.3
Corporate Bonds (>15 yrs AA)	3.8	0.7	6.6
Non-Gilts (>15 yrs)	3.2	1.3	6.7

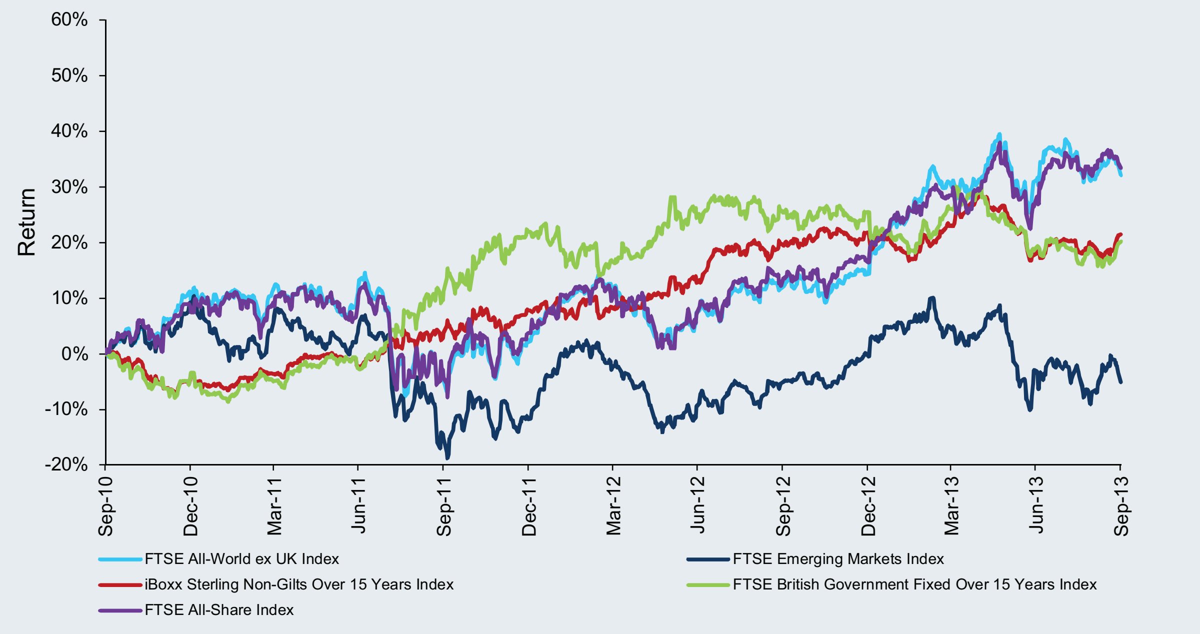
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	5.6	18.9	10.1
Overseas Equities	0.8	18.2	9.7
USA	-1.0	19.7	15.4
Europe	6.9	27.1	7.3
Japan	0.1	31.2	8.2
Asia Pacific (ex Japan)	0.6	6.9	3.2
Emerging Markets	-2.2	0.2	-1.7
Property	2.9	6.5	6.2
Hedge Funds	1.7	7.7	5.4
Commodities	-1.9	-4.4	2.7
High Yield	-3.1	8.5	8.2
Emerging Market Debt	1.2	-4.1	4.9
Senior Secured Loans	2.7	9.2	6.7
Cash	0.1	0.4	0.5

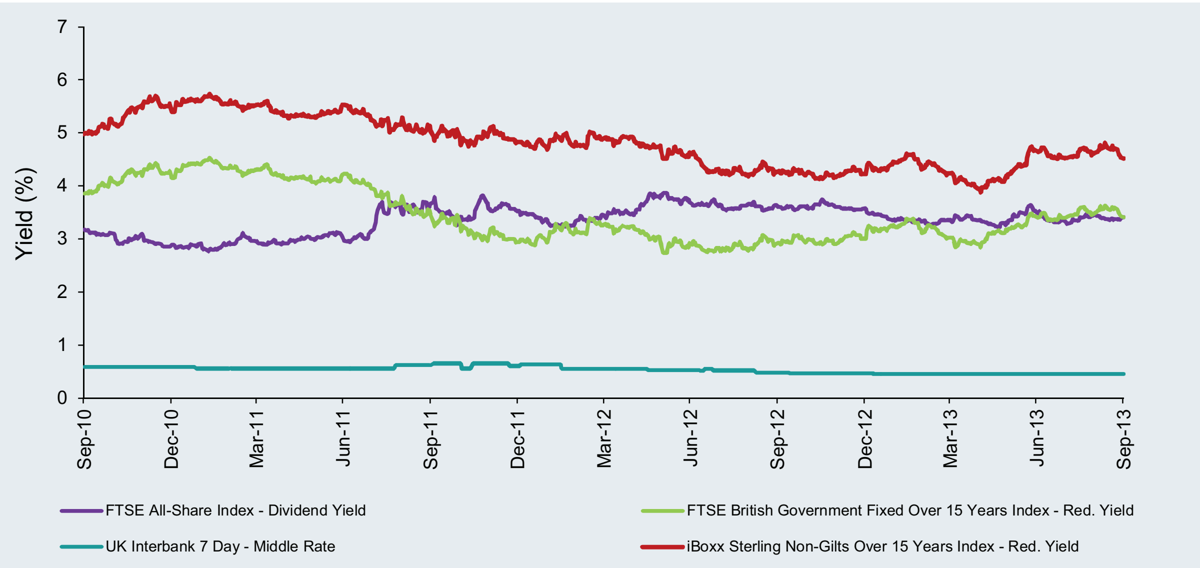
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	6.8	0.3	0.9
Against Euro	2.5	-4.7	1.2
Against Yen	5.5	26.5	6.5

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.9	3.2	3.8
Price Inflation – CPI	0.7	2.7	3.3
Earnings Inflation	-0.1	0.8	1.4

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 2011 and 2012 shows falling gilt and corporate bond yields. Apart from cash, yields fell slightly over the last quarter, following rises over the second quarter of 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 September 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	10.1	Ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. This quarter, markets have continued to rise although not as strongly as in Q2 2010 (which has fallen out of the 3-year return), hence returns are lower than in the last report.
Global Equities	8.4	9.7	
UK Gilts	4.7	6.3	Ahead of the assumed strategic return as gilt yields fell significantly during 2011. However the returns are lower than in recent reports as gilt yields have begun to rise or stabilise over the last two quarters.
Index Linked Gilts	5.1	8.3	
UK Corporate Bonds	5.6	6.0	
Overseas Fixed Interest	5.6	0.1	Behind the assumed strategic return, affected by rising yields within European bonds, and more recently by the view that the US Federal Reserve would start 'tapering' its Quantitative Easing.
Fund of Hedge Funds	6.6	2.6	Behind the assumed strategic return following a negative return in 2011. More recent returns have been steady and an improvement on 2011, with return over the last twelve months being 6.5%. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.2	This remains behind the assumed strategic return, but continues to improve as property prices begin to rise.

Source: Statement of Investment Principles, Thomson Reuters.

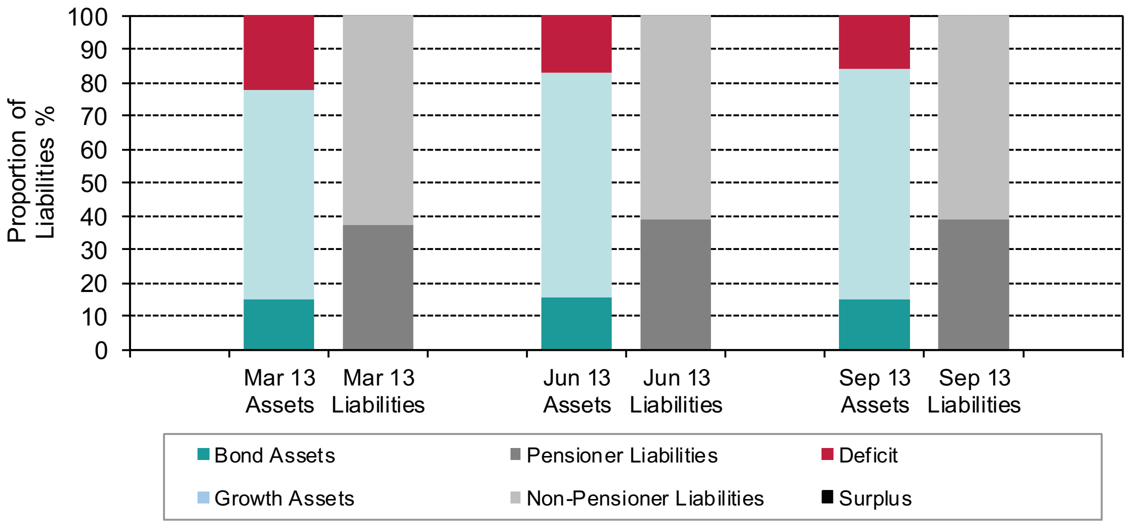
See appendix A for economic data and commentary.

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

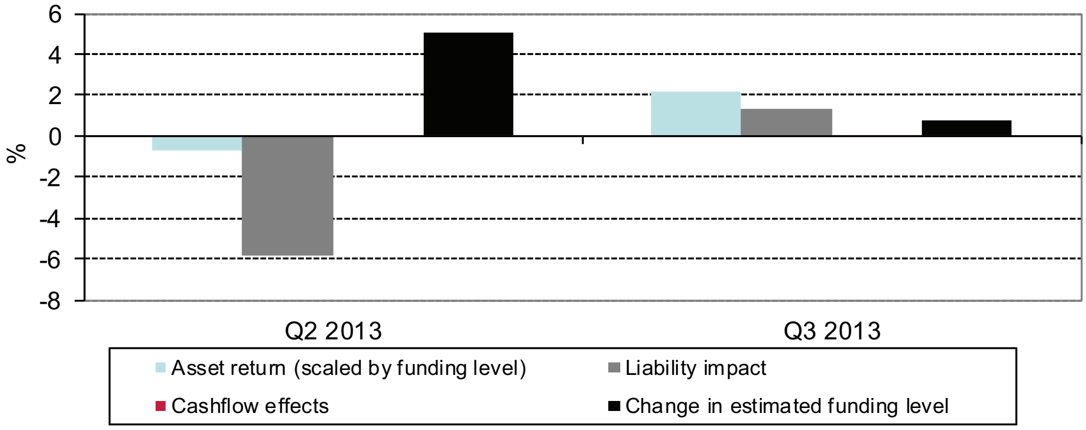
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2013.
- These calculations do not take account of any unexpected changes to the Fund membership or changes to the demographic assumptions and should not be construed as an actuarial valuation.



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level increased by approximately 1% over the third quarter of 2013, all else being equal. This was driven by:
  - » A small positive asset return, following positive returns from most managers and asset classes.
  - » This was slightly offset by an increase on the value placed on the liabilities, due to a 0.1% decrease in the discount rate. This increases the value placed on future pension payments and hence increases the value placed on the liabilities, all else being equal.
- At the valuation date, 31 March 2013, the Scheme was 78% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have increased the overall funding level to 84%. Most of this improvement came in the second quarter of 2013 when the discount rate assumption increased by 0.4%, reducing the value placed on the liabilities.

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 previously, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

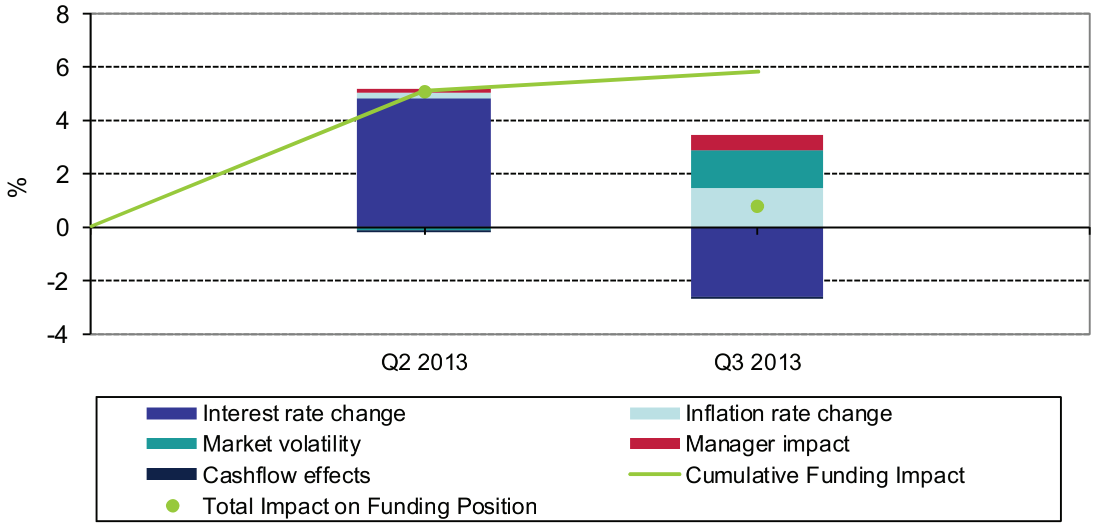


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.2%, over the last quarter.
- The value placed on the liabilities increased by 1.3% due to a small fall in the discount rate.
- Overall, the combined effect has led to an increase in the estimated funding level to 84% (from 83% at 30/06/2013).

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 rise, this has a positive impact, for example as in Q2 2013. Over the last quarter, the discount rate assumption fell slightly, which results in the negative contribution, although this was not as large as the positive impact in Q2.
- The Market Implied (RPI) inflation assumption fell by 0.1% p.a. over the quarter. This gives a positive contribution as the assumed future inflation-linked payments are lower.
- 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 had a positive impact over the quarter as overall markets produced a positive return.
- '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, contributions and disinvestments. This was negligible over the last two quarters.
- Overall the investment factors have had a small positive impact on the estimated funding level of the Fund over the last quarter.
- Over the six month period since 31 March 2013, investment factors have had a positive effect. This was primarily due to the 'interest rate change' effect in quarter two. Generally rising markets (the 'market volatility' bars) over the six month period mean the assets have broadly kept pace with the unwinding of the liabilities.

