Bath & North East Somerset Council

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20 June 2014
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Patrick Anketell-Jones, Lisa Brett, Charles Gerrish (Vice-Chair) 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) and Richard Orton (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 27th June, 2014

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 27th June, 2014** at **2.00 pm** in the **Council Chamber - Guildhall, Bath**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

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

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

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

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

   Appendices to reports are available for inspection as follows:-

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

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

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

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

6. **Emergency Evacuation Procedure**

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

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

Avon Pension Fund Committee - Friday, 27th June, 2014

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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: 28 MARCH 2014 (Pages 7 - 12)

8. ROLES AND RESPONSIBILITIES OF THE COMMITTEE (Pages 13 - 26)

9. APPROVAL OF DRAFT ACCOUNTS 2013/14 (Pages 27 - 78)

10. DCLG CONSULTATION ON COLLABORATION, COST SAVINGS AND EFFICIENCIES (Pages 79 - 118)

11. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 119 - 190)

12. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 191 - 206)

Before discussing Appendices 2, 3 and 4 of this report the Committee is invited to pass the following resolution:

> The Committee, 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, **RESOLVES** that the public be excluded from the meeting for discussions relating to Appendices 3, 4 and 5 of this 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.

13. DISCRETIONS POLICY (Pages 207 - 216)

14. APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL (Pages 217 - 228)

15. REVIEW OF INVESTMENT FOR YEAR ENDING 31 MARCH 2014 (Pages 229 - 290)

Before discussing Appendix 3 of the report the Committee is invited to pass the following resolution:

The Committee, 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, **RESOLVES** that the public be excluded from the meeting for discussions relating to Appendix 3 of this 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.

16. PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2013/14, PERFORMANCE INDICATORS AND RISK REGISTER ACTION PLAN (Pages 291 - 320)

17. WORKPLANS (Pages 321 - 332)

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.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 28th March, 2014, 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), 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), 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), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

49 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

50 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt and from Rowena Hayward.

51 DECLARATIONS OF INTEREST

There were none.

52 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

54 **ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

55 **MINUTES: 13 DECEMBER 2013**

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

56 **2013 VALUATION & ADMITTED BODIES UPDATE**

The Investments Manager presented the report. She mentioned the impact that cuts in grant funding were having on the viability of some charities, which were Admitted Bodies to the Fund.

The Chair asked Members to note that the risk to the Fund arising from Admitted Bodies should be kept in proportion, as explained in paragraph 3.2 of the report.

A Member inquired about the nature of the Fund's duty of care to members referred to in paragraph 8.3(ii). The Head of Business, Finance and Pensions explained that the Fund's duty of care consisted in ensuring that an employer in difficulties followed proper processes, including the provisions of employment law, in dealing with employees who were Fund members. It was not the responsibility of the Fund to communicate directly with the employees of a failing employer. Members accepted this.

Officers explained that only the benefits accrued by an employee up to the date of the failure of the employer would be protected and that an employer leaving the Fund would do so on a wind-up basis. Officers also described how they liaised with at-risk organisations. The Investments Manager explained that all new employers admitted to the Fund had to be guaranteed or have a bond in place, so that this was a legacy issue.

The Committee delegated to officers the redrafting of recommendation 2.4 to reflect the discussion.

RESOLVED

1. To note the report summarising how the Funding Strategy Statement (FSS) has been applied to groups of employers
2. To note the update on the admitted bodies.
3. To agree the revised approach to implementing the investment policy for certain small employers funded on the corporate bond basis.
4. To agree the amendment in the Fund's policy for stopping accruals for eligible members.
5. To instruct officers to update the FSS to reflect the amended policies as required.

57 **LGPS UPDATE AND TPR CONSULTATION**

A workshop for Members on the LGPS 2014 scheme had been held immediately before the meeting.

The Technical and Compliance Manager gave a verbal update.

It was agreed to amend the first recommendation to express the Committee's concern about the absence of information from Government about the new scheme so close to the implementation date. It was also agreed to amend the third recommendation to express thanks to the Pensions staff for their efforts in very difficult circumstances.

In response to a question from a Member about progress on changes to the governance of LGPS Funds and possible merging of Funds, the Investments Manager said that the Government review was about six months behind target. The review had made a great issue of investment costs; it appeared that there would be pressure for collective investment rather than the merger of funds.

RESOLVED

1. To note the current position regarding the LGPS 2014 Regulations and changes and to express concern about the absence of information from the Government so close to the implementation date.
2. To note the information regarding consultations and any responses received.
3. To note and thank the Pensions staff for their efforts under increasing pressure because of the lack of complete Regulations.

58 BUDGET AND SERVICE PLAN 2014/17

The Head of Business, Finance and Pensions presented the report. He reminded Members that last year the Committee had agreed significant investment to ensure that the administration team was able to cope with the challenges ahead. These challenges included the introduction of a new LGPS scheme, changes to governance and possible changes to the number and structure of LGPS funds. Additional pressures were also constantly being created by the increase in the number of employers in the Fund, as functions were contracted out and as the number of Academies increased.

A Member made two comments. The first was that there was very little information about investment costs. The second was that there was still a relatively low percentage of employers and members electing to contact the Fund electronically. She thought that there may need to be some compulsion to bring about an increase in the use of electronic communication. Another Member agreed that investment costs should be stated separately. It was noted that employers imposing additional administrative costs could now be recharged.

It was agreed that investment managers' fees should be stated separately in the budget.

RESOLVED

1. To approve the 3-year Service Plan and Budget for 2014-17 for the Avon Pension Fund.

2. To urge that in future Service Plans investment manager fees should be stated separately in the budget.

59 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. There were no recommendations from the Panel. Panel decisions were recorded in paragraph 4.1 of the report. The Chair of the Panel, Councillor Charles Gerrish, said that the Panel had decided that two days would be required for the infrastructure manager selection process because of the complexity of the issues to be considered.

A Member raised the issue of the very large fines imposed by regulators on various financial institutions, which were being paid from shareholder funds He asked whether there was scope for recovering this money on behalf of Fund members. He also wondered what voting action had been taken by the Fund's investment managers in relation to these fines. He did not have any great hope that money would be recovered, but thought the Fund's investment managers should be pressing for better governance. The Investment Manager replied that class actions had been started in the United States, but there was no similar process in the UK. There were initiatives of which the Fund's officers were aware, but it was not clear at present whether any actions were likely to be successful. She did not think that shareholders would speak with a single voice. There were discussions within the Local Authority Pension Fund Forum about these issues.

RESOLVED

1. To note the draft minutes of the Investment Panel meeting held on 26th February 2014.

2. To note the decisions made by the Panel since the last quarterly activity report.

60 TREASURY MANAGEMENT POLICY

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

RESOLVED to approve the Treasury Management Policy as set out in Appendix1 to the report.

61 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2013

The Assistant Investments Manager presented the report and summarised the headline figures. He drew attention to the information about portfolio restructuring contained in section 6 of the report.

Mr Sheth commented on market developments. A Member noted that many pension funds had been selling off corporate bonds. Mr Sheth replied that corporate bonds had actually given strong returns for some time.

RESOLVED to note the information set out in the report.

62 PENSION FUND ADMINISTRATION - BUDGET MONITORING 2113/14 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2013

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

A Member raised the issue of IT security in the light of recent attacks by CyberLocker viruses. She knew of companies who had been unable to use their IT systems for weeks because of these viruses. She was particularly concerned about the vulnerability of spreadsheet programs to these viruses. The Head of Business, Finance and Pensions said that Council finance staff were heavily dependent on spreadsheets. No information had so far been received about risks from CyberLocker viruses. The Council's systems were subject to 200 virus attacks per day. Anti-virus protection was constantly updated. All spreadsheets received from outside the Council were virus checked. The Chair asked whether vulnerability to viruses would increase as more staff worked from home. The Head of Business, Finance and Pensions replied at present he had a direct broadband connection at home and was not able to work on his own PC. He understood that in future staff working from home would be able to access Council systems from their own computers within a secure virtual environment. The Chair suggested that the risk register should be updated to cover these IT developments.

RESOLVED to note:

1. The administration and management expenditure incurred for 10 months to 31 January 2014.

2. Performance Indicators & Customer Satisfaction feedback for 3 months to 31 January 2014.

3. The Summary Performance Report for period from 1 April 2011 to 31 January 2014.

4. Member roadshow events and employer training sessions undertaken to communicate the New LGPS 2014, including sample customer feedback.

63 WORKPLANS

The Investments Manager presented the report. She said that a workshop would be held on the new pension fund governance arrangements. This would be scheduled for the morning before the Committee meeting on 26 September and cancelled if the Government review had not concluded by that date.

RESOLVED to note the workplans.

The meeting ended at 3.33 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**AGENDA ITEM NUMBER**
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement		

1 THE ISSUE

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

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference were approved by the Council at its meeting on 8 May 2014.

1.3 Although the Governance Compliance Statement is unchanged since June 2013 committee meeting, the Committee is asked to approve in line with best practice.

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

2 RECOMMENDATION

The Committee:

2.1 Notes the:

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

b) Terms of Reference of the Committee and Investment Panel

c) The requirement to establish a local pension board

2.2 Approves the Governance Compliance Statement

2.3 Agrees the membership of the Investment Panel

3 FINANCIAL IMPLICATIONS

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

4 ROLES & RESPONSIBLITIES

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

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

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

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

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

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

4.7 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties.

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

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

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

4.11 The Fund appoints an Actuary (Mercers) to advise on all actuarial issues and to undertake valuations as required by the regulations.

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

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

5 GOVERNANCE COMPLIANCE STATEMENT

5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. There have been no amendments to the statement since June 2013.

5.2 The Committee are asked to approve the Statement in Appendix 2 in line with guidance from Internal Audit.

6 NOMINATIONS TO INVESTMENT PANEL

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

6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 8 May 2014.

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

7 NEW GOVERNANCE ARRANGEMENTS FOR LGPS FUNDS

7.1 The Public service Pensions Act 2013 (PSPA2103) requires all public sector pension funds to have a Pensions Board. It is expected that the draft regulations from the DCLG will be issued in early June for consultation. These draft regulations will set out the requirements for the boards. The Shadow National Advisory Board for the LGPS intend to issue further guidance as to how the boards should operate in practice.

7.2 The Pension Boards for LGPS schemes are to "assist the scheme manager …." where the scheme manager is the administering authority (and its statutory committee). It is therefore assumed at this stage that the default in the regulations will be that the Pension Board will be separate from the statutory committee. The Pension Board will have a scrutiny role. PSPA2103 requires a Pension Board to have equal representation of employer and scheme member representatives.

7.3 The Fund intends to hold a workshop ahead of the September committee meeting to discuss the governance requirements in detail and agree a proposed structure for the Fund's pension board. As the Council is responsible for establishing the board, in line with the relevant legislation and guidance, the Committee's proposals will be submitted to the Council at their November 2014 meeting.

8 RISK MANAGEMENT

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

9 EQUALITIES

9.1 For information only.

10 CONSULTATION

10.1 No relevant.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The relevant information is set out in the report.

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	

Appendix 1

TERMS OF REFERENCE (May 2014)

1 Avon Pension Fund Committee

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

Function and Duties

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

The key duties in discharging this role are:

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

Delegations

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

Membership of the Committee

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

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

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

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

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

The Investment Panel will:

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

and have delegated authority to:

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

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

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

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

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

APPENDIX 2

Avon Pension Fund - Governance Compliance Statement

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

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

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

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

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

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

To be approved by Avon Pension Fund Committee on 27 June 2014

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2013 / 2014**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2014** **Appendix 2 Audit Plan**		

1. THE ISSUE

The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2014 is attached as **Appendix 1.**

1.1. The Draft Statement of Accounts for the year to 31 March 2014 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.2. In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2014 must be signed off by the Council's Section 151 Officer by the 30 June. The Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 25 September 2014 as the Audit Committee is charged with the governance of the pension fund. The Pension Fund Committee will be asked to approve The Final Statement of Accounts at its meeting on September 26th.

1.3. The Pension Fund Audit Plan, attached as **Appendix 2** was prepared by the external auditors Grant Thornton.

2. RECOMMENDATION

That the Committee notes

2.1 The Draft Statement of Accounts for the year to 31 March 2014 for audit.

2.2 The Audit Plan for the accounts for the year ended 31 March 2014.

3. FINANCIAL IMPLICATIONS

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

3.2. The financial implications of the audit report are primarily related to the fees for the external audit.

4. COMMENT ON THE DRAFT STATEMENT OF ACCOUNTS

4.1. The accounts show an increase in the total net assets of the Fund from just over £3.1bn to just over £3.3bn. This increase was almost entirely due to the rise in market value of investments and to a lesser extent to receipts of investment income.