4 Fund Valuations

The table below shows the asset allocation of the Fund as at 30 September 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	30 September 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	672,642	21.2	18.0
Overseas Equities	1,394,664	44.0	42.0
Bonds	583,735	18.4	20.0
Fund of Hedge Funds	221,232	7.0	10.0
Cash (including currency instruments)	67,391	2.1	-
Property	233,247	7.3	10.0
TOTAL FUND VALUE	**3,172,910**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £74m over the third quarter of 2013 to £3,173m. Each asset class (except for Property) contributed to the increase with the majority (£43m) coming from UK Equities.
- In terms of the asset allocation, market movements resulted in a shift towards UK equities, and away from each of the other asset classes. This moved the allocation further away from the strategic benchmark weight apart for overseas equities.
- The Fund remains overweight in equities and underweight in bonds, hedge funds and property.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2013 Value £'000	30 June 2013 Proportion of Total %	Net new money £'000	30 September 2013 Value £'000	30 September 2013 Proportion of Total %
Jupiter	UK Equities	140,717	4.5	-	151,976	4.8
TT International	UK Equities	163,649	5.3	-	171,207	5.4
Invesco	Global ex-UK Equities	221,159	7.1	-	223,388	7.0
Schroder	Global Equities	201,966	6.5	-	203,330	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	101,947	3.3	-	105,517	3.3
Genesis	Emerging Market Equities	147,236	4.8	-	146,181	4.6
MAN	Fund of Hedge Funds	64,160	2.1	-	63,607	2.0
Signet	Fund of Hedge Funds	65,478	2.1	-	65,903	2.1
Stenham	Fund of Hedge Funds	35,591	1.1	-	35,966	1.1
Gottex	Fund of Hedge Funds	55,178	1.8	-	55,755	1.8
BlackRock	Passive Multi-asset	1,418,832	45.8	-	1,430,170	45.2
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	55,380	1.8	-5,500	51,032	1.6
RLAM	Bonds	171,978	5.5	-	196,005	6.2
Schroder	UK Property	135,421	4.4	-	139,246	4.4
Partners	Property	104,279	3.4	500	100,354	3.1
Record Currency Mgmt	Dynamic Currency Hedging	-3,609	-0.1	-	7,877	0.2
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	6,832	0.2	-	7,426	0.2
Internal Cash	Cash	12,949	0.4	5,000	17,970	0.6
Rounding		-	-	-	-	-
TOTAL		**3,099,143**	**100.0**	**0**	**3,172,910**	**100.0**

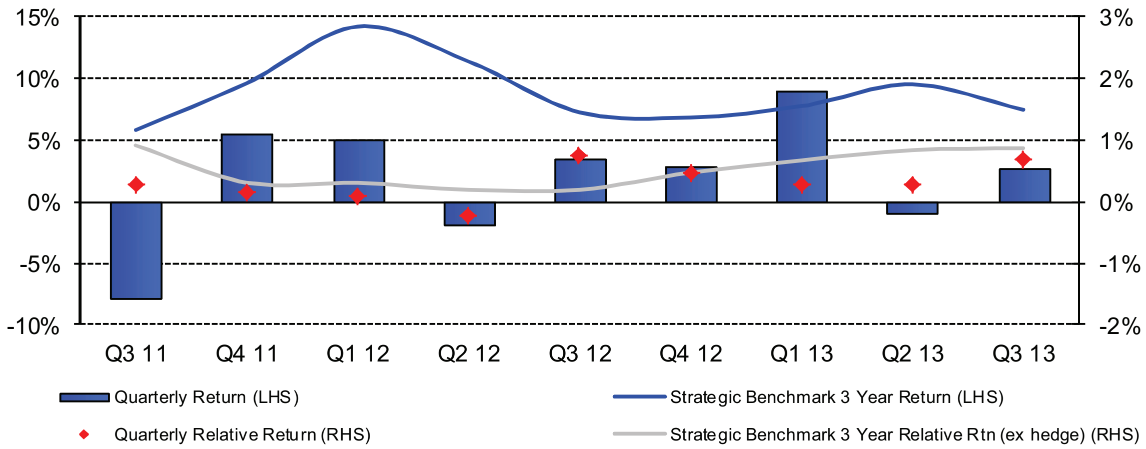
Source: Avon Pension Fund Data provided by WM Performance Services

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



fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.6	13.9	N/a
Total Fund (ex currency hedge)	2.2	13.7	8.4
Strategic Benchmark (no currency hedge)	1.9	11.9	7.4
Relative (inc currency hedge)	+0.7	+2.0	N/a

Source: Data provided by WM Performance Services

Strategy performance

The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 September 2013.

Asset Class	Weight in Strategic Benchmark	Index returns Q3 2013	Contribution to total benchmark (quarter)	Index returns 1 year	Contribution to total benchmark (1 year)
UK Equities	18%	5.6%	1.0%	18.9%	3.4%
Overseas Equities	42%	1.6%	0.8%	18.1%	7.6%
Index Linked Gilts	6%	0.5%	0.0%	6.6%	0.4%
Fixed Coupon Gilts	6%	1.3%	0.1%	-4.5%	-0.3%
UK Corporate Bonds	5%	2.2%	0.1%	2.9%	0.1%
Overseas Fixed Interest	3%	-4.2%	-0.1%	-5.5%	-0.2%
Fund of Hedge Funds	10%	-1.1%	-0.1%	4.8%	0.5%
Property	10%	2.4%	0.2%	4.2%	0.4%
Total Fund	100%				

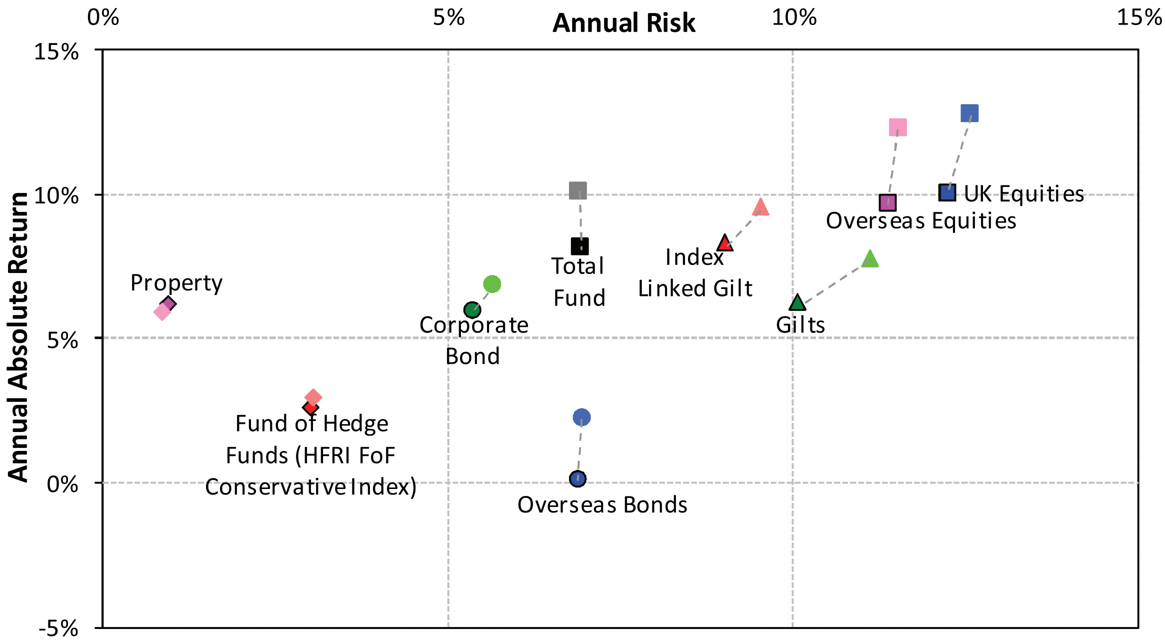
- **Market impact:** Following a turbulent second quarter, equities continued to provide strong returns over quarter three as policy makers eased concerns regarding rising interest rates with "forward guidance".
- Overseas equity returns were subdued by in sterling terms due to strengthening of sterling. The Fund's currency hedge therefore provided a positive return.
- Government bonds posted a positive return over the quarter but were still down over the one year period. Corporate bonds continued to outperform as investors sought higher yields..
- **Strategic Benchmark:** Over both the three month and one year periods the strategic benchmark was driven by equities, with the Fund benefiting from a high allocation to the asset class.
- The diversifying asset classes, hedge funds and property, proved much less volatile than equities but did not match equity returns.

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 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 18.

3 Year Risk v 3 Year Return to 30 September 2013

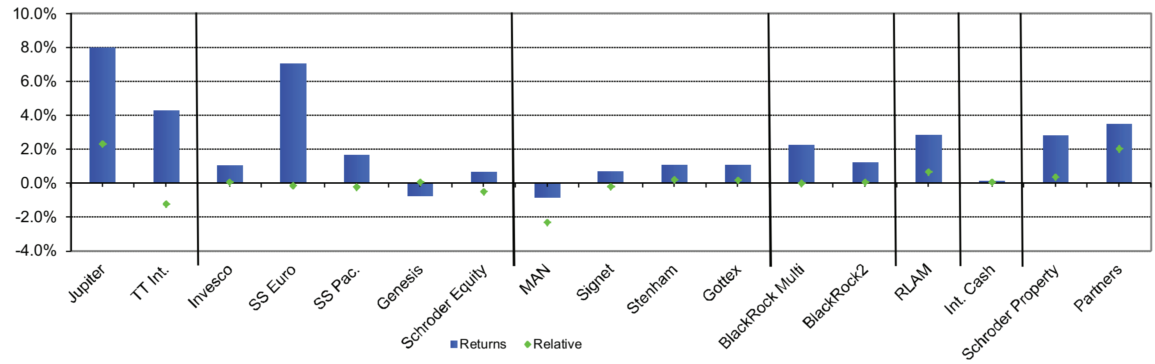


- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- Other than a small increase in the property return, the three year returns have fallen across all asset classes. This was partly due to Q3 2010 falling out of the analysis, in which there were strong bond returns and a rebound in equity markets following their falls of Q2 2010.
- Equities remain the best performing asset class over three years and continued to post positive returns over the last quarter, particularly UK equities. Despite this, the three-year equity returns reduced by 2.7% p.a. for both UK and overseas.
- The Property return has increased slightly.
- Hedge funds continue to produce steady returns, improving to 6.5% over the last year compared to 2.6% in the year to September 2012 and a negative return in 2011.
- Gilts, index-linked and corporate bonds 3-year returns fell as yields stabilised over the last quarter, leading to a low return.
- In terms of risk, the three-year volatility has decreased for each of the asset classes except property as the volatile returns of 2010 are replaced by steadier returns.
- The three-year return on equities, gilts, index-linked gilts and corporate bonds are above their assumed strategic return. Property, overseas fixed interest and hedge funds remain below their assumed strategic return.

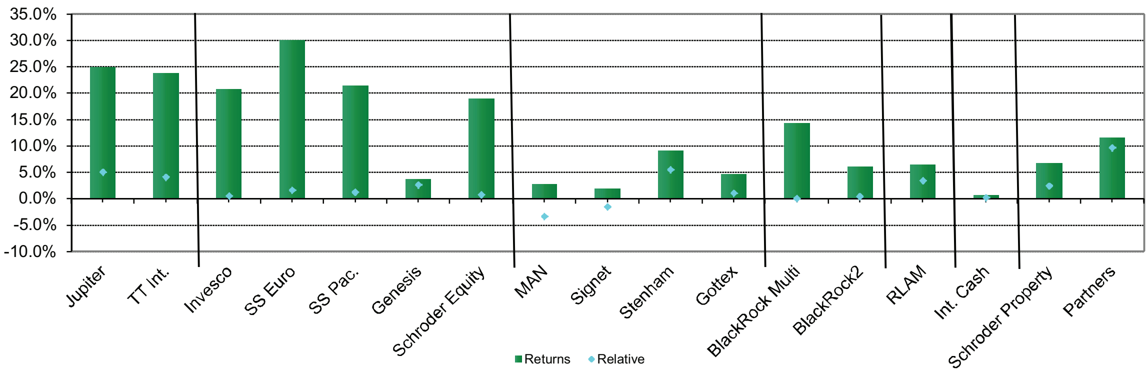
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of September 2013. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

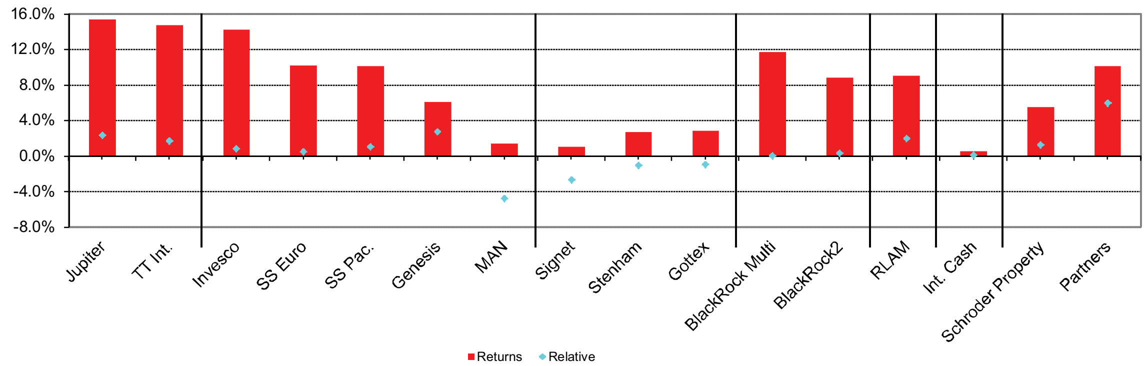
Absolute and relative performance - **Quarter to 30 September 2013**



Absolute and relative performance - **Year to 30 September 2013**



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

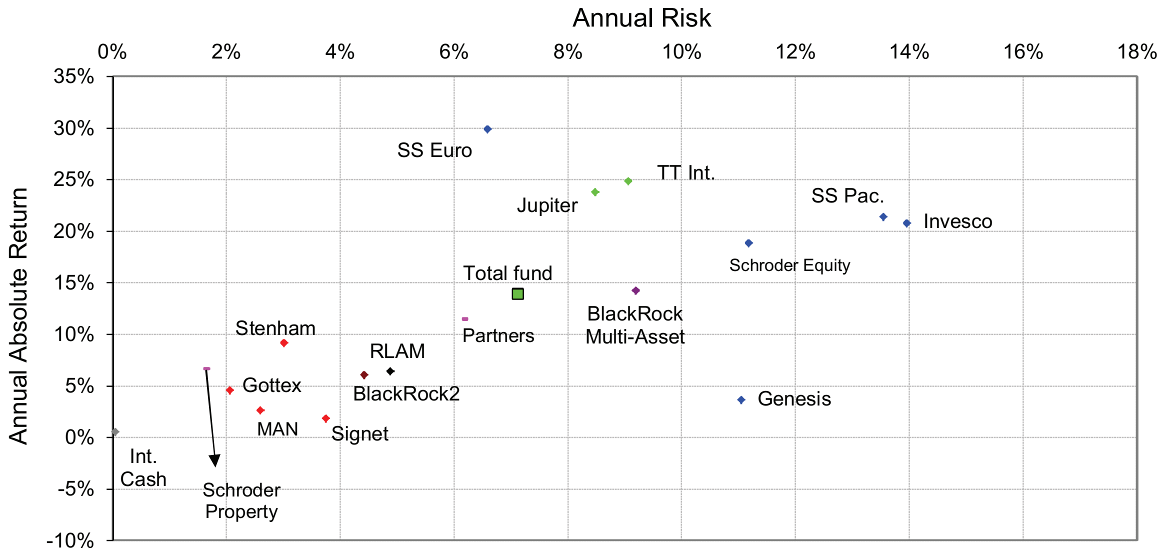
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.3	+5.0	+3.9	Target met
TT International	-1.3	+4.1	+1.3	Target not met
Invesco	0.0	+0.5	+1.4	Target met
SSgA Europe	-0.2	+1.5	+1.2	Target met
SSgA Pacific	-0.3	+1.2	+1.0	Target met
Genesis	0.0	+2.6	+2.7	Target met
Schroder Equity	-0.5	+0.7	N/A	N/A
Man	-2.4	-3.4	-6.2	Target not met
Signet	-0.2	-1.6	-3.3	Target not met
Stenham	+0.2	+5.4	-1.2	Target not met
Gottex	+0.2	+1.0	-1.0	Target not met
BlackRock Multi - Asset	0.0	0.0	0.0	Target met
BlackRock 2	+0.1	+0.4	+0.1	Target met
RLAM	+0.6	+3.4	+1.8	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.3	+2.3	+1.6	Target met
Partners Property	+2.0	+9.6	+5.5	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

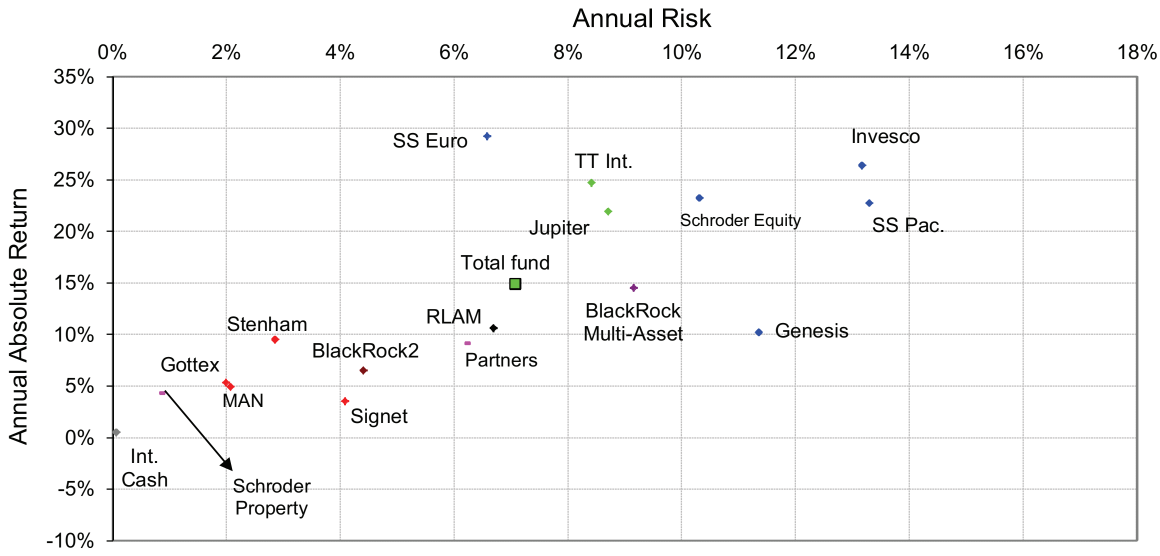
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2013 of each of the funds. We also show the same chart, but with data to 30 June 2013 for comparison.

1 Year Risk v 1 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 June 2013

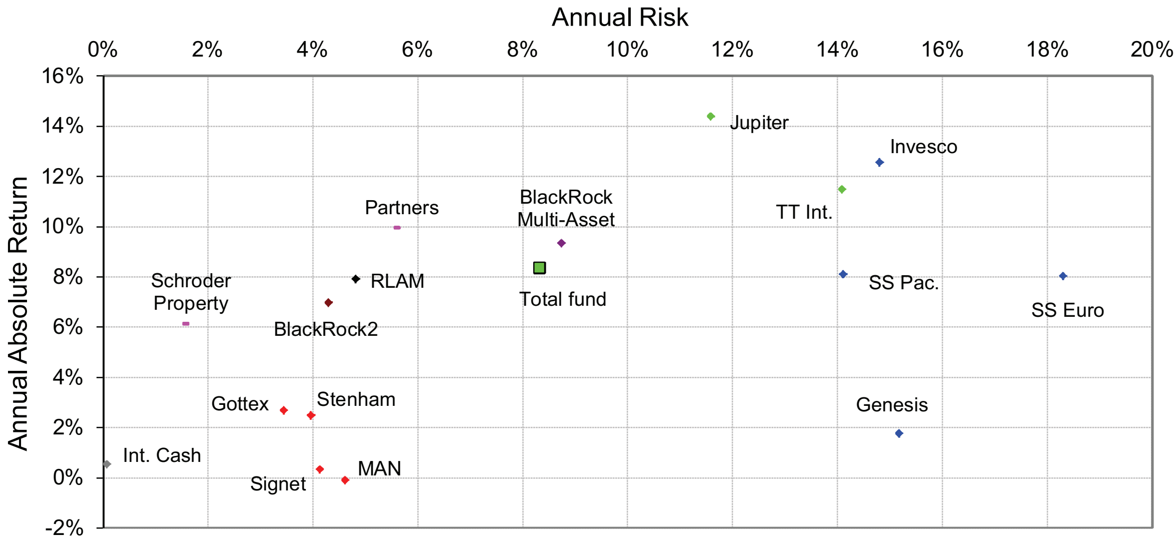


Source: Data provided by WM Performance Services

- 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 of each of the developed equity managers have remained above 20%, apart from Schroders.
- The Genesis emerging equity return has fallen from 10.2% to 3.6%, with RLAM's one-year return falling from 10.6% to 6.4%.
- Each of the hedge fund managers has seen their one-year returns decrease.
- The one year-risk figures have generally increased slightly, with the notable exception of RLAM corporate bonds.

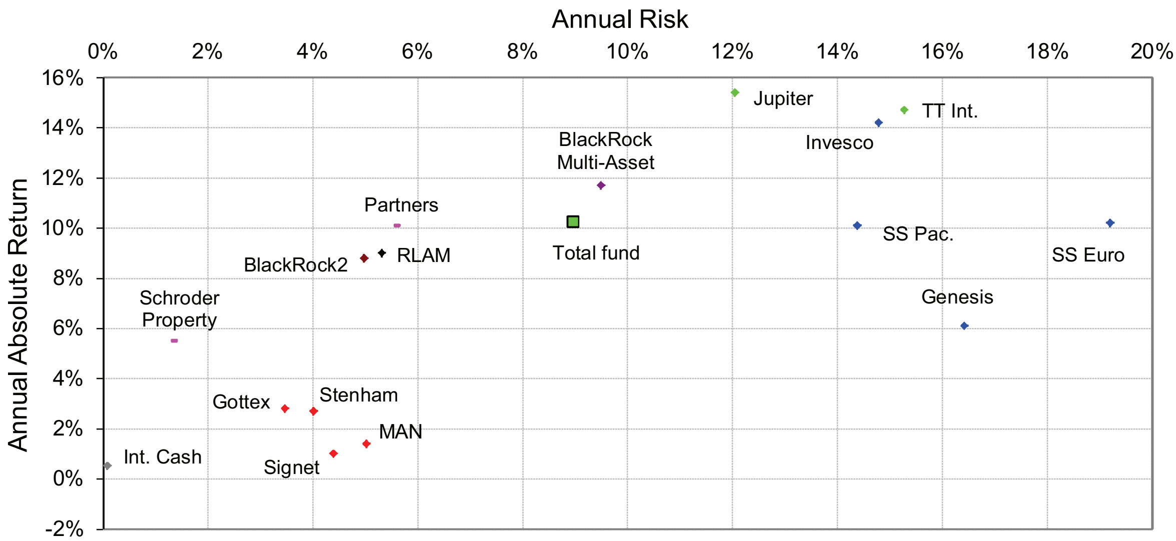
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2013 of each of the funds. We also show the same chart, but with data to 30 June 2013 for comparison.

3 Year Risk v 3 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 June 2013



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
- There has been a fall in the three-year returns for all managers except Schroder Property.
- Most notable are the equity funds, in particular TT's return has fallen from 14.7% p.a. to 11.5% p.a., and Genesis' return has fallen from 6.1% p.a. to 1.8% p.a.
- The three-year risk figures have fallen slightly for all managers, again except for Schroder Property. 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 13.

Conclusion

- The strongest returns over the one year period are from the equity and Blackrock Multi-asset funds. The one-year return from all managers was positive in absolute terms.
- Over three years, the best performer remains Jupiter at 14.4% p.a. Hedge fund returns remain the lowest at 0-3% p.a.
- Generally returns were broadly consistent with those seen last quarter, with the exception of Genesis which has seen its one and three year return fall sharply as a result of underperformance from the emerging markets relative to developed equities.
- The Fund of Hedge Fund and property managers continue to provide low volatility over both the 1 and three year period. However, over the longer three year period they have each underperformed their assumed strategic return. Each of the equity-based funds has outperformed the assumed strategic return over three years.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	▪ The new BoE Governor, Mark Carney, in his forward guidance policy reaffirmed his commitment to maintain rates at low levels at least until unemployment falls below 7%. ▪ The UK economy posted a strong quarter in Q2, with growth at 0.7%. This was led by construction and manufacturing, suggesting recovery in the economy continues. ▪ According to Markit and the Chartered Institute of Purchasing & Supply, August 2013 Purchasing Managers' Index (PMI) rose to a two-and-a-half year high of 57.2, up from July's figure of 54.8. ▪ UK equity dividend yields remain comfortably in excess of government bond yields while UK equities remain the cheapest developed equity market globally on a P/E (price to earnings) basis.	▪ The UK trade deficit doubled in the month of July to £3.1 billion from £1.3 billion in June, due to falling exports to countries outside European Union. ▪ The equity market continues to be nervous about the extent to which the US Federal Reserve will "taper" its programme of asset purchases. ▪ Towards the end of the quarter, markets became concerned about a possible escalation of the conflict in Syria that could destabilise the wider region.
Overseas Equities:		
North America	▪ The US Federal Reserve refrained from any tapering of QE and assured the markets that a hike in interest rates will follow only when jobless rate falls below 6.5% and the outlook for inflation is no higher than 2.5%. These comments led to a decrease in the 10-Year Treasury bond yield by 15 basis points and equity markets touching a new high. ▪ The underlying fundamentals in terms of consumer spending, housing and business confidence are slowly improving, making equities look inexpensive. ▪ Positive earnings growth and accelerating economic momentum suggest stronger performance from US equities.	▪ Uncertainty over the starting date of Fed's "taper" of quantitative easing, and concerns over potential conflict in Syria, led to a fall in the US equity markets. ▪ Revised US GDP forecasts by the Fed reflected a decrease in the growth rate by 0.3%. The GDP is set to increase by 2.0% to 2.3% in 2013, down from a June projection of 2.3% to 2.6% growth. ▪ Though employment figures look reassuring, the rate of growth in jobs and the quality of new jobs remains a concern. ▪ The acrimonious debate on the raising of the debt ceiling is a growing cause for concern.

Asset Class	What happened? Positive Factors	What happened? Negative Factors
Europe	■ The Eurozone emerged from an 18 month recession in the second quarter, as GDP grew by 0.3% for the 17-nation currency area. Germany and France showed the strongest signs of recovery with Q2 growth rates of 0.7% and 0.5%, respectively. ■ Business activity in the Eurozone, as measured by the Purchasing Managers' Index (PMI), rose to its highest level since June 2011. ■ The European Central Bank President, Mario Draghi, assured the markets that the ECB would be willing to extend its long-term bank lending programme in order to keep short term interest rates low. ■ The ECB left its main refinancing rate at a historic low of 0.5%, staying true to its commitment to keep rates at current or lower levels for "an extended period".	■ Standard and Poor's Ratings Services downgraded Italy's sovereign credit rating by one notch, citing the country's worsening economic prospects. S&P lowered the country's rating two levels above junk territory, from BBB+ to BBB. ■ IMF estimates see the output gap peaking in 2013 at 3%, as unemployment rates remained at an all time high of 12.1% in the month of August. Youth unemployment continued to edge higher, up from 23.3% a year ago to 23.4%. ■ According to the IMF, Greece has a shortfall of €11 billion cash in its second bailout and Eurozone governments need to fill half of that gap before the end of this year.
Japan	■ Japan's consumer price index has now risen for three consecutive months, rising at the fastest pace in almost five years in August 2013, by 0.9%. This represents good progress towards achieving the targeted annual inflation of 2% in the next two years. These rises have fuelled hopes that the economy is pulling out of deflation. ■ Japan's economy expanded at an annualised rate of 3.8% in Q2, largely driven by strong consumer spending. This shows the benefits of Mr Abe's reflationary policies and the Bank of Japan's aggressive monetary stimulus.	■ In an attempt to ease the nation's colossal debt, Mr Abe has confirmed the raising of sales tax to 8% in April 2014 and further to 10% in Oct 2015, from 5% as of today. Although this increase will be paired with new stimulus spending, economists fear that this move will derail the nascent economic recovery in the short term. ■ Slowing growth in emerging markets is affecting demand for exports, whilst a weaker yen has hit importers.
Asia Pacific	■ In an attempt to boost economic growth, the Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2.5%. ■ Upbeat Chinese trade and inflation data brought cheers to the Asian equity markets. August inflation was benign at 2.6% while export growth of 7.2% created the highest August trade surplus for the country since 2008.	■ Rising capital costs and currency depreciations have negatively affected most Asian economies. Those with large current account deficits such as India have fared particularly poorly, seeing their currencies depreciate significantly. ■ Slower commodity demand from key economies such as China still affects the wider region.

Asset Class	What happened? Positive Factors	What happened? Negative Factors
Emerging Markets	■ Buying opportunities can be seen in emerging markets as equity valuations look cheap after recent falls. ■ Higher consumer demand from the developed economies, coupled with a weak currency, is supporting the growth of emerging economies which are export oriented.	■ During the quarter, we have seen emerging economies struggle with weak currencies and dependency on foreign capital inflows to fund their current-account deficits. ■ Mexico has cut its 2013 GDP growth forecast to 1.8%, down from the 3.1% that was forecast back in July, on the back of an unexpected drop of 0.7% in the Q2 GDP figures. ■ Most emerging market economies are still facing some headwinds due to inflation pressures and are raising their interest rates to combat high prices. Brazil has raised its interest rates for the fourth time since April, while Indonesia has raised interest rates to the highest level since 2009.
Gilts	■ With the release of the August Inflation Report, the MPC adopted formal forward rate guidance, stating that it did not intend to increase interest rates until the unemployment rate has fallen to at least 7%.	■ Gilt yields continued to rise until the final week of the quarter, with the 10-year yield peaking at a two year high above 3% due to the growing view that the Federal Reserve would begin to 'taper' its monthly asset purchases.
Index Linked Gilts	■ Post a positive response for the new 2068 index-linked gilts, the Debt Management Office (DMO) has offered to issue an extra £750 million of inflation-linked bonds over the current financial year.	■ In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	■ Spreads over Government Bonds remained 'tight' over the quarter and prices have tended to follow movements in Government bonds. ■ Corporations continue to maintain healthy balance sheets.	■ The corporate bond market still suffers from a lack of liquidity while uncertainty looms over a rise in the interest rate.
Property	■ Commercial real estate values rose for the fourth straight month in August 2013. The retail sector saw growth for the first time since October 2011. ■ Mortgage approvals in the UK rose to a five year high in July 2013. Demand in housing is supported by policy measures such as the Funding for Lending Scheme and Help to Buy. ■ The construction PMI grew at the fastest pace in six years in August 2013 amid a revival in the housing market, adding to signs the economic recovery is gaining traction.	■ Over H1 2013, 77,686 homes were approved for construction which is still well short of the 220,000 per year needed to meet housing demand.