4.2. The highlights of the Draft Final accounts are:

a) Total net assets of the fund are valued at £3,346m made up of investment assets of £3,331m and net debtors and creditors of £15m.

b) The £15m of net debtors at 31 March 2014 is mainly made up of contributions that relate to the year to 31 March 2014 but were not due for payment until April 2014 and Transfer Values Receivable. The exact amount of the Transfer Values remains subject to the actuary's confirmation but the final amount will include an interest element relating to the date they became due. The total £25m debtors is partly offset by creditors made up of Transfer Values payable, PAYE that was due to be paid in April, and Lump Sums due to members who retired at the end of March.

c) Current Liabilities also include a provision for Investment Management Performance Fees that have been accrued but are subject to phased payments or are not payable until the related assets are realised. These fees remain subject to possible variation as a result of future performance. Further advice is being sought on the method of disclosing these fees. The final statement of accounts may be amended in the light of this advice.

d) Investment Management Base Fees have increased by £1.5m. Of this £630k was as a result of the move of assets from passive to active management and £870k was due to the increase in the value of assets under management.

e) Following the 2010 valuation Employer's contributions have been split between normal contributions in regard to current service and deficit contributions in regard to past service. Compared with 2012/13 employer's normal contributions rose by £4.4m in 2013/14 and deficit contributions rose by £1.5m in line with the annual increases scheduled in the 2010 valuation (deficit contributions are now set as a monetary sum, not a per cent of payroll).

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

g) Investment Income has remained close to the 2012/13 level. Within this, dividends from equities have increased by £1.6m. Income from Index linked securities, cash and fixed interest securities has decreased by £1m and income from pooled investment vehicles has decreased by £0.6m. The Investment Income figures do not include the income from pooled funds which accumulate income within the fund rather than distribute to investors.

5. Audit Plan

5.1 The audit plan sets out the work which Grant Thornton intend to carry out for the 2013/14 audit of the Pension Fund accounts. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on the auditors work and the dates for its completion.

5.2 The indicative fee for the 2013/14 audit is £30,116. The indicative rate for the 2012/13 audit was £28,804 but was later reduced by a rebate.

6. RISK MANAGEMENT

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

7. EQUALITIES

7.1 An equalities impact assessment is not necessary.

8. CONSULTATION

8.1 N/a

9. ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are contained in the report.

10. ADVICE SOUGHT

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

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

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Appendix 1

PENSION FUND ACCOUNTS 2013/14

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2013 to 31 March 2014.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2013/14 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

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

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.

1.6 The deficit recovery period for the Fund overall is 20 years.

1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	Past service liabilities	Future service liabilities
Rate of Discount	4.8% per annum	5.6% per annum
Rate of pensionable pay inflation	4.1% per annum	4.1% per annum
Rate of price inflation	2.6% per annum	2.6% per annum

1.8 The 2013 triennial valuation was completed during 2013/14 using market prices and membership data as at 31 March 2013. The 2013 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.9 The Actuary has estimated that the funding level as at 31 March 2014 has risen to 84% from 78% at 31 March 2013. This rise in the funding level is due to the rise in real yields since the valuation. Investment returns have also positively contributed to the improvement in the funding level. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields rise, the value of these liabilities falls.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2014 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2014.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2014.
v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2013/14 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

A number of Group Transfers in to the Fund and out of the Fund are subject to final agreement by the actuary. Estimated values have been accrued as debtors and creditors (see 2.5 and note 18).

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

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2014

	Notes	2013/14	2012/13
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**143,276**	134,858
Transfers In		**17,886**	7,255
Other Income	5	**442**	500
		161,604	142,613
Benefits Payable	6	**149,791**	136,655
Payments to and on account of Leavers	7	**6,868**	5,173
Administrative Expenses	8	**2,883**	2,585
		159,542	144,413
Net Additions from dealings with members		**2,062**	(1,800)
Returns on Investments			
Investment Income	10	**29,092**	29,025
Profits and losses on disposal of investments and change in value of investments.	11	**186,014**	362,285
Investment Management Expenses	9	**(11,682)**	(10,148)
Fund Manager Performance Fees	9	**(4,931)**	-
Net Returns on Investments		**198,493**	381,162
Net Increase in the net assets available for benefits during the year		**200,555**	379,362
Net Assets of the Fund			
At 1 April		**3,145,656**	2,766,294
At 31 March		**3,346,211**	3,145,656

Net Assets Statement at 31 March 2014

	Note	31 March 2014 £'000	%	31 March 2013 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**92,694**	**2.8**	109,674	3.5
Equities		**542,777**	**16.2**	495,980	15.8
Diversified Growth Funds		**314,340**	**9.4**	-	0.0
Index Linked securities : Public Sector		**189,176**	**5.7**	209,876	6.7
Pooled investment vehicles :-					
- Property : Unit Trusts		**102,865**	**3.1**	78,749	2.5
: Unitised Insurance Policies		**46,063**	**1.4**	47,863	1.5
: Other Managed Funds		**112,058**	**3.3**	95,729	3.0
Property Pooled Investment Vehicles		**260,986**		222,341	
- Non Property : Unitised Insurance Policies		**778,501**	**23.2**	811,938	25.8
: Other Managed Funds		**1,051,084**	**31.4**	1,203,448	38.3
Non Property Pooled Investment Vehicles		**1,829,585**		2,015,386	
Cash deposits		**85,023**	**2.5**	85,895	2.7
Other Investment balances		**9,361**	**0.3**	12,864	0.4
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**12,199**	**0.4**	(2,912)	(0.1)
Derivative Contracts: FTSE Futures		**162**	**0.0**	(226)	0.0
Other Investment balances		**(5,097)**	**(0.2)**	(13,502)	(0.4)
TOTAL INVESTMENT ASSETS	12	**3,331,206**		3,135,376	
Net Current Assets					
Current Assets	14	**24,980**	**0.7**	13,283	0.4
Current Liabilities	14	**(9,975)**	**(0.2)**	(3,003)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**3,346,211**	**100**	3,145,656	100

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2014.

Notes to the Accounts - Year Ended 31 March 2014

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

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

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

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

	31 March 2014	31 March 2013
Employed Members	**34,846**	33,648
Pensioners	**25,985**	24,574
Members entitled to Deferred Benefits	**35,321**	31,754
TOTAL	**96,152**	89,976

A further 1,181 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

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

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

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

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2013/14		2012/13
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**55,066**		52,129	
Administering Authority	**6,902**		6,566	
Admission Bodies	**6,876**	**68,844**	5,787	64,482
Employers' deficit Funding				
Scheduled Bodies	27,384		26,598	
Administering Authority	**4,146**		4,021	
Admission Bodies	**1,571**	**33,101**	1,082	31,701
Total Employer's normal & deficit funding		**101,945**		96,183
Employers' contributions- Augmentation				
Scheduled Bodies	**4,312**		2,697	
Administering Authority	**537**		224	
Admission Bodies	**147**	**4,996**	457	3,378
Members' normal contributions				
Scheduled Bodies	**28,868**		28,617	
Administering Authority	**3,530**		3,495	
Admission Bodies	**3,300**	**35,698**	2,649	34,761
Members' contributions towards additional benefits				
Scheduled Bodies	**474**		418	
Administering Authority	**127**		97	
Admission Bodies	**36**	**637**	21	536
Total		**143,276**		134,858

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements. Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.
A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5, OTHER INCOME

	2013/14	2012/13
	£'000	£'000
Recoveries for services provided	**426**	492
Cost recoveries	**16**	8
	442	500

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2013/14	2012/13
	£'000	£'000
Retirement Pensions	**112,720**	106,097
Commutation of pensions and		
Lump Sum Retirement Benefits	**34,148**	27,815
Lump Sum Death Benefits	**2,923**	2,743
	149,791	136,655

Analysis of Benefits Payable by Employing Body:-

	2013/14	2012/13
	£'000	£'000
Scheduled & Designating Bodies	**124,288**	114,704
Administering Authority	**14,133**	11,938
Admission Bodies	**11,370**	10,013
	149,791	136,655

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2013/14	2012/13
Leavers	**£'000**	£'000
Refunds to members leaving service	**116**	17
Individual Cash Transfer Values to other schemes	**4,352**	5,028
Group Transfers	**2,400**	128
	6,868	5,173

8, ADMINISTRATION EXPENSES

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

	2013/14 £'000	2012/13 £'000
Administration and processing	**1,957**	**1,808**
Actuarial fees	**486**	**356**
Audit fees	**27**	**29**
Legal and professional fees	**-**	**-**
Central recharges from Administering Authority	**413**	**392**
	2,883	**2,585**

9, INVESTMENT EXPENSES

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

	2013/14 £'000	2012/13 £'000
Fund Manager Base Fees	11,366	9,827
Fund Manager Performance Fees	4,931	-
Global Custody	94	64
Investment Advisors	123	167
Performance Measurement	37	34
Investment Accounting	4	3
Investment Administration	58	53
	16,613	10,148

Fund Manager Performance Fees includes £558k fees paid during the year and a provision for fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. £1,127k of the performance fees relates to 2013/14 and £3,804k relates to previous years. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

10, INVESTMENT INCOME

	2013/14	2012/13
	£'000	£'000
Interest from fixed interest securities	**3,557**	3,898
Dividends from equities	**16,651**	15,070
Income from Index Linked securities	**5,091**	5,703
Income from pooled investment vehicles	**3,480**	4,002
Interest on cash deposits	**282**	335
Other - Stock lending	**31**	17
	29,092	29,025

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2014 was £17.27 million (31 March 2013 £3.01 m), comprising of equities and sovereign debt. This was secured by collateral worth £18.06 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/13 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/14 £'000**
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	**92,694**
Equities	495,980	305,283	(302,104)	43,618	**542,777**
Index linked Securities	209,876	24,385	(30,469)	(14,616)	**189,176**
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	**260,986**
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	**2,143,925**
Derivatives	(3,138)	190,891	(199,962)	24,570	**12,361**
	3,050,119	1,702,184	(1,686,859)	176,475	**3,241,919**
Cash Deposits	85,895	558,772	(558,751)	(893)	**85,023**
Net Purchases & Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	**4,264**
Total Investment Assets	3,135,376			-	**3,331,206**
Current Assets	10,280			4,725	**15,005**
Less Net Revenue of Fund				(14,541)	
Total Net Assets	3,145,656			**186,014**	**3,346,211**

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

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

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

Change in Total Net Assets 2012/13

Change in Market Value of Investments	Value at 31/03/12 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/13 £'000
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
Total Investment Assets	2,757,365			-	3,135,376
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			**362,285**	**3,145,656**

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

	2013/14				2012/13			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**608**	**13**	**-**	**621**	644	21	-	665
Commission	**321**	**323**	**4**	**648**	320	304	5	629
TOTAL	**929**	**336**	**4**	**1,269**	964	325	5	1,294

12, INVESTMENT ASSETS

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

		31 March 2014		31 March 2013
UK Equities		**£'000**		£'000
Quoted	**301,719**		258,957	
Pooled Investments	**225,298**		318,640	
FTSE Futures	**162**	**527,179**	(226)	577,371
Diversified Growth Funds				
Pooled Investments	**314,340**	**314,340**		-
Overseas Equities				
Quoted	**241,057**		237,022	
Pooled Investments	**1,083,136**	**1,324,193**	1,185,894	1,422,916
UK Fixed Interest Gilts				
Quoted	**92,694**		109,674	
Pooled Investments	**14,226**	**106,920**	14,668	124,342
UK Index Linked Gilts				
Quoted	**189,176**	**189,176**	209,876	209,876
Sterling Bonds (excluding Gilts)				
Pooled Investments	**269,350**	**269,350**	193,549	193,549
Non-Sterling Bonds				
Pooled Investments	**74,588**	**74,588**	81,488	81,488
Hedge Funds				
Pooled Investments	**162,986**	**162,986**	221,147	221,147
Property				
Pooled Investments	**260,987**	**260,987**	222,341	222,341
Cash Deposits				
Sterling	**78,163**		81,806	
Foreign Currencies	**6,860**	**85,023**	4,089	85,895
Investment Debtors/Creditors				
Investment Income	**3,414**		3,671	
Sales of Investments	**5,948**		9,194	
Foreign Exchange Hedge	**12,199**		(2,912)	
Purchases of Investments	**(5,097)**	**16,464**	(13,502)	(3,549)
TOTAL INVESTMENT ASSETS		**3,331,206**		3,135,376

DERIVATIVES ANALYSIS
Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	EUR	68,400	GBP	(57,876)		(1,321)
Up to one month	JPY	3,871,000	GBP	(25,479)		(2,924)
Up to one month	GBP	73,311	EUR	(87,100)	1,294	
Up to one month	GBP	35,729	JPY	(5,478,000)	3,811	
One to six months	EUR	154,300	GBP	(131,820)		(4,175)
One to six months	JPY	13,900,000	GBP	(88,506)		(7,451)
One to six months	USD	202,300	GBP	(126,194)		(4,709)
One to six months	GBP	1,918	CHF	(2,800)	15	
One to six months	GBP	184,238	EUR	(217,182)	4,578	
One to six months	GBP	139,278	JPY	(21,935,000)	11,351	
One to six months	GBP	255,038	USD	(404,600)	12,102	
Six to twelve months	EUR	136,700	GBP	(113,600)		(392)
Six to twelve months	JPY	13,287,000	GBP	(78,825)		(1,108)
Six to twelve months	USD	263,100	GBP	(160,929)		(2,773)
Six to twelve months	GBP	144,259	EUR	(174,400)	(178)	
Six to twelve months	GBP	116,548	JPY	(19,715,000)	1,249	
Six to twelve months	GBP	250,003	USD	(411,200)	2,830	
Total					**37,052**	**(24,853)**
					Net forward currency contracts at 31 March 2014	**12,199**

Open forward currency contracts at 31 March 2013	74,499	(77,411)
Net forward currency contracts at 31 March 2013		**(2,912)**