Economic statistics

	Quarter to 30 September 2013			Year to 30 September 2013		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.8%	n/a	0.7%	1.5%	n/a	1.6%
Unemployment rate	7.7%	11.1%[4]	7.3%	7.7%	11.1%[4]	7.3%
Previous	*7.8%*	*11.2%*	*7.6%*	*7.9%*	*10.7%*	*7.8%*
Inflation change[2]	0.7%	0.1%	0.4%[4]	2.7%	1.1%	1.5%[4]
Manufacturing Purchasing Managers' Index	56.7	51.1	56.2	56.7	51.1	56.2
Previous	*52.5*	*48.8*	*50.9*	*48.4*	*46.1*	*51.5*
Quantitative Easing / LTRO[3]	£375bn	€1,018bn	$3,539bn	£375bn	€1,018bn	$3,539bn
Previous	*£375bn*	*€1,018bn*	*$3,284bn*	*£375bn*	*€1,018bn*	*$2,694bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 30 September 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 Aug 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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Registered in England Number 02240496. VAT No. 244 2321 96

QUARTERLY ENGAGEMENT REPORT

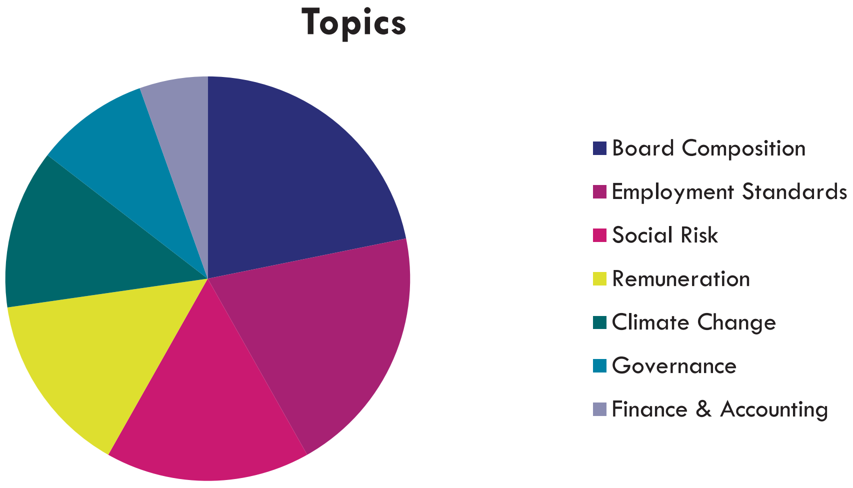
JULY TO SEPTEMBER 2013

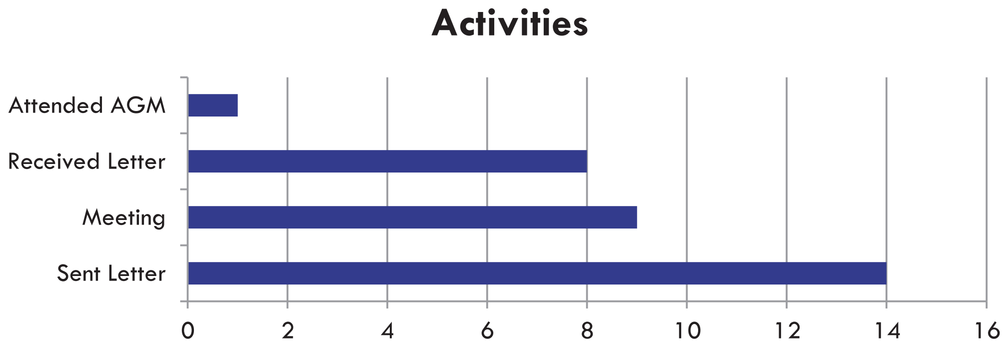
Local Authority Pension Fund Forum

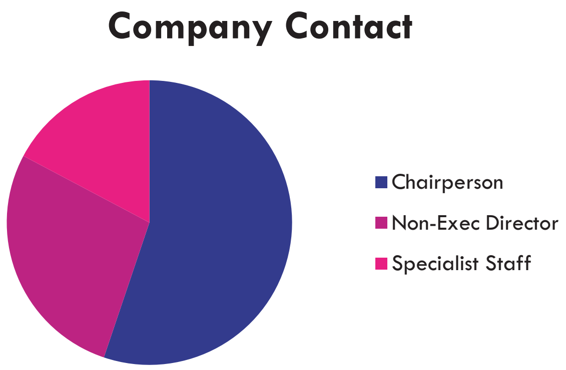
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

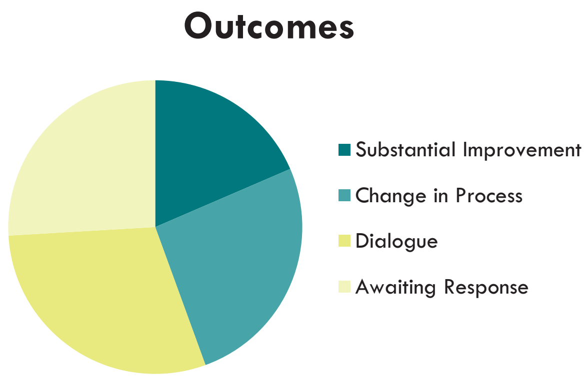
ENGAGEMENT SUMMARY

JULY TO SEPTEMBER 2013









ACHIEVEMENTS

- Attended the annual meeting of **Marks & Spencer** to express support for the Chairman Robert Swannell and the CEO, Mark Bolland. Held meetings with three companies identified in our annual global focus list: **Burberry**, **Bellway** and **Imagination Technologies**.
- Met with **Sainsbury's plc** to enquire about the impact of the Bangladesh factory tragedy on its supply chain and sourcing practices. Met with **Lonmin** to discuss ongoing challenges at the Marikana mine and the efforts by the company to settle the union dispute and improve working conditions.
- Focussed on carbon emission management with **National Grid** chair, the company subsequently improved its CDP scoring, as did **Rio Tinto**, with whom the Forum met earlier in the year.
- Received responses from **Lloyds**, **HSBC** and **Standard Chartered** on their views on the impact of the Bompas QC opinion on the legality of IFRS. Barclays replied last quarter.
- Corresponded with **Kier Group** about the recent concerns that UK companies were involved in blacklisting staff that raised health and safety concerns with management.
- Advocated in favour of mandatory audit re-tendering in a letter to the **UK Competition Commission**.

THE FORUM IN THE NEWS

Investors question the credibility of IFRS
Compliance Week, The Telegraph

LAPFF attends Marks & Spencer AGM
The Telegraph, Herald Scotland, Euronews

Climate change collaborative engagement with Rio Tinto
Responsible Investor

LAPFF maintains pressure on executive pay
Professional Pensions

Investors want better tax disclosure from extractive companies
aiCIO

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Four years after tabling a resolution at the **Marks & Spencer** annual meeting seeking an independent chair, LAPFF returned to the M&S AGM this year to express its support for the board, the leadership of Robert Swannell and the governance changes the company has made. LAPFF is aware of the pressures the company is under to turn around its clothing business and upgrade its IT and logistics infrastructure, but believes that taking a long-term view of the company's strategy is most prudent.

The Forum also continues to follow the phone hacking scandal. During the quarter, **News Corporation** shareholders approved a break-up of the company. The television and entertainment business is now owned by the surviving entity which was renamed **21st Century Fox**, and the publishing and newspaper business is owned by a new entity going by the name of News Corporation. Rupert Murdoch remains Chair and CEO of 21st Century Fox, and the Chairman of News Corporation. The original resolution filed at News Corp to appoint an independent Chair, which is supported by LAPFF, will be on the ballot at the October annual meeting of 21st Century Fox, the surviving entity.

Finally, LAPFF wrote to the Lead Director of **JP Morgan** welcoming the more robust powers granted to him, but re-iterating our request that the Company appoint an independent Chair.

PROMOTING GOOD GOVERNANCE

Global Focus List

In our governance engagement, LAPFF followed up with several companies we corresponded with during the proxy season. In a meeting with **Imagination Technologies** LAPFF expressed concerns about executive pay, board diversity, director nominations, and poll voting. The company has grown significantly in recent years and is in the process of revising its governance to keep pace with this change.

LAPFF approached **Bellway** plc regarding its director nomination process and the decision to appoint the CEO as Chair while delaying the vote on his re-election until 2014. LAPFF also discussed its views on Board diversity in the meeting and was encouraged by the company's recruitment process and the number of women on its recruitment short-list.

Aiming for A Investor Group

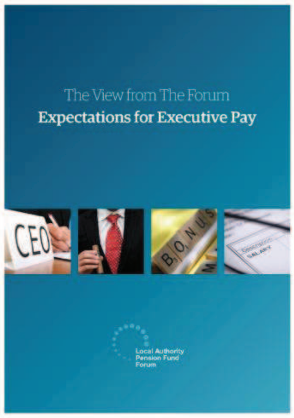
'It is our collective fiduciary duty to engage in transformational change, through amplifying long-term investor voices on climate change.'

Financial Reporting & Audit

Following the publication of the Bompas QC opinion on International Financial Reporting Standards (IFRS) last quarter, LAPFF continued to campaign for improvements to the financial accounting standards. Bompas highlighted serious issues regarding IFRS that have implications for director duties.

LAPFF wrote a follow up letter to each of the banks seeking their views on the Bompas opinion. Each bank responded to our letter indicating they were aware of the opinion and were currently considering the report of the **Parliamentary Commission on Banking Standards**. They also indicated they were waiting for more guidance from the Bank of England, the Financial Conduct Authority and the Prudential Regulation Authority before formulating a further response.

Executive Pay



Following on the successful launch of LAPFF's new Expectations for Executive Pay, we held meetings with Afren and Burberry to discuss each company's approach to executive pay. **Afren** recently lost its remuneration vote by a wide margin confirming shareholders' ongoing concerns about pay at the company. LAPFF had last met with Afren in 2012 to discuss pay. In the meeting this quarter LAPFF sought an explanation of the poor vote results from the new remuneration committee chair and expressed concerns about the pay structure, performance conditions, and discretionary bonuses. While the company is in the process of reforming its pay, this is a company LAPFF will continue to watch.

A meeting has been arranged with **Burberry** due to concerns about the company's adjusted profit measures and the impact this had on pay in the year. LAPFF also has questions about the board, and the plans for appointing new independent non-executive directors.

MANAGING ENVIRONMENTAL RISK

Climate Change

As part of the '*Aiming for A'* coalition with other investors, LAPFF is advocating that major UK-listed utility and extractive companies make carbon management an integral part of the business strategy. Companies are encouraged to aim for inclusion in CDP's Climate Performance Leadership Index (CPLI) by achieving an 'A' rating.

At a meeting with the Chairman of **National Grid**, LAPFF supported progress on governance, strategy and target-setting, as well as initiatives contributing to emission reductions. The company has subsequently raised its CDP rating from a 'C' to a 'B'. The rating for **Rio Tinto** which the Forum engaged with in the last quarter, also improved from a 'C' in 2012 to a 'B' in 2013.

A meeting with representatives from **Royal Dutch Shell**, included discussion of action the company can take relating to its Scope 3 emissions (those related to commercial activities) which are much larger than their direct emissions. The company remained a 'B' in the 2013 scorings which were revealed in September. Taking into account feedback from a range of company meetings, the group is encouraging CDP to develop sector frameworks, to more closely reflect the strategic challenges unique to the energy, materials and utilities sectors.

In September, LAPFF joined other investors representing almost $3 trillion in assets under management writing to the world's 50 largest energy and power companies on carbon asset risk. Companies were asked to disclose information on capital expenditure plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate.

TARGETING SOCIAL ISSUES

Employment Standards

The RANA Plaza factory collapse in Bangladesh has had a significant impact on how companies think about factory safety. Following our meeting with Asscociated British Foods last quarter, LAPFF wrote to **Sainsbury's**, **Tesco**, **Next**, and **N Brown Group** to ask how those companies have responded to the increased scrutiny on Bangladesh.

More than 4 million people work in the garment industry in Bangladesh. It is the second largest apparel exporter next to China.

Although **Sainsbury's** did not have suppliers in the RANA Plaza, it was clear from our meeting with the company that they are not resting on their laurels and have put in place a number of initiatives to address building safety concerns. **Next** had a similar response.

LAPFF also met with the Chair of **Lonmin** this quarter to get an update on the company's response to the Marikana mine incident in August 2012. We were pleased to hear Lonmin has reached a settlement with the Association of Mining and Construction Workers. It has also put in place a strategy to implement the five point plan to address working conditions and community relations which was first announced at its January 2013 annual meeting.

Finally, on the back of recent media reports that several UK construction firms were involved in blacklisting of union workers that reported health and safety concerns, LAPFF wrote to **Kier Group** to seek the companies' views. Kier Group replied, stating that its joint venture BFK had agreed a statement with Unite on the issue.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

The Forum exchanged letters with the **Financial Reporting Council (FRC)** regarding the Bompas QC opinion on IFRS. LAPFF has done further research on earlier FRC Opinions regarding the issue of true and fair view. Our research shows that the Bompas Opinion does not disagree with Mr Moore's 2008 Opinion for the FRC on the law. Mr Bompas' concern with the Moore Opinion is that he cannot extract a true and fair view (or fair presentation) requirement from IAS 1, nor is there an ability to override an IFRS in order to achieve it.

There are issues around the 1993 Opinion of Mary Arden QC. An academic paper from 1993 written by a former ASB and IASB board member, states that Arden QC had confirmed that what true and fair view ***meant*** was changeable according to the views of accountants. However, neither that Opinion, nor those before or after it, all from the same chambers, says anything of the sort. The opinions could not be more explicit that what true and fair view means is the same as it did when it first went into legislation in 1947. The opinions state that the content to achieve it is dynamic and can change, but not the meaning. The 1983 Hoffman/Arden Opinion states that true and fair view is the standard required for the accounts to comply with company law irrespective of any codification of accounting methods also put into statute. The function of company law, and the accounts for it, is shareholder accountability including capital maintenance for shareholder and creditor protection (solvency and lawful distributions included).

In June 1993 David Tweedie is quoted in a Financial Times article saying that the 1993 Opinion had changed the law, giving him power to take standards in a different direction. It has been the false impression, created by accountants, around a legal opinion that itself is correct on the law that has been used to set standards, and a Framework (for both the ASB and the IASB) that positively deviates from company law, including masking insolvency, a situation entirely at odds with the law.

On other issues, LAPFF sent a letter to the **UK Competition Commission** to advocate in favour of mandatory audit retendering and raising concerns about the concerns about market concentration in the audit industry. The Forum also joined other investors in writing both to the **US Securities and Exchange Commission** and **Natural Resources Canada** to urge the adoption of a consistent global standard for all significant tax and royalty payments made by extractive companies across their global operations.

In 2011, the Forum supported the US **Environmental Protection Agency's (EPA)** authority to regulate carbon emissions. Via its membership of the Investor Network on Climate Risk (INCR) LAPFF co-signed a letter to President Obama this quarter to support carbon pollution standards for electric power plants, the biggest source of carbon emissions in the US. The EPA has now proposed new performance standards for gas and coal-fired electricity generation stations.

The LAPFF Chair also met with the **Green Investment Bank** who wished to discuss the substantial carbon savings to be had from investments such as off-shore wind, waste and energy efficiency projects which provide the right level of financial returns.

CONSULTATION RESPONSES

LAPFF submitted a consultation response to the **International Integrated Reporting Council** (IIRC) on its draft reporting standards. In our response, we welcomed efforts by the IIRC and advocated that any future reporting standard should provide concise communication on strategy, governance, performance and prospects in the context of short, medium and long-term value creation.

As it continued to push for improved regulations on corporate governance, LAPFF responded to a consultation by the **Department for Business Innovation and Skills** (BIS) consultation on transparency of UK company ownership and increasing trust in UK businesses.

All consultation responses submitted by LAPFF can be viewed online at: http://www.lapfforum.org/consultations.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events is listed below.

- **Marks & Spencer annual meeting**
- **30% Club Global Launch –** hosted by EY
- **Responsible Tax seminar –** hosted by UK SIF
- **Sustainable Investing best practice lecture**
- **Analysis of reporting trends in the FTSE 100 –** hosted by Black Sun
- **Zero Carbon Britain –** hosted by the All Party Parliamentary Group on Climate Change
- **Portfolio Carbon –** hosted by UNEP FI

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration, Board Composition	Change in Process
Bellway	Board Composition, Governance	Substantial Improvement
Burberry	Remuneration, Board Composition	Dialogue
HSBC	Finance & Accounting	Dialogue
Imagination Technologies	Board Composition, Remuneration	Change in Process
J Sainsbury	Employment Standards, Social Risk	Substantial Improvement
JP Morgan	Board Composition	Awaiting Response
Kier Group	Employment Standards	Dialogue
Legal & General	Remuneration	Dialogue
Lloyds	Finance & Accounting	Dialogue
Lonmin	Employment Standards, Social Risk	Change in Process
Marks & Spencer	Board Composition, Governance	Substantial Improvement
N Brown Group	Employment Standards, Social Risk	Awaiting Response
National Grid	Climate Change	Change in Process
Next plc	Employment Standards, Social Risk	Dialogue
Royal Dutch Shell	Climate Change	Dialogue
Standard Chartered	Finance & Accounting	Dialogue
Tesco	Employment Standards, Social Risk	Awaiting Response

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

www.lapfforum.org

Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow 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 Midlands PTA Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**13 DECEMBER 2013**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR 7 MONTHS TO 31 OCTOBER 2013;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 October 2013;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 31 OCTOBER 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: 7 months to 31 October 2013
Appendix 2 Summary Budget Variances: 7 months to 31 October 2013
Appendix 3A Balanced Scorecard : 3 months to 31 October 2013 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 October 2013 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 October 2013 *(Retirements from DEFERRED status)*
Appendix 5 Active membership statistics over 54 months to 31 October 2013
Appendix 6 Joiners & Leavers statistics over 54 months to 31 October 2013
Appendix 7 Summary Performance Report on Scheme Employers/APF performance for the period to 31 October 2013 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds*
Appendix 8 Risk Register

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 7 months to 31 October 2013. This information is set out in Appendices1 and 2**.**

2.1 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 October 2013 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 October 2013 as well as the Risk Register.

2 RECOMMENDATION

That the Committee notes:

2.2 Administration and management expenditure incurred for 7 months to 31 October 2013

2.3 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 October 2013

2.4 Summary Performance Report for period from 1 April 2011 to 31 October 2013,

2.5 Risk Register.

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 7 months to 31 October 2013 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2014 is for net expenditure to be £751,000 over budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £20,000 due to the late appointments of staff in the Benefits and Data Quality teams. In that part of the budget that is not directly controlled expenditure is forecast to exceed the original budget by £771,000. This is due to increased Investment management fees resulting from the rise in markets since the budget was set, partly offset by a lower than expected expenditure on investment advice.

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

5 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 31 October 2013

5.1 The information provided in this report is consistent with the methodology applied to the Council generally but has been customised to reflect the special circumstances of the Avon Pension Fund. Full details of *performance against target,* in tabular and graph format, are shown in **Appendices 3A and 3B.**

6 ADMINISTRATION PERFORMANCE

6.1 The level of work outstanding from tasks set up in the period (Item C3 and graphs 4-6 of **Appendix 3A and 3B**) in the 3 month period is reported by showing what *percentage* of the work is outstanding. In this period 4772 new cases were received and 5111 were cleared representing 107% of outstanding cases.

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

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

6.4 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 October 2013

6.4.1 *Retirement Questionnaires*

Appendix 4A reports on the customer satisfaction based on 61 questionnaires returned from active members retiring. On average 71% received their lump sum payment within "10 day" target (See chart). Item 3A on Appendix 4A does disclose an 80% success rate for paying the lump sum within 10 days of retirement.

Appendix 4B reports on the customer satisfaction based on 30 questionnaires returned from former active members retiring from deferred status. 88% received their lump sum and their first pension payments within "10 day" target (See chart).

6.4.2 ***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 92%.

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 2010 to identify opt outs in a reportable field. Reports run indicate that only 221 members with more than 3 months service opted out over the 43 month period to 31 October 2013. When annualised this is 62 and expressed as percentage of the total membership of 34,500 this is only 0.18 % and is an encouraging sign that significant numbers of members are not leaving the LGPS.

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 meeting.

8 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (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 48 months period from 1 May 2009 to 31 July 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. However as at 31 October 2013 it had **increased to 35,510 compared to 32,688 a year earlier.**

8.3 The Committee will be kept informed of the on-going changes and the effect it is having on Scheme membership. In the event that 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 Pensions Administration Strategy. The Report for the period from 1 April 2011 to 31 October 2013 is included as **Appendix 7**.

9.3 The 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 31 October 2013.
- Report on any late pension contributions by employers to the Fund due for the 3 months to 31 October 2013.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 The project is progressing towards electronic receipt of all member data change information starting from April 2014:

10.2 **Employer Self Service: Update**

Employers were advised that *Employer Self Service* will be the only acceptable way to send the Fund member data (starters/leavers/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 in over a 12 month period and will only go on line when changes arise. Following this and having received appropriate training on usage those employers who continue to send in changes in paper format will be charged additional administration costs. As at 31 October 2013 22% of employers had received full training on ESS data submission – representing 59% of total scheme membership.

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 Fund's pension administration 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. In 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 was the first local authority employer in the UK to go live 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 showcasing the Avon Pension Fund's success. The Fund has also offered to be a *Reference Site* for *i-Connect* for other local authorities.

The latest developments since the last Committee Report are:

- **B&NES** has gone live on *i-Connect* from August 2013.
- **North Somerset Council** has finalised its payroll data extract and is on course to go live in December 2013.

- **South Gloucestershire (SG) Council**: have requested deferment on taking i-Connect pending the revised extract specification requirements needed to incorporate the new LGPS 2014.

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.

11 RISK REGISTER

11.1 The Risk Register follows the format of the Council's risk register for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

11.2 The Risk Register was reviewed by the pension management team in October 2013. The risks identified fell into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

11.3 The Fund has invested significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

11.4 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8.**

11.5 The Risk Register is updated quarterly by officers and reported to Committee annually or when there is a change in significant risks.

12 INTERNAL AUDIT REPORTS

12.1 **Pensions Administration**: Internal audit completed its follow-up review of Pensions Administration carried out in February 2013. Of the recommendations identified in the February audit three High Risk Exposure recommendations had been fully implemented with one not implemented. The outstanding High Risk concerned the review and updating of the Records Retention Schedule and will be implemented by March 2014. All Medium Risk Exposure recommendations had been fully implemented.

13 RISK MANAGEMENT

13.1 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.

14 EQUALITIES

14.1 No items in this Report give rise to the need to have an equalities impact assessment.

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

16.1 There are no other issues to consider not mentioned in this Report

17 ADVICE SOUGHT

17.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) 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. Geoff Cleak, Acting Pensions Manager (*All except budgets*) Tel: 01225 395277
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 2014

	SEVEN MONTHS TO OCTOBER 2013			FULL YEAR 2013/14		
	BUDGET	ACTUAL	VARIANCE	BUDGET	FORECAST	VARIANCE
	£	£	£	£	£	£
Administration						
Investment Expenses	47,007	40,036	(6,971)	71,483	71,483	0
Administration Costs	44,884	39,768	(5,116)	76,944	76,944	0
Communication Costs	52,578	28,937	(23,641)	90,133	90,133	0
Payroll Communication Costs	47,667	25,747	(21,920)	81,716	81,716	0
Information Systems	143,623	136,763	(6,860)	246,211	246,211	0
Salaries	861,298	822,715	(38,583)	1,476,511	1,456,511	(20,000)
Central Allocated Costs	248,413	204,510	(43,904)	425,851	425,851	0
Miscellaneous Recoveries/Income	(78,358)	(52,803)	25,555	(134,328)	(134,328)	0
Total Administration	**1,367,112**	**1,245,673**	**(121,439)**	**2,334,521**	**2,314,521**	**(20,000)**
Governance & Compliance						
Investment Governance & Member Training	191,190	79,821	(111,370)	327,755	277,755	(50,000)
Members' Allowances	22,811	(3,555)	(26,366)	39,105	39,105	0
Independent Members' Costs	16,333	13,583	(2,751)	28,000	28,000	0
Compliance Costs	274,824	269,665	(5,159)	471,127	471,127	0
Compliance Costs recharged	(111,417)	(79,986)	31,431	(191,000)	(191,000)	0
Total Governance & Compliance	**393,742**	**279,527**	**(114,215)**	**674,987**	**624,987**	**(50,000)**
Investment Fees						
Global Custodian Fees	75,483	37,517	(37,967)	129,400	129,400	**0**
Investment Manager Fees	7,306,542	7,198,706	(107,836)	12,525,500	13,346,500	821,000
Total Investment Fees	**7,382,025**	**7,236,223**	**(145,802)**	**12,654,900**	**13,475,900**	**821,000**
NET TOTAL COSTS	**9,142,879**	**8,761,422**	**(381,457)**	**15,664,408**	**16,415,408**	**751,000**

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APPENDIX 2

Summary of main budget variances: Forecast for full year as at 31 October 2013

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(20,000)	Reduced expenditure following delayed appointments of staff to Benefits and Data Quality sections. Positions have now been filled apart from half of one post that is currently in the process of being filled.
Administration	**(20,000)**	

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Investment Governance & Member Training	(50,000)	The budget for investment advice in relation to the new mandate searches included contingency for which will not be required.
Investment Manager Fees	821,000	Investment Manager fees are currently forecast to be above budget as a result of the investment returns exceeding the budget due to strong markets since setting the budget (based on asset values as at December 2012).
Expenditure outside direct control	**771,000**	
Total Forecast Overspend	**751,000**	

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

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 31 Oct 2013

	INDICATOR	Green Red Amber	2012/13 Actual	Target for 2013/14	Actual 3 months to 31/10/2013	Comments	
A	**Customer Perspective**						
1a	General Satisfaction with Service - clinic feedback	G	0%	N/A	N/A	No clinics were held in the period and none are expected in 2013	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	97%	97%	95%	Generally good from response from retirees	
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	A	59%	90%	86.96%	20 of 23 Tasks were completed within target	
	Retirements [15 days]	G	83%	90%	93.39%	565 of 605 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	A	68%	75%	77.79%	1012 of 1301 Tasks were completed within target	
	Refunds [5 days]	G	80%	75%	83.67%	82 of 98 Tasks were completed within target	
	Transfer Ins [20 days]	A	45%	75%	65.33%	98 of 150 Tasks were completed within target	
	Transfer Outs [15 days]	A	67%	75%	79.19%	118 of 149 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	95.92%	941 of 981 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%	Should always be 100%	
3	Number of complaints	G			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	None due this quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	3000 pcm	11,106	3702 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			N/A	due next quarter	
9	Annual Benefit Statements distributed by year end	G	98%	100%	100%	All due statements issued before deadline (5.10.2013)	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining	G	3%	4%	0%	Ahead of target	
2	% Sickness Absence — a) Short Term — b) Long Term	G	a) 1.30% b) 0%	a) 3% b) 0%	a) 3.62% b) 0%	Below APF target. 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) 4% b)100%	a) 0.3% b) 100%	a) 0.3% 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%	98.0%	8349 calls, 8185 answered within 20 seconds	Graph 4
3	Maintain work in progress/outstanding at **below 10%**	G	20658 created, 20892 cleared		107.00%	4772 Created, 5111 cleared	Graphs 5 6 & 7)
4	Year End update procedures (conts & salaries rdue by 30.04.13	G	85%	100%	98%	All information received by 31st May - now complete	
5	No. of errors (due to incomplete member data from employers)	G	2%	3%	2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	92.00%	Business Financial Services (inc Pensions)	
2	Temp Staff levels (% of workforce)	G	0.74%	3%	4.03%	Within target	