Exchange Traded Derivatives held at 31 March 2014:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2014**	**28,433**	**162**

Exchange Traded Derivatives held at 31 March 2013:-

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

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

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

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

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

	31 March 2014 £'000	**%**	31 March 2013 £'000	%
Blackrock	**1,071,963**	**32.2**	1,506,620	48.0
Transition	**0**	**0**	9	0
Record	**28,129**	**0.8**	4,893	0.2
Jupiter Asset Management	**160,956**	**4.8**	139,898	4.5
Genesis Investment Management	**145,092**	**4.4**	158,548	5.1
Invesco Perpetual	**239,795**	**7.2**	218,121	7.0
State Street Global Advisors	**107,147**	**3.2**	103,009	3.3
Partners Group	**113,446**	**3.4**	97,395	3.1
Royal London Asset Management	**251,101**	**7.6**	176,526	5.6
TT International	**185,717**	**5.6**	163,186	5.2
Man Investments	**1,115**	**0.0**	63,955	2.0
Gottex Asset Management	**58,062**	**1.8**	55,059	1.8
Stenham Asset Management	**37,654**	**1.1**	34,936	1.1
Signet Capital Management	**66,155**	**2.0**	67,197	2.1
Barings Asset Management	**209,798**	**6.3**	-	0.0
Pyrford International	**104,542**	**3.1**	-	0.0
Unigestion UK Ltd	**166,687**	**5.0**	-	0.0
Schroder Investment Management	**365,163**	**11.0**	327,563	10.4
Bank of New York Mellon	**7,964**	**0.2**	10,059	0.3
Treasury Management	**10,720**	**0.3**	8,402	0.3
TOTAL INVESTMENT ASSETS	**3,331,206**	**100.0**	3,135,376	100.0

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	**Value at 31st March 2014 £'000**	**% of Net Assets**	Value at 31st March 2013	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	**251,101**	**7.54%**	176,526	5.63%
Invesco Perpetual Global ex UK Enhanced Index Fund	**239,795**	**7.20%**	218,121	6.96%
Aquila Life UK Equity Index Fund (BlackRock)	**220,957**	**6.63%**	315,092	10.05%
Baring Dynamic Asset Allocation Fund	**209,798**	**6.30%**	-	-
MSCI Equity Index Fund B-US (BlackRock)	**173,125**	**5.20%**	155,736	4.97%
BlackRock World Index Fund	-	-	310,707	9.91%
Genesis Emerging Markets Investment Fund	-	-	158,549	5.06%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2014. Debtors and creditors included in the accounts are analysed below:-

		31 March 2014 £'000		31 March 2013 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**8,490**		7,736	
- Members	**2,919**		2,817	
Transfer Values Receivable	**10,600**		1,640	
Discretionary Early Retirement Costs	**1,952**		585	
Other Debtors	**1,019**	**24,980**	505	13,283
CURRENT LIABILITIES				
Management Fees	**(950)**		(911)	
Provision for Performance Fees	**(4,373)**		-	
Transfer Values Payable	**(2,400)**		-	
Lump Sum Retirement Benefits	**(645)**		(547)	
Other Creditors	**(1,607)**	**(9,975)**	(1,545)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. Of these £1,127k relates to 2013/14 and £3,246k relates to previous years.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2014		31 March 2013
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**11,028**		8,050	
NHS Bodies	**-**		6	
Other Public Bodies	**13,211**		4,338	
Non Public Sector	**741**	**24,980**	889	13,283
CURRENT LIABILITIES				
Local Authorities	**(11)**		-	
Other Public Bodies	**(3,789)**		(1,310)	
Non Public Sector	**(4,373)**	**(9,975)**	(1,693)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2014. (March 2013 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE
There have been no events after 31 March 2014 that require any adjustment to these accounts.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% per annum versus 4.2% per annum). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation formal report.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £4,519 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£278 million. Adding interest over the year increases the liabilities by a further c£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£35 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£70 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £4,396 million.

18, TRANSFERS IN

During the year ending 31 March 2013 there was a group transfer in to the fund from Strode College to Weston College. An estimated amount was included in the 2012/13 Statement of Accounts. The transfer value has not yet been confirmed. The estimate has now been increased and the additional amount included in the Fund account. The full estimate is included as part of the Fund's 2013/14 Current Assets.

During the year ending 31st March 2014 there was a group transfer in to the Fund from Stroud College to South Gloucestershire and Stroud College. The transfer value has not yet been confirmed. An estimated value has been included in the Fund account and as part of the Fund's Current Assets.

19, BENEFITS RECHARGED TO EMPLOYERS

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

	2013/14	2012/13
	£'000	£'000
Benefits Paid and Recharged	**6,240**	6,225

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2013/14 were £498 (2012/13 - £953). Additional Voluntary Contributions received from employees and paid to Friends Life during 2013/14 were £407,897 (2012/13 - £418,478).

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

	31 March 2014	31 March 2013
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**501**	582
Unit Linked Retirement Benefits	**286**	306
Building Society Benefits	**235**	264
	1,022	1,152
Death in Service Benefit	**150**	150
Friends Life		
With Profits Retirement Benefits	**100**	197
Unit Linked Retirement Benefits	**1,725**	3,775
Cash Fund	**273**	402
	2,098	4,374

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21, RELATED PARTIES

Committee Member Related:-

In 2013/14 £37,238 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,071 in 2012/13)*. Six voting members and one non- voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2013/2014. *(Seven voting members and one non-voting member in 2012/2013, including five B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £6,469 and £12,877 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2013/14 the Fund paid B&NES Council £295,990 for administrative services *(£275,215 in 2012/13*) and B&NES Council paid the Fund £31,715 for administrative services (*£40,157 in 2012/13*). Various Employers paid the fund a total of £141,397 for pension related services including pension's payroll and compiling data for submission to the actuary *(£177,346 in 2012/13)*.

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

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

22, OUTSTANDING COMMITMENTS
As at the 31 March 2014 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £61,724,899 (31st March 2013 £46,798,161).

23, KEY MANAGEMENT REMUNERATION
Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Divisional Director Business Support's salary, fees and allowances £17,360 and their employers' pension contributions £3,107. (In 2012/13 the recharge was part of the Strategic Director of Resources salary, fees and allowances £17,393 and employers' pension contributions £3,107)
- part of the Head of Business Finance and Pensions salary, fees and allowances £31,540 (2012/13 £31,540) and their employers' pension contributions £5,460 (2012/13 £5,460).

24, FINANCIAL INSTRUMENTS

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

	31/03/2014	31/03/2013
Financial Assets	**£'000**	£'000
Receivables	**24,980**	13,283
Financial assets at fair value through profit or loss	**3,336,303**	3,149,104
Total Financial Assets	**3,361,283**	3,162,387
Financial Liabilities		
Payables	**15,072**	16,505
Financial liabilities at fair value through profit or loss	**-**	226
Total Financial Liabilities	**15,072**	16,731
Total Net Assets	**3,346,211**	3,145,656

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2013/14	2012/13
	£'000	£'000
Losses on derecognition	**4,918**	9,302
Reductions in fair value	**239,774**	10,079
Total expense in Fund Account	**244,692**	19,381
Gains on derecognition	**323,622**	53,216
Increases in fair value	**97,545**	325,040
Total income in Fund Account	**421,167**	378,256
Net gain/(loss) for the year	**176,475**	358,875

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

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

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

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

(a) Market Risk

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

Volatility in market risk is primarily managed through diversification across asset class and investment managers

Market Price Risk

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

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2014. These movements in market prices have been judged as possible for the 2013/14 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The volatility figure at Total Assets level incorporates the impact of correlation across the asset classes; therefore the Total Assets increase /decrease is not the sum of the parts.

The analysis for the year ending 31 March 2014:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	509,345	12.3%	571,892	446,797
Overseas Equities	1,134,606	12.1%	1,271,553	997,659
Global inc UK	207,422	11.0%	230,176	184,668
UK Bonds	376,270	6.5%	400,727	351,812
Overseas Bonds	74,588	7.4%	80,078	69,099
Index Linked Gilts	189,176	8.8%	205,862	172,491
Property	260,987	1.6%	265,137	256,838
Alternatives	477,326	3.2%	492,601	462,052
Total Assets	**3,229,720**	**7.3%**	**3,464,198**	**2,995,243**

The analysis for the year ending 31 March 2013 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,053,257**	**7.6%**	**3,284,083**	**2,822,431**

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities.

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

	31 March 2014 £'000	31 March 2013 £'000
Cash and Cash Equivalents	85,023	85,895
Fixed Interest Assets	640,034	609,255
Total	**725,057**	**695,150**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2014 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2014	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,023	-	-
Fixed Interest	640,034	(83,332)	83,332
Total	**725,057**	**(83,332)**	**83,332**

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

The same analysis for the year ending 31 March 2013 is shown below:

		Change in net assets	
	Value	+100 bps	-100 bps
As at 31 March 2013	£'000	£'000	£'000
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	695,150	(83,651)	83,651

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling depreciates the sterling value for foreign denominated investments will fall. The Fund has a dynamic hedging arrangement In place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2014 £'000	Asset value as at 31 March 2013 £'000
Overseas Equities	1,324,193	1,384,728
Overseas Fixed Income	74,588	81,487
Overseas Property	112,058	95,729

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies. The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the dynamic hedging strategy.

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

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,324,193	3.3%	1,367,307	1,281,080
Overseas Fixed Income	74,588	3.3%	77,017	72,160
Overseas Property	112,058	3.3%	115,707	108,410

The same analysis for the year ending 31 March 2013 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£)	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Interest	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

(b) Credit Risk

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

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

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

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

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

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2014 was £18.7m. This was held with the following institutions:

	31 March 2014		31 March 2013	
	Rating	**£'000**	**Rating**	**£'000**
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	7,962	AA-	10,058
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	2,500
RBS Global Treasury Fund	AAA	6,090	AAA	4,880
NatWest Special Interest Bearing Account	BBB+	1,104	A-	-
Bank Current Accounts				
NatWest	BBB+	7	A-	17

The RBS Global Treasury Fund was taken over by Goldman Sachs International on 14th April 2014. The credit rating remained at AAA. NatWest is the Fund's banker.

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(c) Liquidity Risk

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

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2014 the value of the illiquid assets was £634m, which represented 19.0% of the total Fund assets (31 March 2013: £443m which represented 14.1% of the total Fund assets). The increase is due to the investment during the year in a Diversified Growth Fund.

(d) Fair Value Hierarchy

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

• Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

• Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund’s assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	536,850			536,850
Bonds - Quoted	281,870			281,870
Pooled Investment Vehicles		1,672,523		1,672,523
Fund of Hedge Funds			162,986	162,986
Diversified Growth Funds		104,542	209,798	314,340
Property			260,988	260,988
Cash	85,023			85,023
Derivatives: Forward FX	12,199			12,199
Derivatives: Futures	162			162
Investment Debtors /Creditors	4,265			4,265
	920,369	1,777,065	633,772	3,331,206

The fair value hierarchy as at 31 March 2013 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Diversified Growth Funds				-
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	1,794,239	443,488	3,135,376

26, EMPLOYING BODIES

As at 31 March 2014 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
City of Bristol Council	
Further & Higher Education Establishments	
Bath Spa University College	St. Brendan's College
City of Bath College	University of Bath
City of Bristol College	University of the West of England
Norton Radstock College	Weston College
South Gloucestershire & Stroud College (formerly Filton College)	
Academies and Schools	
Abbeywood Community School Academy	Ilminster Avenue E-ACT Academy
Academy of Trinity Cof E	Kingshill Academy
Ann Harris Academy Trust (formerly St. John's Primary)	Kings Oak Academy
Backwell School	Little Mead Primary School
Bannerman Road Community Academy	Merchant's Academy
Bath Community Academy	Midsomer Norton School Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Primary Academy	Oasis Academy Bank Leaze
Birdwell Primary School Academy	Oasis Academy Brightstowe
Bradley Stoke Community School	Oasis Academy Connaught
Bridge Learning Campus Foundation	Oasis Academy John Williams
Bristol Cathedral Choir School	Oasis Academy Long Cross
Bristol Free School Trust	Oasis Academy New Oak
Bristol Technology & Engineering Academy	Oldfield School Academy Trust
Broadlands Academy	One World Learning Trust
Broadoak Mathematics & Computing College	Orchard Academy
Cabot Learning Federation	Parson Street Primary School
Castle School Education Trust	Patchway Community College
Cathedral Primary School	Priory Community School Academy
Charfield Primary School	Ralph Allen Academy
Chew Stoke Church School	Redland Green School Academy
Christ Church C of E Primary School	St Bedes School Academy
Churchill Academy	St. Nicholas of Tolentine Catholic Primary schl
Clevedon School Academy	St. Patrick’s Academy
Colston Girl's School Trust	St. Teresa’s Catholic Primary School
Colston’s Primary School Academy	St. Ursula's E-ACT Academy
Cotham School Academy	Stoke Bishop C of E Primary School
Downend School	Stoke Lodge Academy
Elmlea Junior School Academy	Summerhill Academy
Fishponds Church of England Academy (Bristol Church Academies Trust)	The Dolphin Academy

Filton Avenue Infants Academy	The Kingfisher School
Fosseway School	The Ridings Federation Winterbourne
Frome Vale Academy	The Ridings Federation Yate
Gordano School Academy	Threeways School
Greenfield Primary School Academy	Trust in Learning
Hans Price Academy	Wallscourt Farm Academy
Hareclive Academy	Waycroft School Academy
Hayesfield Girls School Academy	Wellsway School Academy
Henbury Court School	West Town Lane Primary School
Henbury School Academy	Westbury Park Primary School Academy
Henleaze Junior School Academy	Westbury-on-Trym C of E Academy
Heron’s Moor Community School	Writhlington School Academy
Designating Bodies	
Almondsbury Parish Council	Patchway Town Council
Backwell Parish Council	Paulton Parish Council
Bath Tourism Plus	Peasedown St John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Charter Trustees of the City of Bath	Portishead & North Weston Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	Yatton Parish Council
Oldland Parish Council	
Community Admission Bodies	
Alliance Homes	Merlin Housing Society (SG)
Ashley House Hostel	Merlin Housing Society Ltd
Bristol Disability Equality Forum	Off the Record Bath & North East Somerset Cnl
Bristol Music Trust	Sirona Care & Health CIC
Centre For Deaf People	Southern Brooks Community Partnership
Clifton Suspension Bridge Trust	Southwest Grid for Learning Trust
CURO Places Ltd	The Care Quality Commission
CURO Group (Albion) Ltd	The Park Community Trust
CURO Choice	Vision North Somerset
Holburne Museum of Art	West of England Sport Trust
Learning Partnership West Limited (CAB)	
Transferees Admitted Bodies	
Action For Children	ISS Mediclean (Bristol City Council)
Active Community Engagement Ltd	Keeping Kids Company
Agilisys	Kier Facilities Services
Aquaterra Leisure Ltd.	Learning Partnership West (Lot 1)

ARAMARK	Learning Partnership West (Lot 2)
BAM Construct UK Ltd	Learning Partnership West (Lot 3)
Barnardos	Learning Partnership West (Lot 7)
Bespoke Cleaning Services	Liberata UK Ltd
Bristol Drugs Project	Mouchel Business Services Ltd (Nailsea IT)
Churchill Contract Services	Quadron Services
Churchill Contract Services Ltd (Team Clean)	Shaw Healthcare (North Somerset) Ltd
Circadian Trust	SITA
Circadian Trust No 2	Skanska (Cabot Learning Federation)
Creative Youth Networks (Lot 4)	Skanska Rashleigh Westerfoil
Direct Cleaning (SW) Ltd	SLM Community Leisure
Eden Food Services	SLM Fitness & Health
English Landscapes	Sodexo
Fit For Sport	The Brandon Trust
HCT Group (CT Plus) (CIC)	Tone Leisure (Trust) Limited
ISS Mediclean (CLF)	

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The Audit Plan for the Avon Pension Fund

Year ended 31 March 2014

10 June 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section

1. Understanding your scheme

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

Changes to the Local Government Pension Scheme

The Public Service Pensions Act 2013 ('the Act') and consequent regulations make changes to the LGPS from 1st April 2014 including:

- changing from a final salary to career average scheme
- allowing members the option to reduce their contributions by 50% to receive 50% less benefit
- changing the way contributions are based on salary
- changing employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014

These changes require all employers involved in the LGPS to change the way their payroll systems calculate pension contributions. Administering authorities need to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions which are based on more complex calculations and less predictable outputs.

Pension administration and payment systems will need to deal with much more detailed processes affecting each individual pension account to ensure the correct payment of future pensions.

The Act will also require changes to the governance arrangements with implementation expected from 1 April 2015.

1. Understanding your scheme (cont'd)

Governance in the LGPS

The "Coming of Age; development of the LGPS" report is based on a detailed survey of almost 30% of the funds in the UK.

Pension committees vary widely. Some focus only on investments, others on in-year performance of investment managers, and some maintain a continuous review of their investment strategies. Over half have changed strategies significantly in recent years. Investment strategies need both long-term focus and continuous review. Important areas of fund management such as benefits administration, collection of contributions and ensuring effective and efficient operation of the fund also require review.

Every public sector pension scheme should have a properly constituted, trained and competent pensions board . To this end, the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on public sector pensions finance knowledge came into effect from 1 April 2012. The majority of funds have adopted the CIPFA framework but only 22% of the funds are implementing action plans as a result.

Pension funds would benefit from completing their own separate annual governance statement to give their governance arrangements the same depth of consideration that the administering authority gives to its other activities.

Administrative costs are relatively small compared to the size of the pension funds and their deficits. However, it is still important that funds understand their costs and take action to reduce them. Sixty per cent of funds benchmark their costs and have reduced them in recent years. But reporting this to pension committees is still under-developed.

Local Government Pension Scheme

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

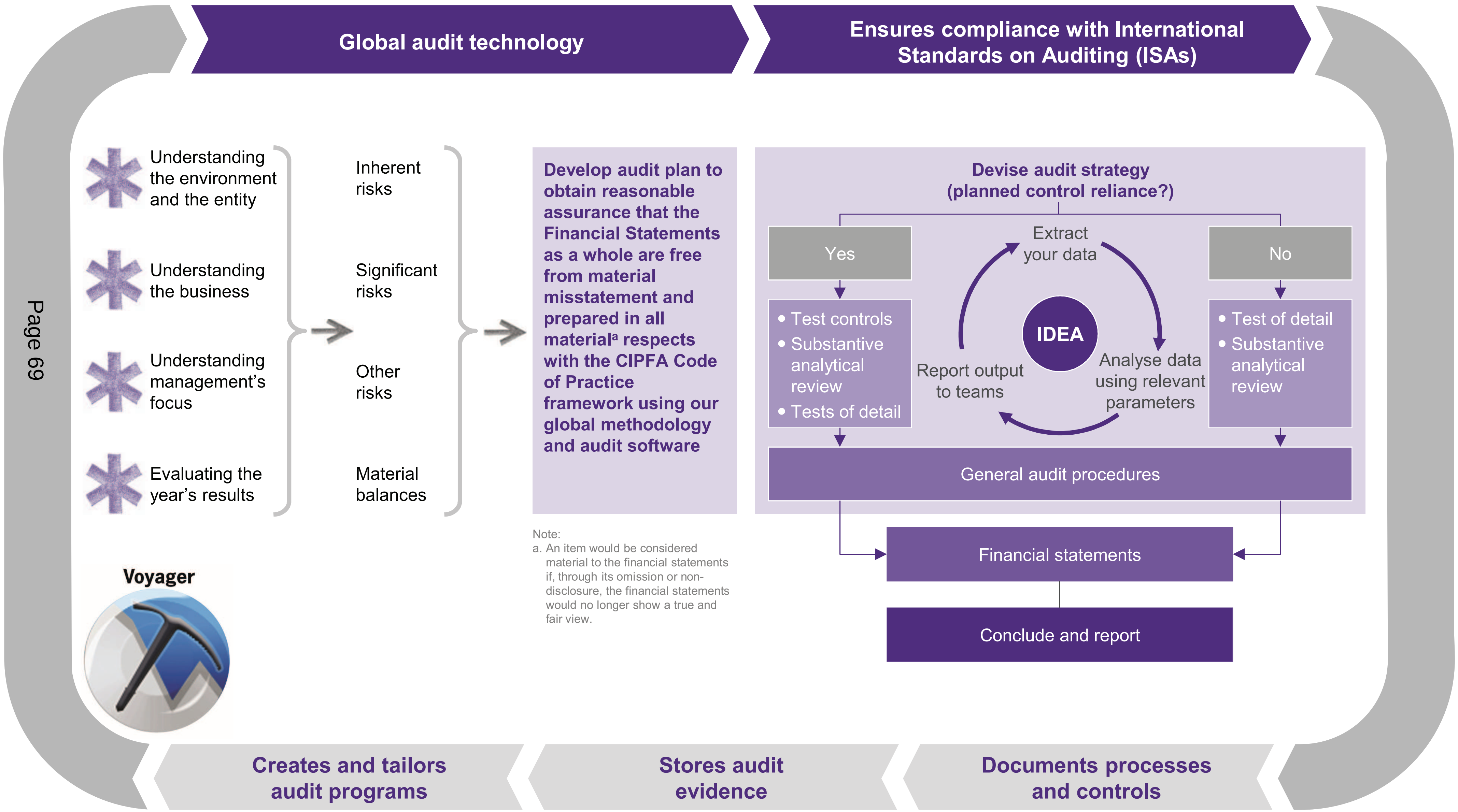
2. Developments relevant to your scheme and the audit

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

Developments and other requirements

Development	Our response
1.Financial reporting There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014.	We will ensure that the Pension Fund financial statements comply with the requirements of the Code
2. LGPS 2014 Planning and implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside, further developments in relation to governance may impact on their capacity to respond to audit queries.	We will discuss the impact of the changes with management and agree timetables with officers.
3. Financial Pressures – scheduled and admitted bodies Managing pensions administration where contributing bodies are offering early retirement and redundancies place additional workload on the staff administering pension fund in dealing with severance arrangements.	We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.
4. Financial Pressures – Pension fund Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.	We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance. We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.
5. Increasing number of member bodies The growth in the number of academy schools and the outsourcing of functions by existing member bodies is continuing to increase the number of member bodies. This requires officers to administer and value transfers between admitted bodies.	We will review arrangements for setting up new bodies.
6. Triennial valuation Following the 31 March 2013 actuarial valuation the Fund is in the process of considering the level of additional employer deficit contributions required and how to fund them.	Whilst this does not impact the contribution rates applied in the year ended 31 March 2014, it may affect the disclosures in the 2013/14 Pension Fund financial statements. We will assess the impact this has on the administration of the Pension Fund and any required disclosures in the 2013/14 Pension Fund financial statements.

3. Our audit approach



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

4. An audit focused on risks

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

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

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

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

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

4. An audit focused on risks (continued)

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

5. Significant risks identified

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

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

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

6. Other risks

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

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

7. Results of interim audit work

Scope

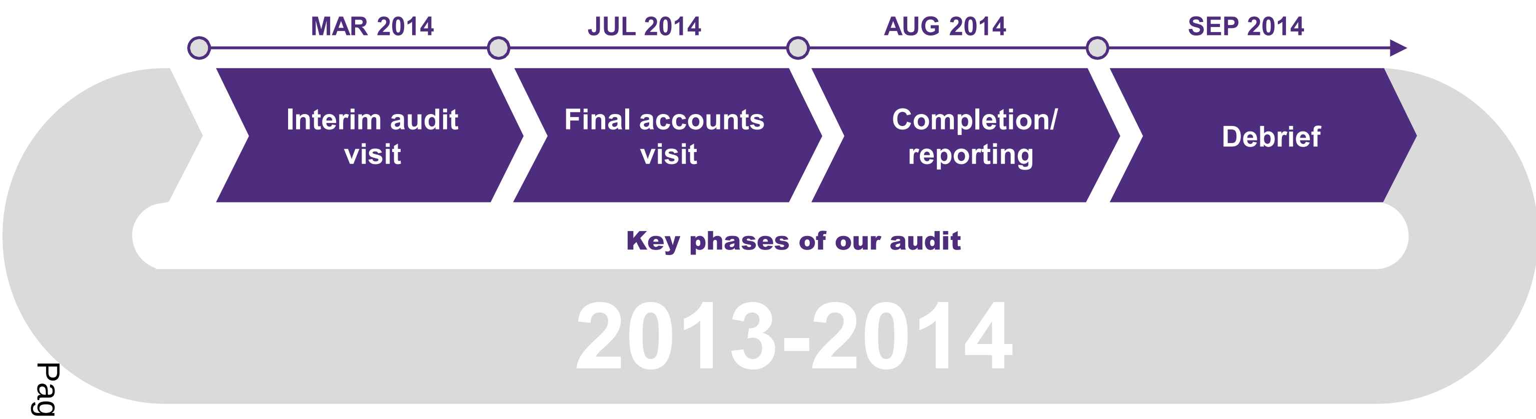
As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

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

	Work performed	Conclusion/ Summary
Internal audit	We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council including the Pension Fund and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Pension Fund.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.
Journal entry controls	We have reviewed the Pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension fund's control environment or financial statements.	Our testing is on-going.

8. Logistics and our team

The audit cycle



Our team

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Date	Activity
December 2013	Planning meeting
March 2014	Interim site work
June 2014	The audit plan presented to the Pensions Committee
July 2014	Year end fieldwork commences
August 2014	Audit findings clearance meeting
September 2014	Pensions Committee meeting to report our findings
September 2014	Audit Committee meeting to report our findings
September 2014	Issue opinion of the financial statement and annual report

9. Fees and independence

Fees

	2013/14 £	2012/13 £
Pension fund audit	30,116	28,804

Our fee assumptions include:

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

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

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

10. Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

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

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS STRUCTURAL REFORM CONSULTATION**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - LGPS: Opportunities for collaboration, cost savings and efficiencies consultation document Appendix 2 – Avon Pension Fund Draft Response		

1 THE ISSUE

1.1 The DCLG issued a consultation, LGPS: Opportunities for collaboration, cost savings and efficiencies in early May. This consultation follows the analysis of the responses to the Call for Evidence on the future structure of the LGPS in 2013 and the supplementary cost-benefits analysis of proposals of reform.