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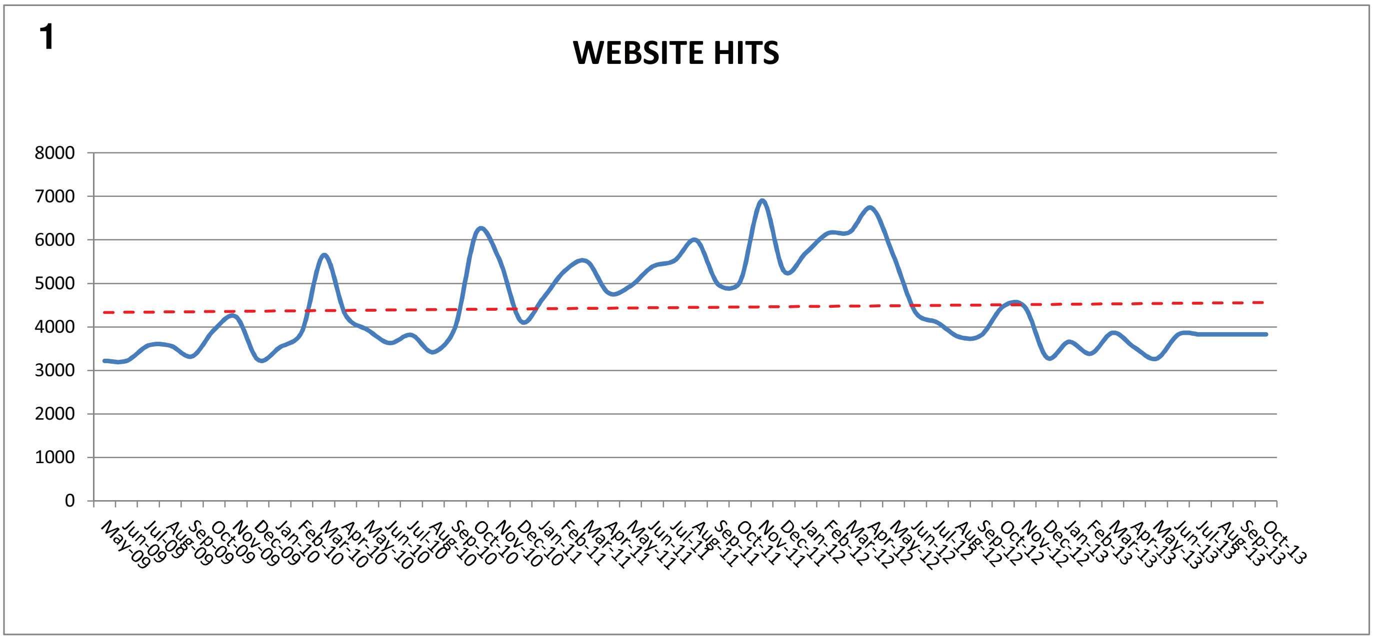
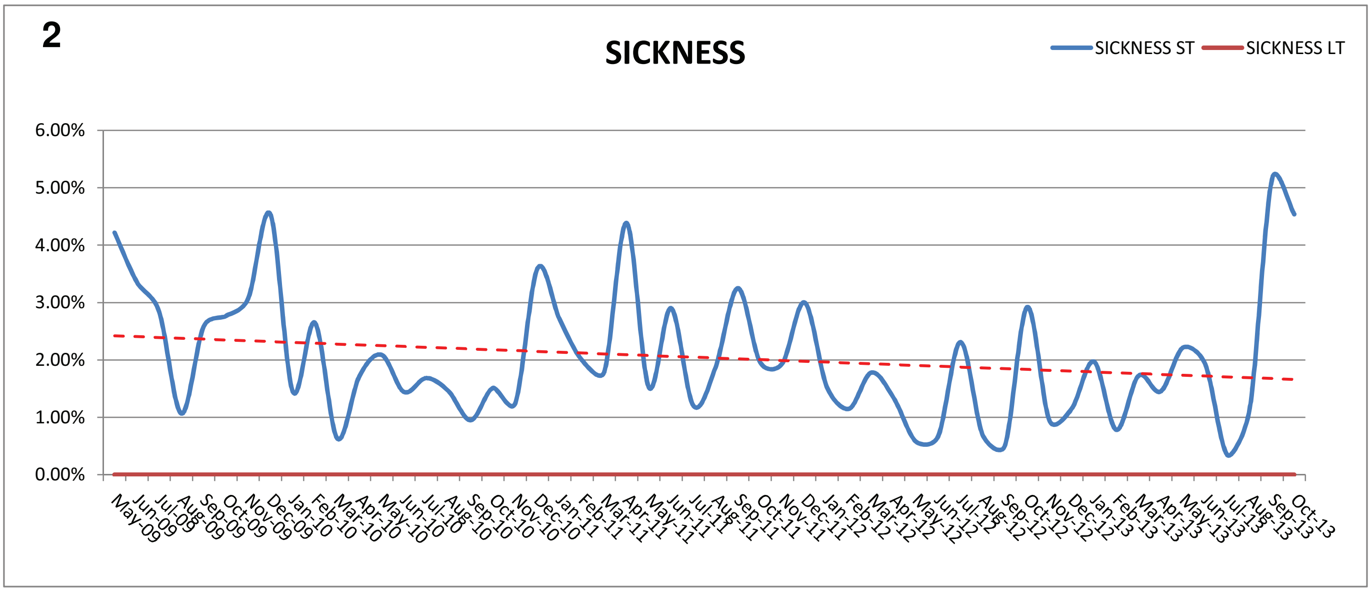
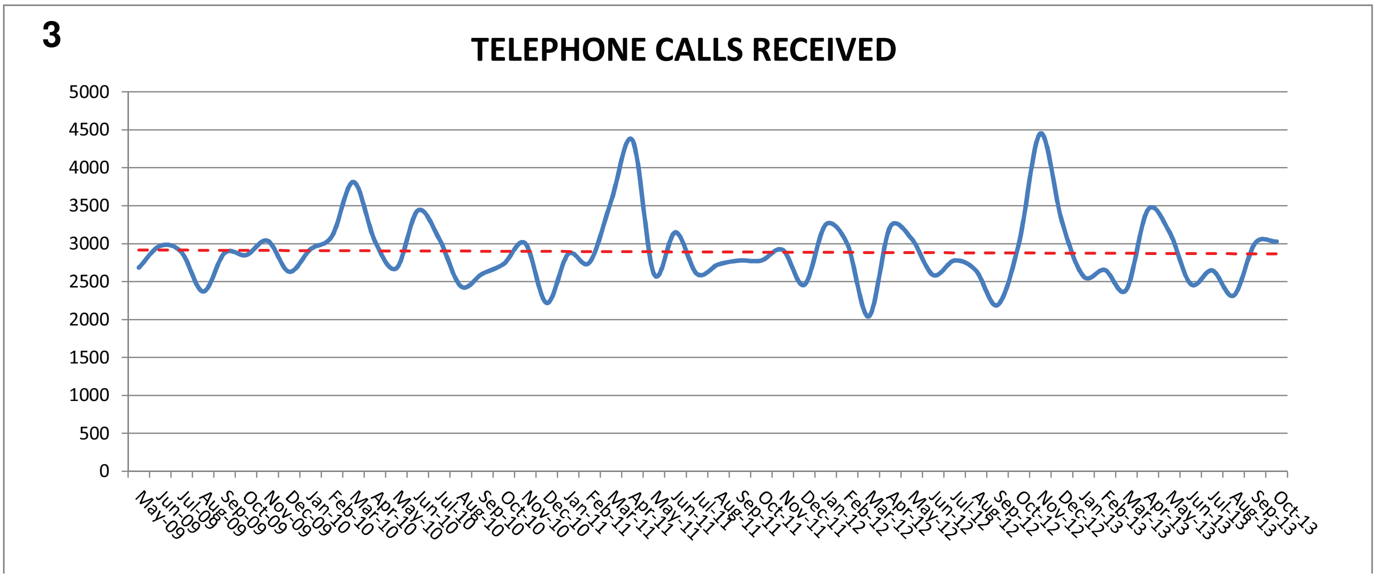
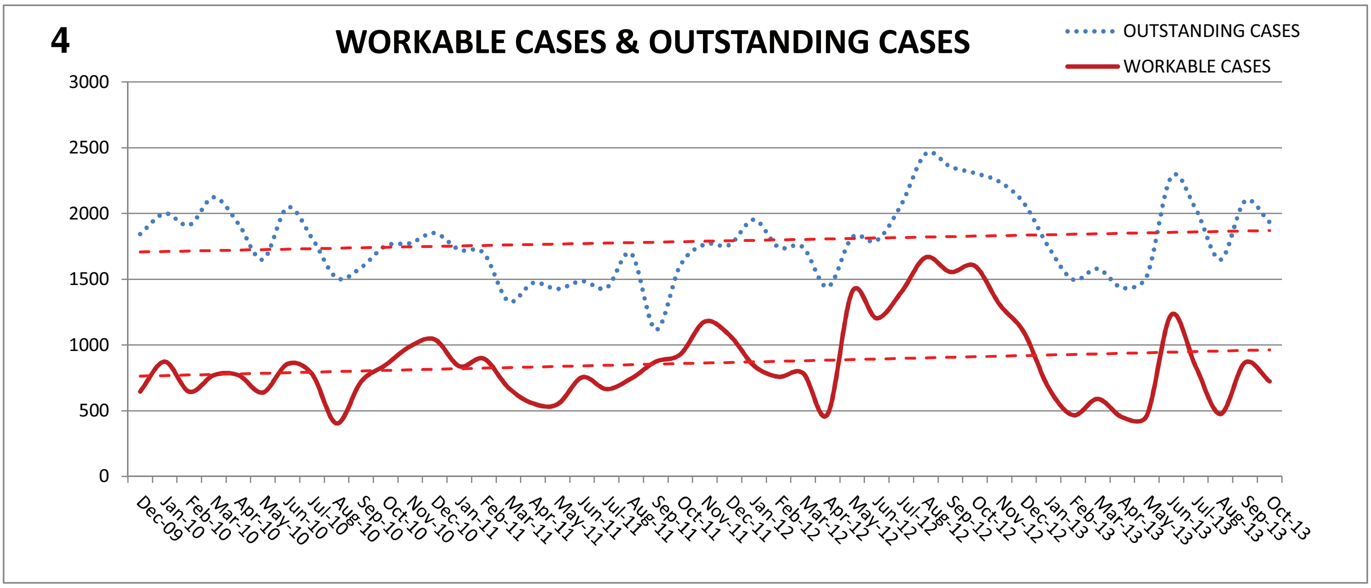
Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st October 2013

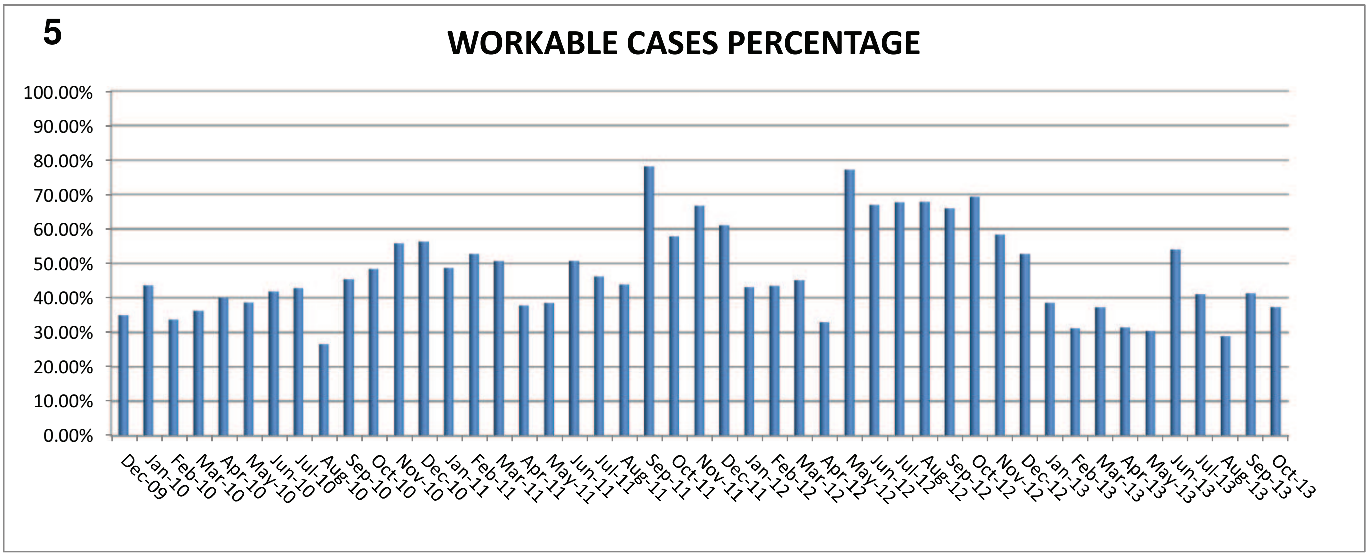


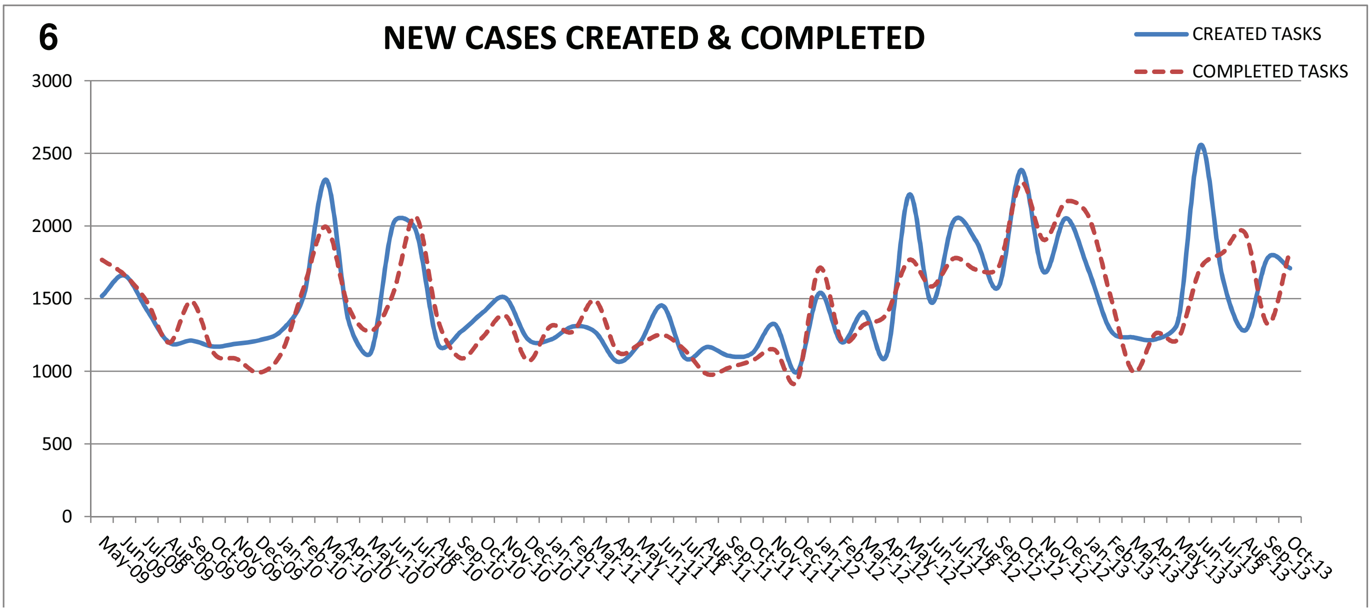




Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st October 2013







Appendix 4A Customer Feedback Aug - Oct 2013 Retirement from ACTIVE Status

Responses to Retirement Questionnaire

	Number of Questionnaires in this period		61		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	59	97%
			NO	2	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	25	41%
		B	Within 10 working days after R'ment date	20	33%
		C	Later than 10 days after R'ment date	16	9%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	20	80%
			Later than 10 days after R'ment date	5	20%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	14	70%
			Later than 10 days after returning Opt Form	6	30%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	10	63%
			Later than 10 days after returning Opt Form	6	38%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	43	70%
			Later than 1 month after R'ment date	18	30%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	36	59%
			Good	18	30%
			Average	5	4%
			Poor	2	3%
6	Is there anything we could have done to improve the service we provided?		Yes	12	20%
			No	49	80%
7	Were you treated with sensitivity & fairness?		Yes	61	100%
			No	0	0%

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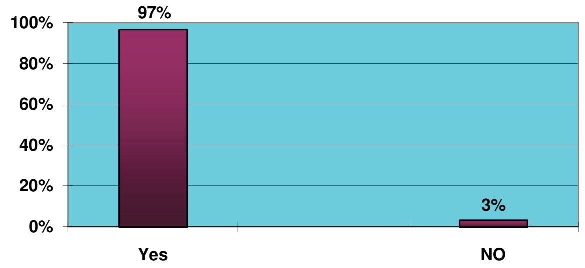
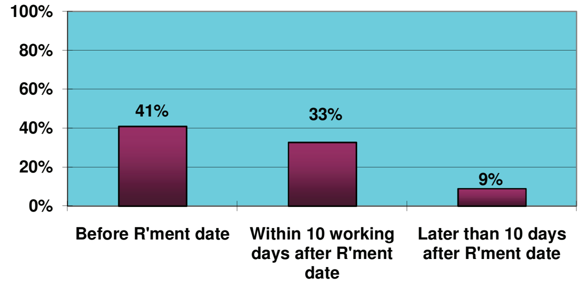
1. Was the information provided to you by the Avon Pension Fund both clear & concise?