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

1.3 The deadline for responses is 11 July 2014.

2 RECOMMENDATION

The Committee:

2.1 Approves the draft response to the consultation, LGPS: Opportunities for collaboration, cost savings and efficiencies.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is responds to an external consultation.

4 LGPS: OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES CONSULTATION PAPER

4.1 In 2013 the DCLG and LGA issued a joint Call for Evidence about increasing co-operation between local LGPS funds as a means to control administration and investment management costs. Building on the Call for Evidence and further cost-benefit analysis of potential options (commissioned from Hymans Robertson), this consultation is the next step in the reform of the scheme.

4.2 The consultation paper (see Appendix 1) sets out the Government's preferred approach to reform and seeks views on its proposals. The Government believes there is scope for significant savings of around £660m per year to be achieved through reform.

4.3 The proposals set out in the paper are:

a) Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping funds to invest more efficiently in listed and alternative assets and to reduce investment costs.

b) Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.

c) Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.

d) A proposal not to pursue fund mergers at this time.

4.4 In addition the Government has decided not to consult on administration reform at this time. The Call for Evidence highlighted the scope for potential administrative efficiencies but the Government proposes to allow the administrative arrangements for the 2014 Scheme to mature before considering reform any further.

4.5 The priorities set out in the Call for Evidence of reducing fund deficits and improving investment returns were underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. This consultation focuses on improving investment returns through lower investment costs. Respondants are also invited to submit any feasible proposals for the reduction of fund deficits.

5 DRAFT RESPONSE

5.1 The Fund's draft response is in Appendix 2.

5.2 The main points are as follows:

a) The key to delivering good investment and administration performance and value for money is good governance through ensuring there are appropriate skills and expertise throughout the governance structure.

b) LPGS governance is currently being strengthened and the new arrangements should be allowed to bed in before further changes are made. Reform needs to promote best practice and not force change or dilute the superior performance of funds that are already delivering. The consultation suggests that all funds should be brought down to the “average” rather than bring all funds up to the highest level of performance and best practice.

c) There is no consideration of investment risk in the consultation. Each LGPS fund has an investment strategy linked to its funding strategy which is specifically structured to defray the cost of the pension liabilities over a long time frame and to maintain as stable as possible the pension costs for the employers. The investment objective will reflect the risk adjusted return required to meet the funding requirement, and will therefore reflect the level of risk that can be passed on to employers through their pension contributions.

d) We support the use of any initiatives including collective investment vehicles (CIVs) that help reduce costs and/or provide access to a wide range of investment opportunities. However, the use of such vehicles or initiatives should be at the discretion of each fund to ensure they invest efficiently and meet their investment and funding objectives. Centrally prescribed policy will not necessarily achieve this. Strategic investment decisions are not simply about asset allocation; they are about managing the strategic risks *relative to* the liabilities. Therefore any changes in regulations must ensure funds have the flexibility to implement strategies to efficiently manage these risks.

e) The use of passive management is not low risk as there are inherent risks of concentration, valuation bias for example and if adopted across all quoted assets could give rise to systemic risk across the funds. From a risk perspective mandatory use by all funds is not appropriate.

f) Active management when effectively applied can add value and enhance returns net of fees. In recent years there has been greater use of risk based strategies to manage liability risk but these strategies can be more costly to implement due to their complexity. Funds need the flexibility to access such strategies either within or outside a CIV.

g) Reduced use of fund of funds for alternatives would reduce costs as it would eliminate a layer of fees. However, if these assets are collectively managed, there will need to be a robust governance structure in place to take on the management of these assets (including the selection, due diligence and monitoring of managers) to ensure there is not an increase in risk and potential reduction in returns if, as a result, there is restricted access to best in class managers. As a result, there will be additional management fees arising from managing these assets via a CIV.

h) There is no understanding of how responsible, sustainable or long term investing approaches as put forward by the Kay Review would be incorporated in these proposals. Passive investing requires even more rigorous corporate governance, environmental and social risk input. Greater passive investing will leave UK markets more exposed to decisions of short term investors whose actions are not so aligned with long term pension fund investors and expose all Pensions funds to the fragility of the economic cycle.

i) In the absence of more radical reform of the benefits structure then the most appropriate solution to managing the deficits is to tackle the main structural drivers, low bond yields and longevity. Changes to the benefits structure to manage improving longevity in 2008 and again in 2014 have had limited impact on reducing costs. Although the current very low bond yields reflect economic conditions, over a prolonged period there has been a structural impact arising from a lack of supply of long dated index linked gilts. Greater issuance of these bonds or a long dated "LGPS" bond could assist funds to better match their liability profile at an appropriate valuation level. There is a danger that solutions to tackle current pressures on deficits are introduced just as the interest rate cycle turns positive for pension funds; a 1% rise in bond yields, which is not inconceivable, would reduce the value of liabilities significantly and alleviate immediate cost pressures.

5.3 The deadline for the response is 11 July 2014.

5.4 The Committee is asked to approve the draft response.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 For information only.

8 CONSULTATION

8.1 No relevant.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The relevant information is set out in the report.

10 ADVICE SOUGHT

10.1 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	

Department for
Communities and
Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
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

1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 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).

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

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

Help with queries

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

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

1.7 Alternatively, you can write to:

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

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

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[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

> **Recommendation 23**: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

[4] Independent Public Service Pensions Commission: Final Report p.17
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf
[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

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[6] Local government pension scheme funds summary data: 2012 to 2013
[7] Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

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[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view
[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	Net present value of savings over 10 years (£ billions)
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

"There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link."

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund's unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely "local", as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

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[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

[16] Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.

[17] Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

> Local Government Shared Services ("LGSS") Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

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Appendix 2

DRAFT RESPONSE FROM AVON PENSION FUND
LGPS: Opportunities for collaboration, cost savings and efficiencies

Thank you for the opportunity to respond to the consultation, LGPS: Opportunities for collaboration, cost savings and efficiencies. Before we answer the questions set out in the consultation, we would like to make a few important comments directly related to this consultation.

1. The key to delivering good investment and administration performance and value for money is good governance through ensuring there are appropriate skills and expertise throughout the governance structure (across the committee, officers, advisors).
2. LPGS governance is currently being strengthened and the new arrangements should be allowed to bed in before further changes are made. Reform needs to promote best practice and not force change or dilute the superior performance of funds that are already delivering. The consultation suggests that all funds should be brought down to the "average" rather than bring all funds up to the highest level of performance and best practice.
3. There is no consideration of investment risk in the consultation. Each LGPS fund has an investment strategy linked to its funding strategy which is specifically structured to defray the cost of the pension liabilities over a long time frame and to maintain as stable as possible the pension costs for the employers. The investment objective will reflect the risk adjusted return required to meet the funding requirement, and will therefore reflect the level of risk that can be passed on to employers through their pension contributions.
4. We support the use of any initiatives including collective investment vehicles (CIVs) that help reduce costs and/or provide access to a wide range of investment opportunities. However, the use of such vehicles or initiatives should be at the discretion of each fund to ensure they invest efficiently and meet their investment and funding objectives. Centrally prescribed policy will not necessarily achieve this. Strategic investment decisions are not simply about asset allocation; they are about managing the strategic risks *relative to* the liabilities. Therefore any changes in regulations must ensure funds have the flexibility to implement strategies to efficiently manage these risks.
5. The use of passive management is not low risk as there are inherent risks of concentration, valuation bias for example and if adopted across all quoted assets could give rise to systemic risk across the funds. From a risk perspective mandatory use by all funds is not appropriate.
6. Active management when effectively applied can add value and enhance returns net of fees. In recent years there has been greater use of risk based strategies to manage liability risk but these strategies

can be more costly to implement due to their complexity. Funds need the flexibility to access such strategies either within or outside a CIV.

7. Reduced use of fund of funds for alternatives would reduce costs as it would eliminate a layer of fees. However, if these assets are collectively managed, there will need to be a robust governance structure in place to take on the management of these assets (including the selection, due diligence and monitoring of managers) to ensure there is not an increase in risk and potential reduction in returns if, as a result, there is restricted access to best in class managers. As a result, there will be additional management fees arising from managing such assets via a CIV.
8. There is no understanding of how responsible, sustainable or long term investing approaches as put forward by the Kay Review would be incorporated in these proposals. Passive investing requires even more rigorous corporate governance, environmental and social risk input. Greater passive investing will leave UK markets more exposed to decisions of short term investors whose actions are not so aligned with long term pension fund investors and expose all Pensions funds to the fragility of the economic cycle.
9. In the absence of more radical reform of the benefits structure then the most appropriate solution to managing the deficits is to tackle the main structural drivers, low bond yields and longevity. Changes to the benefits structure to manage improving longevity in 2008 and again in 2014 have had limited impact on reducing costs. Although the current very low bond yields reflect economic conditions, over a prolonged period there has been a structural impact arising from a lack of supply of long dated index linked gilts. Greater issuance of these bonds or a long dated "LGPS" bond could assist funds to better match their liability profile at an appropriate valuation level. There is a danger that solutions to tackle current pressures on deficits are introduced just as the interest rate cycle turns positive for pension funds; a 1% rise in bond yields, which is not inconceivable, would reduce the value of liabilities significantly and alleviate immediate cost pressures.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

This question focuses purely on economies of scale and savings but not investment returns and risk. We would contend that costs and savings cannot be looked at in isolation. A properly constructed investment strategy will have taken into account the potential returns from any investment net of fees as well as the volatility of those returns and no well governed fund would consider investment returns or risk or costs in isolation. As investment tools have developed, giving accessibility to less liquid asset classes and more complex strategies, funds have sought to reduce the volatility inherent in their strategy in order to manage their funding strategy (which is re-assessed every three years, thus the need to manage volatility of returns). However, strategies to reduce volatility often cost more to implement than those investment strategies that merely give exposure to market beta. Therefore any analysis of pension fund returns and related costs is flawed if there is no analysis of managing investment risk and we contend that management of risk is as crucial an element of investment strategy as is returns and costs.

If the intention is purely to reduce investment costs then we would agree that the use of CIVs would deliver savings in terms of management fees assuming economies of scale were achieved. However, there is no evidence to demonstrate that this will improve underlying investment returns especially if funds are restricted as to how they structure their portfolios. In addition, there may be other initiatives that could reduce investment costs yet be simpler to implement. Such initiatives include the use of framework agreements for investment mandates which could reduce fees through national "bargaining" power or more innovative approaches to structuring fees to better align active management fees directly to performance. For example, passive-like annual fees plus a greater element of performance fees once a hurdle has been achieved, with an ultimate cap for the total fee payable.

In addition, there is a risk the savings stated in the consultation are overstated for a number of reasons:

- Not all quoted assets should be passively managed given the inherent risk of some indices/markets.

  Passively managed assets are exposed less obvious risks, namely concentration risk, valuation bias and credit/sovereign risk. The obvious examples are the dotcom bubble, size of the banking sector in the FTSE All Share ahead of the collapse in share prices in 2008/09 and the weight of BP at the time of the Gulf spill. Passively managed portfolios incurred significant capital losses as a result of these events. Actively managed portfolios had the ability to protect capital through active investment decisions. Using the BP oil spill example, BP was 7.1% of the FTSE All Share at the time of the disaster whereas our active UK manager had an exposure of 2.3%.

  Passive management of portfolios tend to use market cap weighted indices which have a valuation bias as they will allocate more capital to stocks that are more highly valued. This creates significant risks in times of market or sector valuation bubbles. Alternative indexation approaches such as risk factor weighting, fundamental weighting, equal weighting would have to be offered for those funds that wish to manage or avoid such risk.

  Although the Fund has passive mandates, investment decisions not to invest passively have been made where we think the resulting exposure would expose the Fund to undesirable sources of risk. For example, we do not manage our corporate bond or emerging market equity exposures passively. An index of corporate bond issuers will by default have its largest weights to companies that issue the most debt, and thus could be the less creditworthy and financially secure. In emerging markets large countries can dominate indices leaving investors highly exposed to economic failure or currency devaluations, recent devaluations in the Brazilian and South African currencies being pertinent examples. An active manager has the opportunity to such risks in their investment decisions.

- To achieve such significant savings the choices within (each) CIV would have to be limited.

  The assumption underlying the analysis of the use of CIVs by Hymans Robertson (HR) is that all funds have the same return and risk criteria across their portfolios and thus mandates. This is not the case and the extent to which this would need to be accommodated within the CIV structure will determine the scale of savings to be achieved. The HR report does not clearly consider this aspect. A fund's investment structure will comprise a range of risk adjusted return portfolios of assets to deliver the required investment objective. Therefore if the range of risk adjusted return options offered within a CIV were limited, funds would find it more difficult to construct a portfolio to meet their investment objective.

- There is no consideration of responsible investing approaches and corporate governance activities:

  The issue of responsible investing has significant relevance for passive portfolios as the investors have no option but to invest in poorly governed companies. The CIV would have to provide funds with the ability to act responsibly but the degree to which this is currently implemented varies between funds. For example our fund has a specialist SRI UK equity mandate where the manager explicitly selects stocks using to SRI criteria in addition to traditional financial criteria. The cost of such a mandate is higher than an index or mainstream equity mandate as the manager will have dedicated resources in order to deliver the product. Therefore if funds wish to select managers that actively engage on Environmental, Social or Governance issues as an integral element of their sustainable or responsible investing approach this option would need to be provided within a CIV.