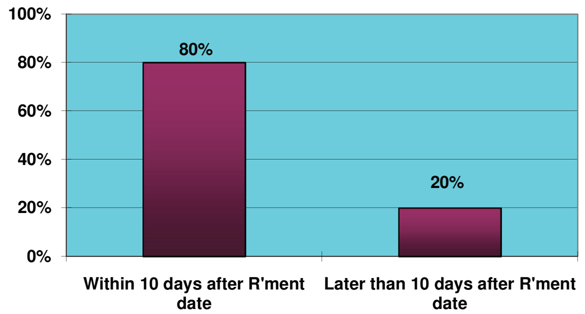


2. Did you receive your LGPS Retirement Benefits Option Form......?

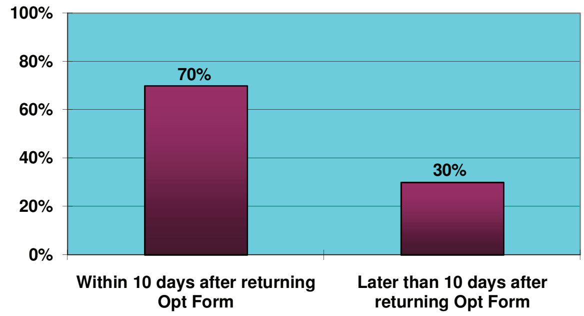


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

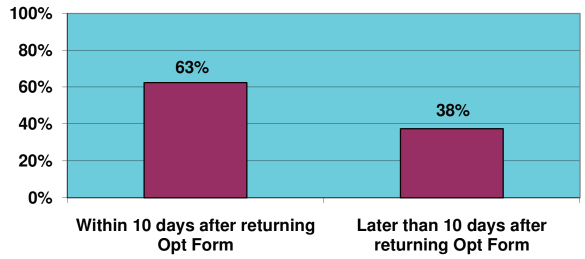
3A. Did you receive your Lump Sum Payment.....?



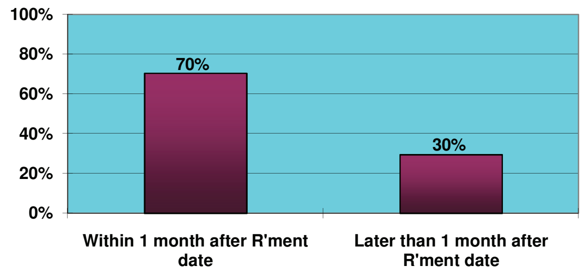
3B. Did you receive your Lump Sum Payment...?



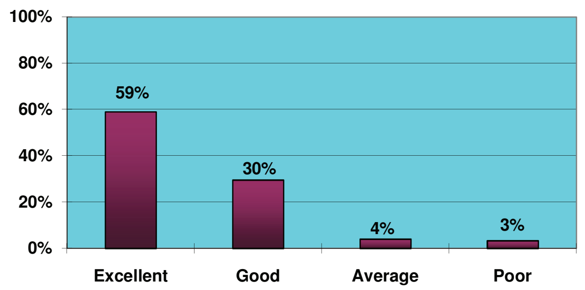
3C. Did you receive your Lump Sum Payment....?



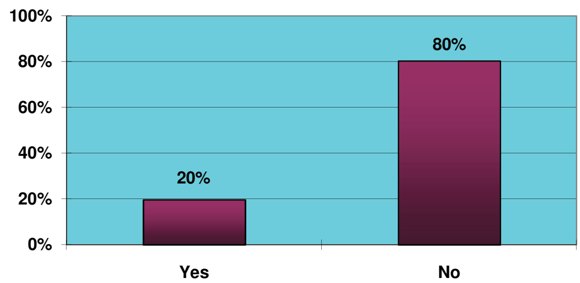
4. Did you receive your first Pension Payment...?



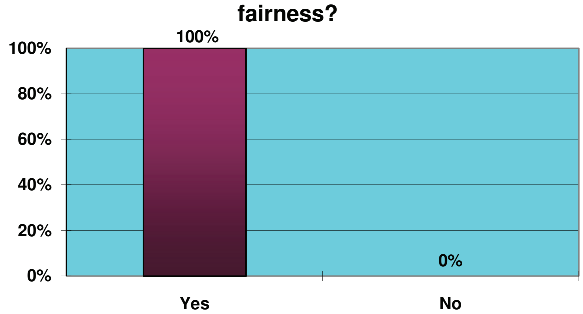
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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Responses to Retirement Questionnaire

	Number of Questionnaires in this period		30		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	29	97%
			NO	1	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	23	77%
		B	Within 10 working days after R'ment date	6	20%
		C	Later than 10 days after R'ment date	1	3%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	20	88%
			Later than 10 days after R'ment date	3	12%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	5	0%
			Later than 10 days after returning Opt Form	1	0%
3C	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%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	30	100%
			Later than 1 month after R'ment date	0	0%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	26	87%
			Good	2	7%
			Average	2	7%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	2	7%
			No	28	93%
7	Were you treated with sensitivity & fairness?		Yes	30	100%
			No	0	0%

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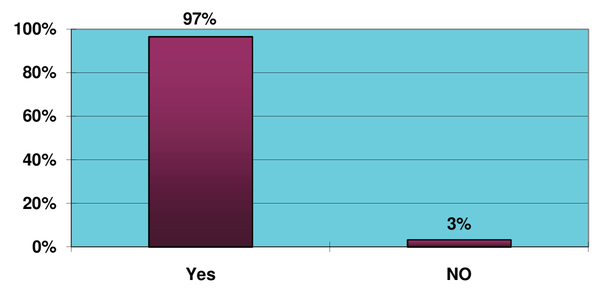
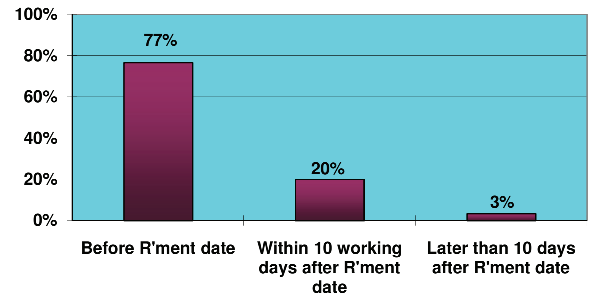
Appendix 4B Customer Feedback Aug - Oct 2013 - GRAPHS Deferred into Payment

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

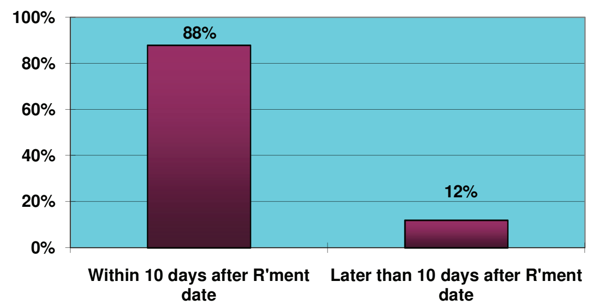


2. Did you receive your LGPS Retirement Benefits Option Form...?

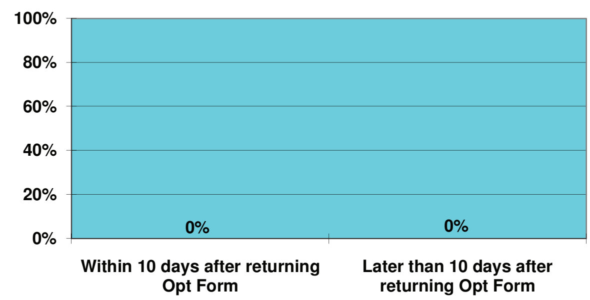


From Question 2 above (column 1) | **From Question 2 above (column 2 & 3)**

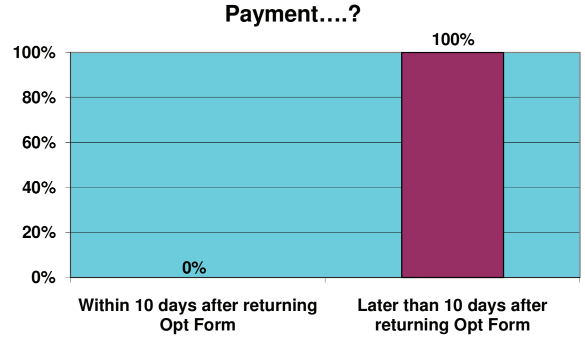
3A. Did you receive your Lump Sum Payment...?



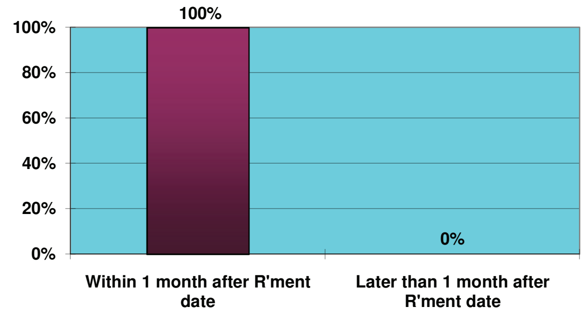
3B. Did you receive your Lump Sum Payment...?



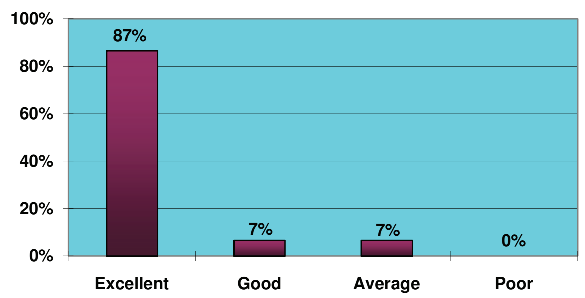
3C. Did you receive your Lump Sum Payment....?



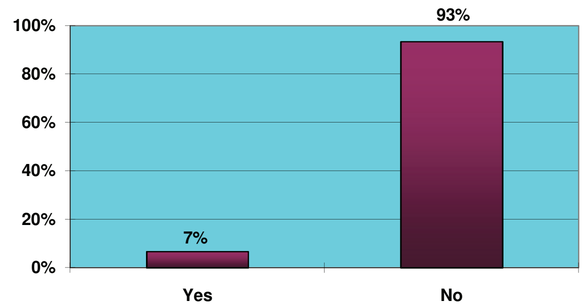
4. Did you receive your First Pension Payment...?



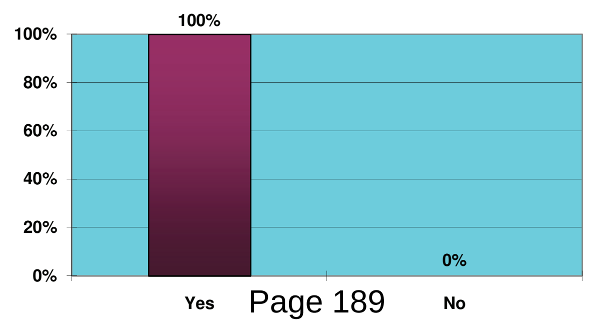
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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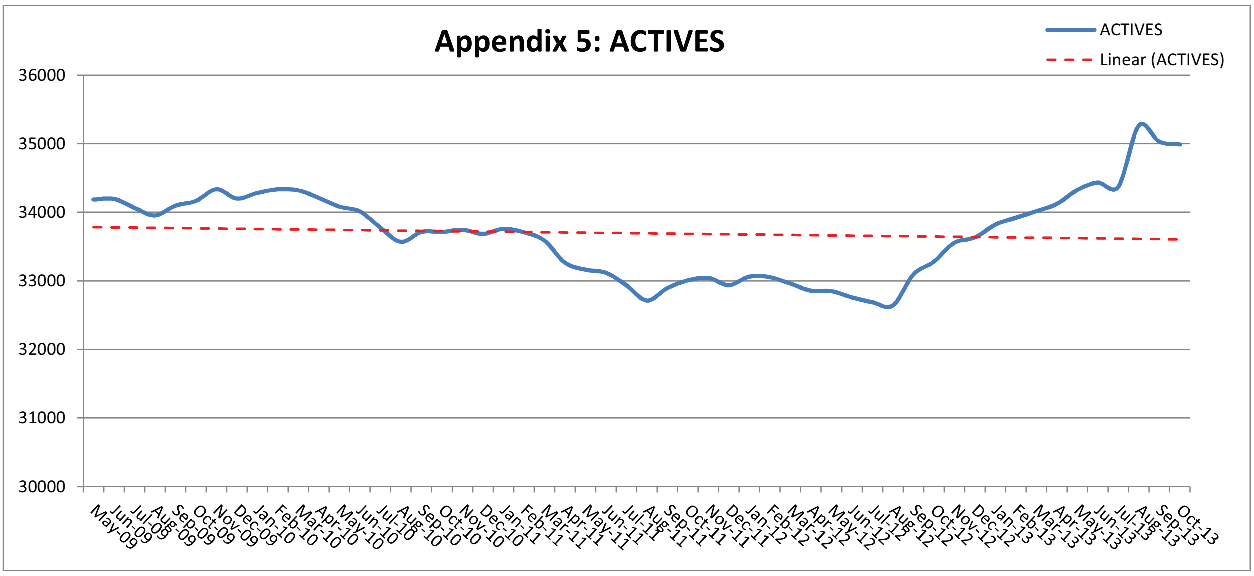
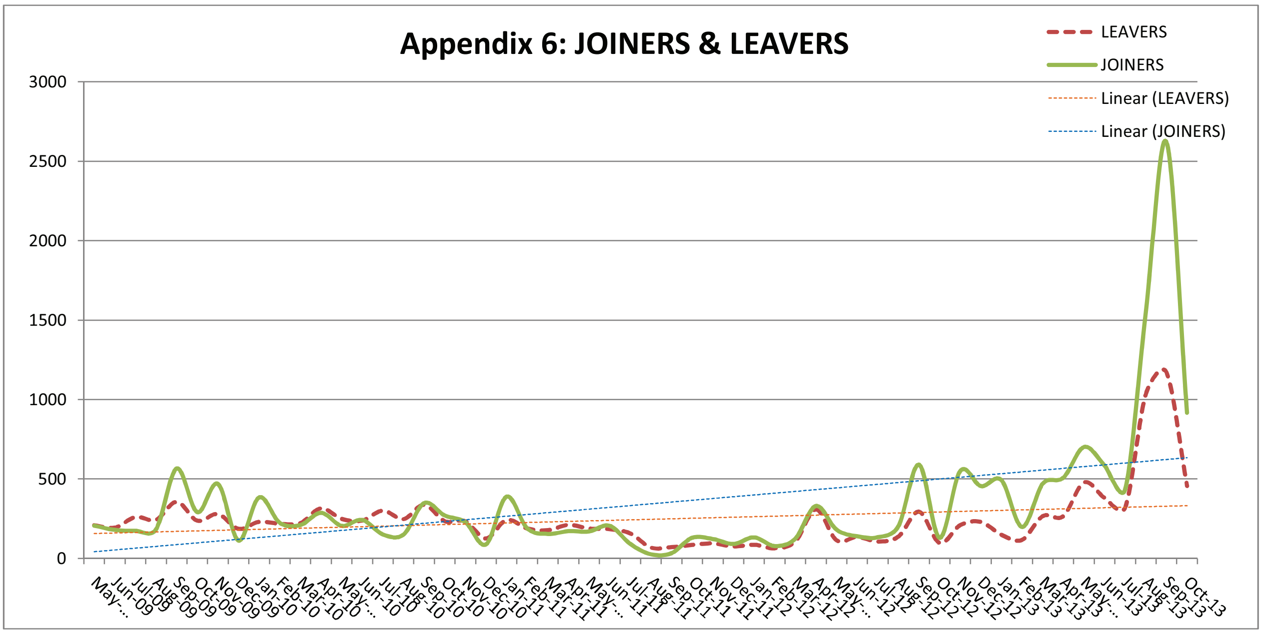
Admin Reports - Appendices 5 and 6.   Actives, Joiners and Leavers to 31st Octrober 2013





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APPENDIX 7 (to Pension Fund Administration Report)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the eighth 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 early leavers). (Annexes 1 & 2) expressed annually from 1 April 2011 to 31st October 2013

2. Report of late payers of pension contributions (employers) in the 3 month period 1 May 2013 to 31st July 2013

*** Smaller Employers:** Performance of the remaining employers is not included in this report at 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** this period.