- It must be acknowledged that the suggested savings will not be equally shared amongst all LGPS funds with inevitable "cross-subsidy" to those that have smaller, more expensive, investment mandates.

The use of CIVs for alternative and unquoted assets is intuitively compelling given the scope to reduce fees from a higher base and CIVs could increase the ability for smaller funds to access such opportunities. However, individual funds will have differing investment objectives for their alternatives portfolio. For example, our hedge fund portfolio targets a lower risk and return objective as the portfolio is primarily a tool to reduce volatility rather than generate excess returns. Other funds may have a higher risk adjusted return target for their hedge fund allocation.

Experience from Australia, where IFM created a similar structure to manage the assets of pension funds collectively, demonstrates that the length of time to achieve savings in the alternative assets classes would be extremely long. Many alternative investments are through closed investment vehicles in which committed capital cannot be withdrawn before the end of the fund's term, and thus the transfer of assets will take time. This is not a reason not to use CIVs but just an acknowledgement of the time it will take for savings to materialise.

As mentioned previously a robust governance and operational structure must be established for alternative CIVs which will dilute some of the savings. The HR report assumes costs of 35bps if these assets are managed collectively but does not explain how feasible this would be to achieve.

Therefore we would contend that the investment arrangements of the CIVs will need to be flexible and provide a wide choice of investment options in terms of mandates in order to accommodate the requirements of the investment strategies across the local funds. CIVs could be established for standard passive and the more common active mandates, leaving funds to appoint managers outside a CIV for more specialist mandates. As a result choice will diminish the overall savings.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Yes. Administering authorities have responsibility and accountability to its local scheme employers to manage the risk and keep contributions affordable.

The LGPS is primarily funded by local authorities and other public sector employers located in a local area. Unless the way the LGPS is funded changes in a way that would alter accountability, the use of local public funds should be determined and controlled by those accountable. Each fund has its own membership profile and a locally agreed funding plan to fully fund the pension benefits accrued. The investment strategy must be consistent with this funding strategy for the funding objective to be achieved.

The key to achieving its investment objective is the governance arrangements of LGPS funds. This is being strengthened which should help build and maintain a knowledge level commensurate with making strategic investment decisions. Funds should be encouraged to strengthen committees with co-opted members to mitigate the risk of high turnover of elected councillors on committees.

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

It is flawed to structure a CIV around asset classes as there are numerous potential risk/return profiles within an asset class. Instead investment mandates should be targeted if flexibility is to be provided for funds to efficiently structure their investments to meet their investment objective.

Another key consideration is the optimal size of an investment mandate, meaning the size at which the manager can still implement its strategy without increasing risk. This is obviously more of an issue for active and alternative mandates than passive. Maximum savings would be if one CIV was created with sub CIVs or structures for differing investment approaches/mandates. However, optimal mandate sizes may make regional CIVs or alternative structures more appropriate.

If the CIV option is introduced (either mandatory or voluntary), there may be a case for establishing CIVs for passive investing in quoted assets first as there will be greater commonality of existing mandates across the funds, thus there may be greater buy-in. However, there are passive assets already managed in-house by some LGPS funds, often at a cheaper cost than external passive funds. The paper is unclear as to how these would "fit" within a CIV structure or as an alternative to CIVs. Delegated investment management is possible under the regulations and although FCA registration is not required it would provide assurance.

We would assume the CIV would be established along the lines of the London Council's CIV project (given the amount of work already undertaken), with a series of sub-funds with manager selection undertaken by the CIV Board (representing the LGPS funds). There could be more than one sub-fund for each asset class where there are differing potential mandates. We would contend for reasons set out in Q1 it is difficult to include specialist mandates for quoted assets in a CIV. The following should be included in the CIV structure.

Passively managed quoted sub funds to cover

- UK equities
- Regional overseas equities
- Global equities
- UK fixed income government bonds
- UK indexed linked gilts

Actively Managed quoted sub funds to cover

- Unconstrained developed equities
- Emerging market equities
- Corporate bonds
- Overseas government bonds
- Emerging market debt
- High yield debt
- Equity income funds

The case for investing via CIVs for alternatives is more complex and requires far more consideration before a vehicle could be established. Operational as well as investment considerations will need to be interrogated to ensure an adequate level of investment risk, liquidity and diversification in the options for investment.

Co-investment is a different approach to managing alternative assets collectively which would eliminate FoF layer of fees but would require resources and governance to ensure adequate due diligence and monitoring of investment partners is undertaken.

Potential alternatives/unquoted CIV would require the following sub funds:

- Single strategy Hedge funds – options for specific strategies
- Multi strategy hedge funds platform – options for diversified exposure
- Diversified growth funds
- UK property
- Global property
- Private Equity
- Specialist debt/credit funds

- Infrastructure
- Social infrastructure/impact funds
- Liability Driven investment solutions

Other real asset funds, such as agriculture and forestry, should only be included if there are funds of an adequate size to accommodate allocations from across the LPGS participating funds.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

The CIV would have to meet all regulatory, authorisation and tax requirements applicable to LGPS funds and regulations.

As the London Boroughs are establishing a UK based tax efficient vehicle, it would be sensible to assess how this works in practice and to contrast this with other models used internationally or in the corporate sector before determining the type of vehicle. The government via the Shadow Advisory Board should commission a full review of the options before proceeding

Although the structure of the proposed CIVs is uncertain it is assumed it will have sub funds for each mandate / strategy. Manager selection will be undertaken by the CIV (by the CIV Board or through their delegated power) and LGPS funds will invest in units in the sub funds.

The governance arrangements will be vital for the CIV structure to have credibility with the funds that invest via them. The operational management of the CIV(s) should be fully independent of the funds and those related to the funds to ensure there are no conflicts. Governance will have to be owned by the funds either as shareholders in the CIV or having a representative body. The governance structure will be responsible for determining that that CIV meets their requirements and this will include the power to appoint / remove the CIV operator / managers if there are performance or delivery issues.

Each LGPS fund would need to be an equal shareholder in the CIV and the Board would be elected by the shareholders. However, a national CIV with 89 potential “shareholders” could give rise to representation issues in that funds may have a significantly diluted relationship with the Board. There is a risk that the governance framework will be cumbersome requiring a lot of detailed oversight with the danger that the big issues and risks could get lost. Smaller CIVs, perhaps regionally based may be a better governance solution. It will be essential that a CIV Board has expert independent advisors, and should have independent board members as required on corporate boards to ensure no (group of) shareholders have undue influence.

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson’s evidence on aggregate performance, which of the options set out below offers best value for taxpayers, Scheme members and employers?

(1) Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.

We do not support this option for the following reasons:

- It could limit a funds ability to implement the investment strategy required to meet its funding objective. This could increase costs to the employers in the long run.
- Passive investing is not optimal or appropriate for all listed/quoted assets; there are inherent investment risks that can be managed through active management
- Active management can add value as demonstrated by our fund. Over the last 3 years the attribution from active management has been 0.8% p.a. (Source: WM Performance Services/ JLT Investment Consulting). In monetary terms this has delivered added value after fees of £18m in 2011/12, £17.7m in 2012/13 and £19.4m in 2013/14. This has been generated by various managers across UK equities, overseas equities and corporate bonds.
- The key to above average performance is strong, robust governance structure. Our fund has an investment sub-committee which focuses in detail on investment decisions and supports the committee on investment and funding strategies.

(2) Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.

We do not support this option. How would an arbitrary allocation be set? Who would be accountable if the arbitrary set parameters led to inferior returns and higher employer contributions, central government? The central setting of percentages to be invested in a specific way could be detrimental to an overall investment strategy which must relate to local funding strategies and could force funds to trade unnecessarily to achieve an arbitrary target allocation.

(3) Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.

We already do this implicitly as part of any review of our investment strategy. The allocation between active and passive is part of the decision making process: whether an investment objective can be achieved by investing passively or not is fundamental to implementing a strategy in an efficient way and in allocating the "risk budget" within the investment structure.

We are not against this proposal but have concerns as to how it would be monitored and it could unintentionally increase consultancy/advisory costs if funds needed "expert" advice to justify their position more regularly than at a strategic investment review. As long term investors we would not want to undertake full annual reviews of strategy merely to comply with this requirement.

In addition, "comply or explain" implies passive is the default approach but this could put pressure on funds to index assets after periods of underperformance whereas it may be preferable from a market cycle perspective to not index (and vice versa, it may be preferable to index after periods of active management outperformance).

(4) Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Prefer this proposal as we already do this as stated in (3) above. Our Statement of Investment Principles sets out the investment strategy and how it is implemented. This option would also allow structures and collaboration already being undertaken such as co-investment, use of frameworks and collective investment vehicles to develop rather than be forced. If there is evidence that they can provide realistic alternatives and reduce costs then there will be support from funds. In addition, it would give funds the opportunity to continue discussions on ways to reduce fees and to re-align active management fees with performance in order to realise savings without the need for forced or significant changes.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL RESPONSIBLE INVESTMENT REPORT**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investment Report: Policy and Activities 2013/14 Appendix 2 – Appendix to Responsible Investment Report: Policy and Activities 2013 – Monitoring report of Voting Activity Appendix 3 - Statement of Compliance with Stewardship Code 2013		

1 THE ISSUE

1.1 The Fund publishes a Responsible Investment (RI) Report annually to explain the Fund's RI activities including voting and compliance with the FRC Stewardship Code.

1.2 Inherent in the Fund's RI policy is that transparency and disclosure of its RI policy and activities is an important element of being a responsible investor.

1.3 The Responsible Investment report for 2013/14 is at Appendix 1 along with the 2013 annual report on Voting Activity from Manifest (Appendix 2). The report will be published on the Fund's website once it has been approved by the Committee.

1.4 Manifest will present their report at the Committee meeting.

1.5 The Statement of Compliance with the Stewardship Code is included as Appendix 3 for information only.

2 RECOMMENDATION

The Committee:

2.1 Approves the annual Responsible Investment Report for 2013/14

3 FINANCIAL IMPLICATIONS

3.1 The budget includes the costs of the proxy voting monitoring provided by Manifest.

4 RESPONSIBLE INVESTMENT REPORT

4.1 This is the second annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The RI policy was agreed in June 2012. The Fund updated its compliance statement with the Stewardship Code following small amendments in 2012 and this was agreed by Committee in June 2013.

4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account, key ways in which the Fund sought to manage these risks during the year were as follows:

a) Embedded ESG criteria into the evaluation and implementation of the new investment strategy for the new Diversified Growth Funds and Emerging Market Equity mandates and appointment decisions

b) Monitored whether our investment managers implemented RI policies or approach in line with their stated policy and the Fund sought to influence where appropriate:

- The Fund followed through with issues identified last year by focussing on remuneration and board diversity
- Held managers to account and queried RI / ESG factors in investment process where appropriate
- Reviewed whether engagement activity of managers was in line with their policies
- The Fund wrote letters to its investment managers to:
  i) Promote board diversity for the 2014 proxy season
  ii) Questioned managers on the topic of remuneration voting policies and related engagement activity

c) Increased the Fund's participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activites are important tools to manage RI risks.

5 NATIONAL INITIATIVES

5.1 The national board representing the LGPS funds (the LGPS Shadow National Advisory Board) obtained Counsel's opinion on issues concerning the fiduciary duty of LGPS funds.

5.2 The opinion concluded that in managing an LGPS fund the administering authority has fiduciary duties both to the scheme employers and to the scheme members. However, the administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. So long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund.

5.3 The Counsel’s opinion supports the Fund’s Responsible Investing Policy.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 For information only.

8 CONSULTATION

8.1 For information only.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 For Information only.

10 ADVICE SOUGHT

10.1 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, 01225 395420
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Responsible Investment Report: Policy and Activities 2013/14

Introduction

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

The annual Responsible Investment report summarises the activities undertaken during the year by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The report comprises the following sections:

Executive Summary

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

- **Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation and implementation of the new investment strategy for the new Diversified Growth Fund and Emerging Markets Equity mandates and appointment decisions**

- **Promoted Responsible Investment / Environmental, Social and Governance by:**
    - **Following through with issues identified last year by the Fund's Committee such as focusing on remuneration and board diversity**
    - **Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate**
    - **Reviewing whether engagement activity of managers was in line with their stated policies**
    - **Engaging directly with the Fund's investment managers to:**
        - **Promote board diversity for the 2014 proxy season**
        - **Obtain feedback from investment managers on the topic of remuneration voting policies and engagement activity**

- **Increased the Fund's participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks.**

Section 1 - Avon Pension Fund, Responsible Investment Policy

This policy was agreed by the Avon Pension Fund's Committee in June 2012. The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

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

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

<u>Policy</u>

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

    - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.
    - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
    - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.

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

Section 2 - Responsible Investing Activity in 2013/14

2.1 Investment Strategy

In March 2013 the Fund adopted a new Investment Strategy. The 10% allocation to Diversified Growth Funds (DGFs) and the additional 5% allocation to Emerging Market Equities were implemented by March 2014.

The following tables summarises the Fund's evaluation of RI characteristics of these asset classes:

Asset Class	Can ESG Risks be Managed?	Notes
Emerging Market Equities	Yes	In Emerging Markets there is greater risk of issues around corruption and human rights at the government level and the regulatory and legal framework will often not be as developed or robust as for developed markets. In addition, in many markets, the limited rights of minority shareholders mean that investors have less ability to influence corporate behaviour. As a consequence, the potential risk of poor ESG practice amongst local companies based in the emerging economies is higher than for multinational companies operating in these countries - multinational companies have to adhere to the standards of best practice in their home country. In Emerging Market Equities ESG risks can be managed through the investment decisions of the manager in terms of the individual stocks held within the portfolio.
Diversified Growth Funds (DGF)	Limited	There is less scope to reflect the Fund's ESG policy through a DGF investment compared to equity mandates. DGF managers hold a variety of assets across different asset classes, so the extent to which ESG risks can be managed will be dependent on the types of assets held.

In the tender for each mandate the respondents were required to demonstrate how they incorporate ESG issues and risks into their investment decision making process which was evaluated as part of the assessment of each tender. This enabled the Fund to understand each manager's approach to ESG risk, how it would be managed and the level of risks the Fund would be exposed to.

Although the scope for reflecting the Fund's ESG policy within the DGF search was limited, the tender questionnaire assessed each manager on the following:

- Do they have a team responsible for corporate governance and responsible investing?
- Is the organisation a signatory to UNPRI?

- To what extent are the principles of UNPRI reflected in the product offered?

As there is greater scope to assess how each Emerging Market Equity manager incorporated ESG into their process in addition to the 3 general questions above the tenderers were also assessed on the following:

- To explain their views on shareholder activism and whether they seek to influence the underlying structure of the business practices of individual stocks held in portfolio
- To provide voting analysis over the preceding 12 month period in terms of proportion of votes cast for, against and where abstained
- Do they regularly vote on all shares held within the portfolio?
- To provide examples of where voted against management and explain why
- To what extent do they use external voting services
- Are they a signatory to the UK FRC stewardship code? And what engagement and support do they have with the UNPRI

2.2 Investment Managers Activity

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed. In addition the Fund also seeks to influence managers where appropriate and to ensure they take ESG risks into account.

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

Investment Panel Activity

During the year the main focus of the Panel was the implementation of the new investment structure. As a result, fewer meetings were held with investment managers. Specific RI issues were raised by the Fund with the following investment managers:

- Royal London (UK Corporate Bond mandate) – Discussed scope and benefits of applying ESG/SRI analysis beyond equities into corporate bonds and credit analysis. The Panel recognised the recent developments in such analysis and agreed to monitor the development of products in this area as experience and size of funds continues to evolve.
- Schroder (Global Equity mandate) – Following a change in the investment team, Schroder confirmed that their thematic approach (climate change, super cycle and demographics) is still embedded into the investment process and are used to inform the investment decisions.

Manager Updates

- Invesco Perpetual and Unigestion gained UNPRI signatory status during the year.

- Jupiter restructured their environmental, social and governance teams to ensure these teams are fully incorporated into the investment decision making process.
- Jupiter updated their compliance with the UK Stewardship Code in January 2014
- Jupiter implemented a Stewardship Committee and Sustainability Review Committee to further align stewardship and investment considerations. Jupiter now subject their stewardship activities to independent audit assurance.
- Blackrock as part of the Investor Stewardship Working Group aims to influence the debate on the development of stewardship
- Invesco uses an engagement overlay service to monitor, focus and prioritise engagement activity
- SSgA uses multiple ESG screens to identify companies for engagement. They group engagements into 3 categories: reactive, recurring and active. During 2013 SSgA carried out over 375 active engagements which was largely focused on compensation (42%) and governance (39%).
- Blackrock and SSgA responded to the Call for Evidence on the future structure of the Local Government Pension Scheme (LGPS)
- Baring Asset Management, Jupiter and SSgA all participated in the TUC fund manager voting survey for 2013
- RLAM updated their approach to the UK Stewardship code and produced an annual review of sustainable investing.

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

TT and Genesis do not have specific RI engagement programmes but as active investors who put a lot of value in quality of management, they are meeting management continually and where RI issues are impacting performance these are raised with management as part of the investment process.

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

Voting

Analysis of the proxy voting activity carried out by investment managers on the Fund's behalf was undertaken by Manifest Information Services. The objective of the analysis is to provide greater understanding of:

- Voting activity undertaken on behalf of the Fund
- Wide voting issues
- Governance standards at companies
- How the Fund's investment managers use voting rights

Manifest's report is included in the Appendix. The key points from the 2013 report were as follows:

- It is the 3rd annual report from Manifest (2nd year where a full year of data was available for analysis)The Fund's managers are again marginally more active in expressing concerns through voting than the average shareholder, opposing management on 5.2% of resolutions.
- The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, Jupiter incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore it should be expected that there is less reason to vote against management.
- As in 2012 the most contentious and material issues were Board Governance, Independence, Diversity and Remuneration.
- Focus for coming year should remain on Remuneration policy as future pay policy is being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review and a second binding vote on proposed pay policy. In addition board diversity and audit independence are expected to be key issues in 2014.
- Major developments during the year included the new Director's Remuneration Report Regulations in the UK, changes to the UK Stock Exchange Rules, the UK Takeover Code, the issue of Gender Diversity on UK Boards and the EU Shareholders Rights Directive Part II.

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

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 17 companies for which LAPFF issued a voting alert during the year; the table is split across 7 issue categories. Note that some companies appear across multiple categories.

Joint chair & CEO roles	Election of Chair / CEO / Director	Approve / receive annual report	Approve remuneration report / compensation / LTIP	Greenhouse gas emissions	Eliminate dual share class structure	Issue of equity convertible note's
Carnival	Barclays	Barclays	AstraZeneca	Exxon Mobil	Twenty-First Century Fox	RBS
Comcast	Carnival	Carnival	Aviva			
JPMorgan	Comcast	Marks & Spencer	BAE Systems			
	Exxon Mobil	National Express	Barclays			
	Freeport McMoran	RBS	Carnival			
	JPMorgan		EasyJet			
	Marks & Spencer		Prudential			
	Twenty-First Century Fox		SABMiller			
			WPP			

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions.

The below table shows as an example votes cast from 4 of the Fund's equity managers:

	Resolution	LAPFF	Management Recommendation	Manager 1	Manager 2	Manager 3	Manager 4
Barclays	Receive annual report	AGAINST	FOR	FOR	FOR	ABSTAIN	
	Approve remuneration report	ABSTAIN	FOR	FOR	AGAINST	FOR	
	Chairman election	FOR	FOR	FOR	FOR	FOR	
Prudential	Approve remuneration report	AGAINST	FOR	FOR	AGAINST	FOR	FOR
	Approve long-term incentive plan	AGAINST	FOR	FOR	FOR	AGAINST	ABSTAIN
Twenty-First Century Fox	Re-elect 2 non-exec directors	FOR	FOR	AGAINST			
	Appoint independent chair (shareholder proposal)	FOR	AGAINST	FOR			
	Eliminate dual share class capital structure (shareholder proposal)	FOR	AGAINST	FOR			

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

In the case of the Barclays remuneration report Manager 2 commented that despite engagement occurring over a period of time and an improving trend they highlighted an imbalance of rewards to management and the return to shareholders and therefore voted against the remuneration report. Manager 3 decided to abstain on the resolution to receive the annual report on the basis of disclosure under IFRS rules but acknowledged this is not an issue solely linked to Barclays. IFRS is discussed in more detail in the following section under LAPFF activity.

In the current AGM season similar concerns were again highlighted by shareholders on the topic of remuneration at Barclays. Manager 2 and 3 both voted against the Barclays remuneration report with Manager 2 commenting that further progress is needed to align group-wide compensation with shareholder interests.

For Prudential’s long-term incentive plan Manager 3 decided to vote against the incentive plan due to the concern over potential manipulation under IFRS rules in generating economic value used for incentive calculations. On the same resolution Manager 4 commented that they were supportive of a number of features that benefitted shareholders but were concerned over the failure to disclose performance targets attaching to half of each conditional long-term award until after the end of the 3 year performance period. In this instance abstention recognised the positive aspects of the resolution rather than a full vote against.

The case of Twenty-First Century Fox was interesting as it contained 2 shareholder proposals. Manager 1 voted in line with both LAPFF and the shareholder resolution as they believed investors would benefit from greater independent leadership in the boardroom and that the elimination of the dual share class was in the best long term interest of shareholders. Manager 1 decided to again vote against management and the re-election of 2 non-executive directors due to their failure to submit the company’s ‘poison pill’ (a means to discourage hostile takeovers) for shareholder vote.

The Fund’s overall voting across all investment managers can be seen within the below table.

Manager	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management
BlackRock	19,267	96.09%	95.14%
State Street	3,474	88.57%	92.44%
Jupiter	1,110	98.92%	97.47%
TT International	973	99.79%	95.68%
Invesco	854	85.13%	90.25%
Schroders	659	91.96%	94.19%
Genesis	198	85.35%	97.58%
Total	**26,535**	**94.83%**	**95.03%**

The above table highlights the following:

- In terms of overall patterns of voting behaviour, with the marginal exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general. Invesco and Genesis supported management noticeably less.
- Overall, Avon's managers continue to be marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2013 stood at just shy of 5% on average (compared to just over 4% in 2012 – a notable increase), Avon's fund managers opposed management on 5.2% of resolutions (up from 4.6% in 2012), which remains slightly above the institutional 'norm'.
- The high level of support with management from Jupiter reflects Jupiter's practice of incorporating a company's governance characteristics in their investment buying decision making, whereas BlackRock, for example, as a passive investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder, Invesco and Genesis portfolios in particular are global and therefore are exposed to a much higher potential variance of general governance standards.

The Manifest voting analysis also identifies some common themes:

- When considering the most common policy issues Manifest identified at the company meetings in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2013. This is explained in part by there being a slightly smaller number of resolutions in the data set.
- Many issues identified relate in some way to remuneration; whilst the highest number of them strictly speaking relate to governance (i.e. Remuneration Committee composition), the fact that so many other remuneration issues seem to have also increased in relative frequency underlines the importance of governance as a management issue. In this case, the inference is that there is a relationship between the level of independence of the remuneration committee and the level of control over incentive pay.
- Although the volume (in absolute terms) of the most common governance concerns that Manifest identified is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board (direct election) related considerations.
- The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners.
- Therefore, 6 of the top 8 concerns (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees.
- The second most common group of issues identified relate to remuneration.

The following conclusions and outlook can be drawn from the Manifest analysis:

- By and large corporate governance risk-related issues change over the long term, rather than due to short term pressures.
- We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may ‘lapse’ and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.
- What is more important is to understand how the fund’s managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this.
- 2013 has shown that both Avon’s fund managers and shareholders in general are gradually making more use of their voting rights to oppose management on governance issues.
- In terms of specific governance themes, the 2012 report identified the issue of lack of claw-back in remuneration policy arrangements; 2013 has shown that claw back is relatively much less of a concern. This is one example of how specific issues can be addressed successfully.
- It is anticipated that board diversity, audit independence and use of discretion in remuneration arrangements may prove to be prominent themes in 2014, which will be characterised by regulatory developments in the role and rights of shareholders over remuneration policy.

2.3 Engagement and Collaboration including LAPFF

Engagement and collaboration activity is undertaken by the Fund’s external investment managers (described in section 2.2) on the Fund’s behalf and directly by the Fund through its membership of LAPFF.

LAPFF Activity

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Committee members and Officers attended all four LAPFF business meetings in 2013/14. LAPFF activity and achievements are reported quarterly to Committee via LAPFF’s quarterly engagement report. Highlights this year are discussed below.

Of the activity undertaken by LAPFF during the year three key areas of focus to the Fund were:

- **Accounting standards** - International Financial Reporting Standards (IFRS) has been applied in the UK since 2005 and allows organisations to potentially overvalue assets by leaving liabilities and contingent liabilities off the balance sheet. IFRS disclosure differs from the standards set out within the UK Companies Act and can have an impact on any company although it is particular prevalent to UK banks. As a result there is an argument that IFRS does not give a ‘true and fair’ view of company accounts and has a distorting effect on the stated company profits which is often used to calculate remuneration/bonus packages for bank employees and senior executives.

LAPFF engaged with the Banks on this issue. They received responses from Lloyds, HSBC, Barclays and Standard Chartered on their views on the impact of the Bompas QC opinion on the legality of IFRS.

- **Executive pay** - Linked to the concerns over IFRS accounting standards is the issue of executive pay and whether pay is set at the correct level. There is a long-standing concern about 'rewards for failure', a term used to describe the following two points. Firstly, significant exit payments made to executives forced out of failing companies and secondly and more recently, where executives are highly rewarded despite poor company performance. There is a general concern in the UK that executive pay is (i) too high and has steadily increased in recent years despite flat or negative performance of companies, (ii) that it is too focused on short-term incentives and (iii) whether performance related pay is an effective means of motivation for management and whether performance related pay aligns these interests with shareholders.

  Based on such concerns there is an increased focus on identifying alternative strategies of remuneration which better aligns long-term sustainable returns and shareholder value. During the year new regulations came into force whereby voting resolutions on pay were split into two. The 'policy vote' will need to be reviewed and voted on at least every 3 years and will be a binding vote meaning that it requires 50% shareholder approval to pass. In addition new limits on bank bonuses were set by EU regulation which limit performance related bonuses to 100% of base salary or 200% with approval from 66% of shareholders.