2. Late payers of Pension contributions – TO BE UPDATED

Late payment of contributions due in 3 months to 31st July 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 = 191
Total contributions received in period = £33,381,000
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.

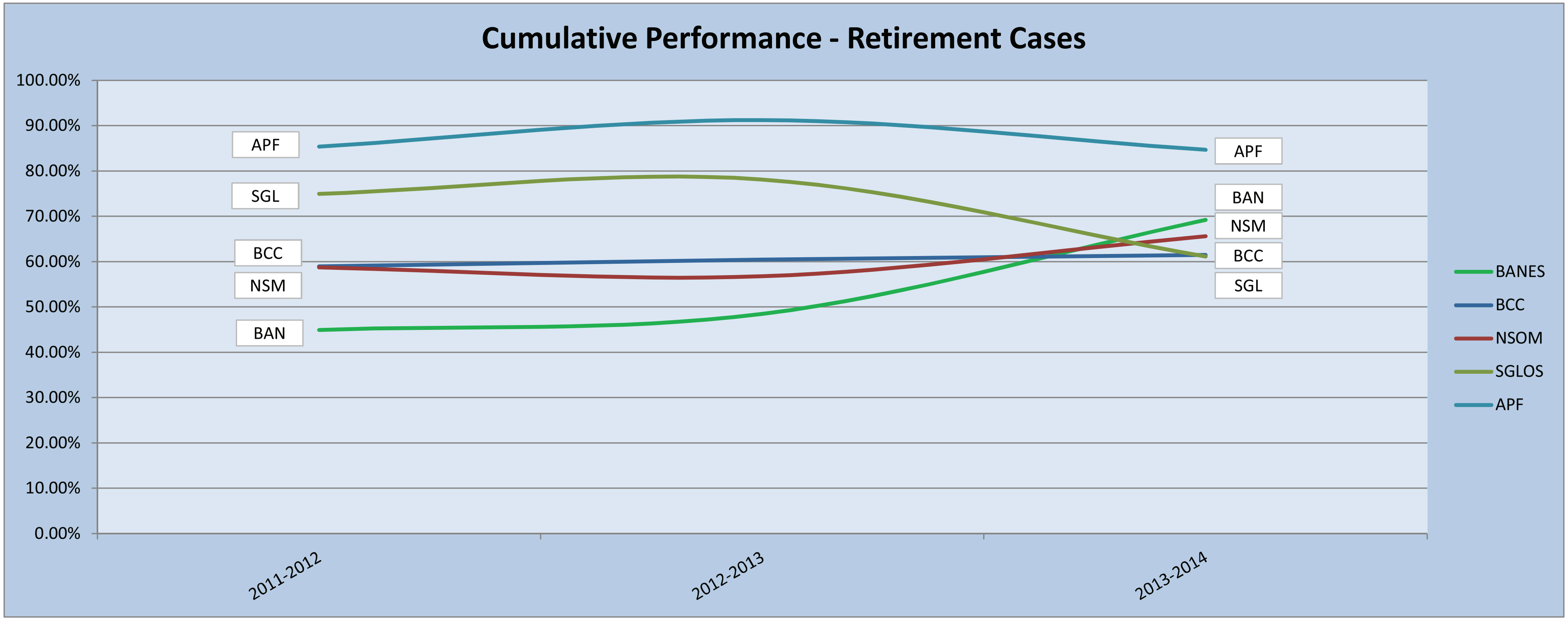
Where material, interest will be charged on late payments at Base rate plus 1% in accordance with the 2008 regulations.

3. 2012/13 Year end Returns –Annual Benefit Statements

Year-end information was required from all employers by the deadline of 30th 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 was a tight schedule to post and reconcile the information received from employers.

LGPS member Annual Benefits statements for 2013 had a legal deadline of 5th October. Following full data reconciliation and appropriate quality control checks, all confirmed statements for active and deferred members were sent out before this deadline.

------------END--------------


Cumulative Performance - Retirement Cases
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
APF
SGL
BCC
NSM
BAN
APF
BAN
NSM
BCC
SGL
2011-2012
2012-2013
2013-2014
BANES
BCC
NSOM
SGLOS
APF

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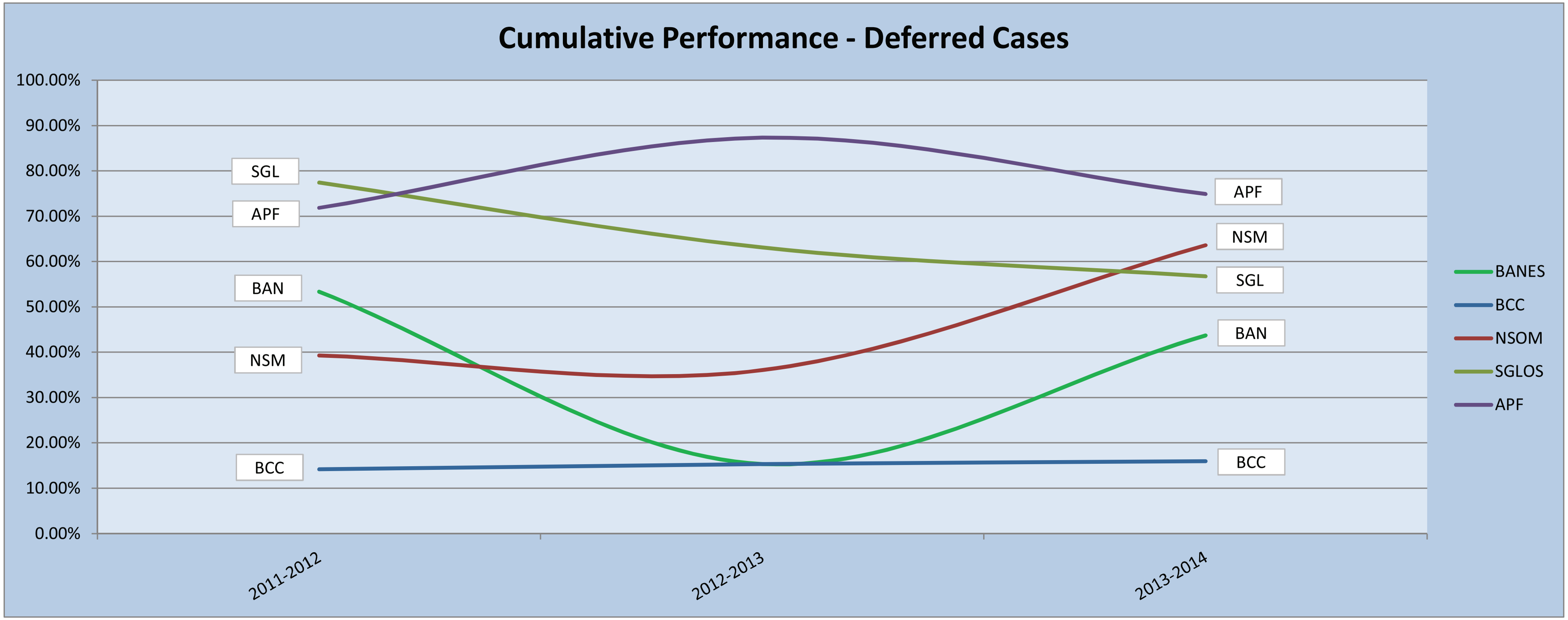
Cumulative Performance - Deferred Cases
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
2011-2012
2012-2013
2013-2014
SGL
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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS **APPENDIX 8**

			Likelihood					Impact					Risk	RAG	Scale of	Funded by
			1	2	3	4	5	1	2	3	4	5	Score		Financial	
	Risk	Management Actions	L		M	H		L		M	H				Impact	
1	The Fund fails to achieve investment returns sufficient to fund its liabilities. This could negative affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities.			3						4		12	A	>£1m	Increases in Employer contribution
2	Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions. This could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, giving a consistent message.				4				3			12	A	>£1m	Unclear but potentially increases in employer contribution
	Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Any liability will be absorbed by the Fund and spread across other employers, increasing overall liabilities and employer contribution rate and reduce the funding level.	Fund policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer. Covenant assessment monitoring process in place to annually assess financial standing of all employers in Fund, including review of all employers to identify whether guarantee arrangements are adequate and explore options for obtaining guarantee, bond or contingent assets if appropriate			3					3			9	A	>£1m	Increases in Employer contribution
4	Lack of continuity within the Avon Pension Fund Committee. Until new members fully trained this could delay decision making.	Wide representation on Committee including 2 Independent Members not subject to electoral cycle. Training made available to new members.			3					3			9	A	>£1m	Annual budget

5	The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Monitoring the performance of the managers is delegated to the Panel. The RAG performance monitoring framework in place to identify managers that are underperforming and issues that could impact future performance. Issues and changes in RAG ratings are reported to the Panel who agree an action plan to address the issue. The Panel reports quarterly to committee on the performance of the managers and changes in RAG ratings.			3					3			9	A	>£1m	**Increases in Employer contribution**
6	Systems failure or lack of accessibility to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions.	Policies in place with relevant parties to ensure continuity of service issues are addressed within an agreed timeframe. Daily back up of pensions system limits loss of data, re-processing of data. Rely on B&NES systems of control and firewalls to prevent virus attacks.		2							4		8	A	£10,000 to 100,000	**Annual budget**
7	Dependence on electronic data from scheme employers. This could lead to inaccurate or incomplete data.	Internal audit to review the employer processes. Training is given to employers as to data requirements.		2							4		8	A	£10,000 to 100,000	**Annual budget**
8	Non compliance with the data protection act or the Pensions Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.	Pensions Manager is responsible officer for DPA. Have confidentiality agreements in place with the Fund's agents. The Fund complies with the Council's DPA policies. All personal data is transmitted from the Fund by secure portals.		2						3			6	G	£100,000 to £1m	**Annual budget**
9	Incorrect or late contributions from employers. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations could lead to fines.	Monthly contributions received are reconciled to employer return (and authorisation is verified). Annual reconciliation of contributions received to member records. Late payers followed up and included in quarterly monitoring report to Committee.		2						3			6	G	£100,000 to £1m	**Fines, penalties recharged to employer**
10	Lack of adequate resources / knowledge at scheme employers leading to a failure to comply with obligations to the pension fund and staff members leading to disproportionate work and adverse impact on productivity.	Provision of timely information and training for new employers and refresher sessions for existing employers. Enforce the penalties allowed in administration strategy for repetitive non-compliance with obligations resulting in disproportionate work.		2						3			6	G	< £10,000	**Annual budget. Penalties charged to employers.**

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**13 DECEMBER 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 - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, 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. • DGF tender – mandates implemented 4Q13 • Emerging markets tender – tender progressing • Infrastructure – preliminary work progressing • Liability hedging – preliminary wok to start in 2014	On track
Triennial valuation	Disseminate results to employers	4Q13
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually 3rd quarter
Investment Forum	To discuss funding and investment strategies and issues	Next due 2 or 4Q14
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 ADMINISTRATION TO 31 MARCH 2014

Project	Proposed Action	Report
Pen Admin Strategy & SLAs review	The *Pensions Administration Strategy* effective from April 2011 will be reviewed following implementation of the New LGPS 2014. 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 unitary authorities. Bristol CC, B&NES and North Somerset Council all now live. South Gloucestershire Council requested deferment until April 2014 to incorporate revised data specification. Market to other employers during 2014/15 following implementation to four unitary authorities.	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 Q4 2013/14 including employer training. As at November 2013 – 57 employers trained covering 71% of scheme membership.	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 Q4 2013/14 Campaign to increase the sign up of members to Member Self Service (My *Pension on line)* to allow electronic access to documents.	N/A
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.	Jan 2014
Member opt out rates	Monitor and report on these to Committee at each meeting	Every meeting
AVC Strategy	Finalise new AVC Investment Strategy pending an investment report from Mercers	Mar 2014

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Appendix 3

Committee Workplan to 31 March 2014

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
Budget and Service Plan 2014/17
LGPS 2014 update on implementation
DCLG consultation on Governance arrangements (anticipated)
DCLG consultation on future structure of LGPS funds (anticipated)
Report on Investment Panel Activity
Audit Plan 2013/14
Review of AVC arrangements
Workplans
Planned Workshops: None

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Appendix 4

INVESTMENT PANEL WORKPLAN to 30 June 2014

Panel meeting / workshop	Proposed reports
15 November 2013	• Review mangers performance to September 2013 • Draft policy for Infrastructure • Projects arising from Investment Strategy Review • Meet the managers workshop (Schroder Global Equity)
4 December 2013 (Selection Panel)	• Select manager for Emerging markets mandate
26 February 2014	• Review mangers performance to December 2013 • Infrastructure Policy • Projects arising from Investment Strategy Review Meet the managers workshop (managers tbd)
4 June 2014	• Review mangers performance to March 2014 • Projects arising from Investment Strategy Review • Meet the managers workshop (managers tbd)

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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 o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - Freedom of Information Officer/Data Protection - Internal Audit - External Audit - Risk Register	June 2015
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 Workshops on Infrastructure, Liability investing
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	2014 Interim valuation update reports December 2013 Valuation outcome report