  LAPFF launched its 'Expectations for Executive Pay' report and sent the document to the FTSE 350 Chairmen for consideration. LAPFF held meetings with Société Générale, WM Morrison Supermarkets, Legal & General, Standard Chartered, M&S and Burberry on executive pay.

- **Dual roles -** The UK Corporate Governance Code produced by the Financial Reporting Council (FRC) suggests under the principle of the division of responsibilities that the roles of the chairman and the chief executive should not be exercised by the same individual and furthermore that a chief executive should not go onto the role of chairman within the same company. Dual roles of this nature often leads to a potential conflict of interest and does not meet best practice as it leads to a lack of oversight and diminishes the independence of the board. An independent chairman creates an additional layer of independence from the board.
  LAPFF engaged with Comcast regarding the separation of chair and CEO and discussed the concentration of power held by the joint chair/chief executive at Société Generale.

Other areas of LAPFF activity include:

- **Employment standards** – Following the Bangladesh factory collapse LAPFF met a number of retailers regarding supplier employment standards. LAPFF also met with Sainsbury's plc to enquire about the impact on its supply chain and sourcing practices. LAPFF also signed an investor statement calling for improvements to factory standards for workers' safety.

- **Carbon** – As part of its on going engagement on Carbon, LAPFF discussed carbon management strategy with representatives of Rio Tinto and carbon emission management with National Grid. Following this National Grid subsequently improved its Carbon Disclosure Project (CDP) rating from a 'C' to 'B' through improved governance, strategy, target-setting and initiatives contributing to emission reductions. The CDP rating for Rio Tinto has also improved from a 'C' to a 'B' following LAPFF engagement. LAPFF engaged with Centrica regarding opportunities and risks in the UK shale gas market.
- **Governance** – LAPFF advocated in favour of mandatory audit re-tendering in a letter to the UK Competition Commission.
- Explored the impact of governance changes at Twenty-First Century Fox since the split from News Corporation and discussed the management of the on-going phone hacking scandal.
- **Board structures** – the UK Listing Authority amended the listing rules for independent directors in majority controlled companies to only be elected by non-majority members, in line with LAPFF's position set out in its response to the 2012 consultation on the issue.
- Following collaborative engagement on board diversity, the London Stock Exchange appointed two women to the board.

Avon Pension Fund Activity

The Fund engaged with its investment managers on a number of topics throughout the year which the Fund's committee had identified as particular areas of concern. Through this on-going communication the Fund's managers are reminded of the importance that the Fund places on the engagement activities undertaken by them.

The activity was as follows:

a) The Fund questioned its equity managers about their remuneration voting policies and engagement activity. We asked each of the managers to provide their views on the following:
    - With regards to the three recent developments; namely the Enterprise and Regulatory Reform Act 2013, the FRC's consultation on director's remuneration and LAPFF's expectation for executive pay review
    - The impact of the binding vote structure on their voting policy
    - Whether they support other investment managers publicly declaring opinions on how executive pay packages should be structured
    - The potential benefit to shareholders/owners in collective engagement groups

The key point of the Enterprise and Regulatory Reform Act 2013 for the Avon Pension Fund is that it gives shareholders of UK quoted companies binding votes on directors' pay. The FRC consultation sought views on three main points, extended clawback provisions, remuneration committee membership and setting possible criteria for companies in identifying and/or engaging with shareholders that voted against remuneration resolutions. The LAPFF expectation for executive pay identified practical and alternative strategies of remuneration that are better aligned with long-term, sustainable returns and shareholder value. The LAPFF document was promoted to FTSE 350 companies and covered 15 points which included Fixed vs Variable Pay, Long Term Incentive Plans and Quantum of Pay.

Some of the points raised by investment managers in their responses are summarised below:

- Managers have noted an increase in the number of remuneration consultations. Companies are now seeking early shareholder feedback before proposing resolutions.
- Managers look to build constructive relationships with companies and allow time to address governance issues before escalating a vote against management.
- Engagement should generally be focused on long term rewards rather than short term bonuses and managersare supportive of clawback provisions.
- Remuneration should not be discussed in isolation but aligned with business strategy and shareholder value, management competence, corporate behaviour, succession, long-term performance, wider governance issues and fair distribution of rewards between management and owners.
- Although external scrutiny typically falls on engagement with larger-cap companies, Jupiter looks to engage strategically with smaller organisations where Jupiter may have a larger stake or companies that have perhaps not experienced a high level of stewardship interaction with investors previously.
- Managers are generally supportive of a collective voice – this is evidenced through LAPFF's work.
- In some cases managers have communicated views through industry surveys and collective engagement forums.

b) With support from LAPFF the Fund approached the investment managers to promote board diversity within their engagement and voting activities for the 2014 proxy season. LAPFF is a supporter of the '30% Club' which promotes voluntary action by British businesses on board diversity and effective talent management. The Fund encouraged the managers to vote against the Chairman of the Nomination Committee if there are no women on the board whilst abstaining if there are less than 25% women on the board. The Fund is broadly supportive of LAPFF's stance which will primarily focus on FTSE100 companies and then expand to FTSE250 companies in future years.

   Following the initial review of Women on Boards in 2011 the third annual progress report was published which shows that women now account for 20.7% of board positions in FTSE100 companies; an increase from 17.3% in April 2012 and 12.5% in 2011.

   Almost all (98) FTSE 100 boards now have at least 1 female and less than 50 additional female appointments to FTSE100 boards are now needed to reach the 25% target.

The Fund responded to the Call for Evidence on the future structure of the Local Government Pension Scheme (LGPS) in September 2013. As stated previously in this report two of our investment managers also responded (Blackrock and State Street). In addition our Custodian (BNY Mellon), Investment Consultant (JLT) and Actuary (Mercer) also provided responses.

The Fund participates in share action claims through a portfolio monitoring program operated by Robbins Gellar Rudman & Dowd LLP. Such claims arise when the court has ruled that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took part in filing for 6 new claims. Although most monetary claims are small, this activity is important as it supports the principle of holding companies and management to account.

In addition to the above the Fund is participating in a share action group against Royal Bank of Scotland in relation to the rights issue launched in April 2008 in which it is contended that the information in the prospectus did not reflect a fair view of the financial strength of the bank.

National initiatives:

The LGPS funds now have a national body (the LGPS Shadow National Advisory Board) to provide support to the Department of Communities and Local Government in managing and regulating the funds at the national level. Specifically the Board can provide guidance to funds as to how regulations should be implemented to meet best practice.

Following the transfer of responsibility for public health to local authorities, there was pressure from some employers for LGPS funds to divest from investments in tobacco companies. In response to this pressure, the Board obtained Counsel's opinion to clarify the fiduciary duties of an LGPS fund. Specifically they asked for advice on whether an LGPS administering authority owe a fiduciary duty and if so to whom it is owed; and how should the wider functions, aims or objectives of the administering authority influence the discharge of its LGPS investment duties.

The opinion concluded that in managing an LGPS fund the administering authority has fiduciary duties both to the scheme employers and to the scheme members. In addition the administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way). However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund.

This opinion supports the Fund's policy, that environmental, social and governance considerations should be taken into account in investment decisions as long as it does not pose a material financial risk to the Fund's ability to achieve its investment objective.

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

The Fund updated its compliance with the Stewardship Code following the small amendments made to the Code in 2012 of which the Fund continues to comply with.

The Fund’s revised statement of compliance was approved by Committee in June 2013.

The revised statement can be found at:
http://www.avonpensionfund.org.uk/financeandinvestments/corporategovpolicy.htm

Appendix: Avon Pension Fund, Review of Proxy Voting 2013

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

Bath & North East Somerset Council

Monitoring Review of Proxy Voting 2013

Avon Pension Fund

Prepared by:

manifest
the proxy voting agency

June 2014

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1 Introduction

1.1 Aim of Vote Monitoring

This is the third year (second full year of analysis) for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund (APF), putting Avon's fund manager voting behaviour into a comparative and wider context. The aim of the report is to provide further understanding of:

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

As an ongoing annual report, the report assesses progress in terms of company's governance standards versus best practice, as well as Avon's fund managers' use of votes in putting their investment governance preferences across to companies. Throughout the report, where there are comparisons to be made to the previous year's data, the previous year's data is shown in brackets (thus).

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

1.2 Voting in Context

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

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

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st January 2013 to the 31st December 2013. It represents a full years' voting.

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

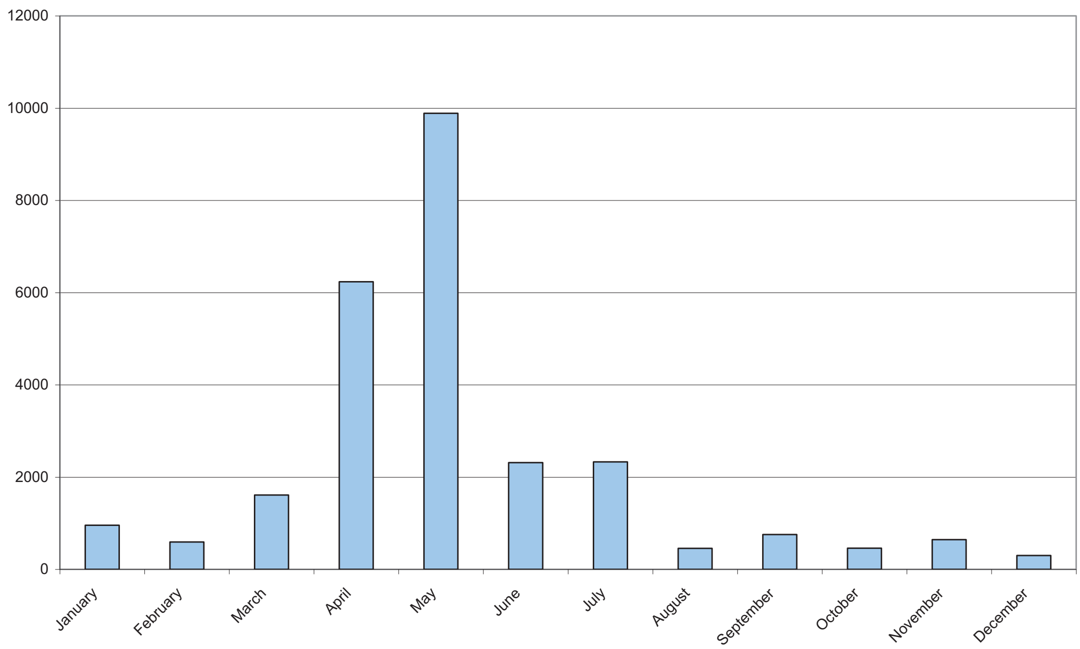
Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution, is more significant than whether the template suggests an 'Abstain', 'Against'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

1.4 Peak workloads

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

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

Figure 1: Resolutions Voted Per Month



1.5 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2013.

2 Executive Summary

Section 3 ("Explanation of Voting Activity and Monitoring Approach") explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It also sets out the number of meetings voted by Avon's fund managers in 2013, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 1,940 meetings, comprising a total of 21,785 resolutions. Taking into account occurrences of more than one fund manager voting on the same resolution, a total of 26,535 resolution analyses have been undertaken. Of these:

- 19,267 were voted by BlackRock, again representing the largest proportion of the report data;
- 13,261 were resolutions where the best practice policy template highlighted potential governance concerns and fund managers supported management; and
- 1,373 were voted against management.

Whilst the proportion of resolutions where concerns were identified but the funds managers supported management seems relatively high, this is ultimately evidence to support the significance of the word 'potential'. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights. Conversely, the report also shows evidence where investors have opposed management even where no governance concerns were highlighted, which suggests an organic, active use of voting rights to enhance the wider ownership process.

Section 4 ("Common Policy Issues At Investee Companies") examines the range of governance issues and considerations which lie behind the resolutions on which Avon's fund managers were asked to vote, and detailing those which Manifest identified most frequently among the companies at whose meetings the fund managers voted.

Board balance and remuneration issues are the most frequently identified concerns. The most common specific best practice governance criteria against which Manifest found Avon's portfolio companies to fall short were:

- Gender diversity on the Board;
- Committee independence;
- Overall Board independence;
- Lack of performance measures relating to ESG issues in incentive pay;
- Individual director independence concerns;
- Bonus as a percentage of salary;
- Board size; and
- Lack of performance conditions for incentive pay.

These are the substantial issues on which investors should focus, rather than the black-and-white of whether specific resolutions were opposed or otherwise. Many of these are issues which have been consistently identified in this analysis every year. New company law Regulations have come into force in the UK which may have an effect upon the way in which remuneration issues are taken into account and voted upon, with the introduction of a new separate binding vote on remuneration policy.

In the case of board considerations this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far and away the most numerous resolution type). It should be noted that there may be multiple concerns highlighted in terms of board structure or director elections and that generally there are therefore much fewer actual resolutions to vote on than identified concerns.

The next step of the analysis is to study patterns of voting behaviour, both in terms of Avon's fund managers as well as shareholders in general (Section 5 "Aggregate Voting Behaviour"). We also examine which types of resolution have been the most contentious (Section 6 "Voting Behaviour By Resolution Category"). In terms of overall patterns of voting behaviour, with the marginal exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general. Invesco and Genesis supported management noticeably less.

As has continued to be the case, remuneration related resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management as well as the lowest level of alignment with the governance best practice analysis. Common issues were absence of ESG considerations in setting incentive pay, and over-generous caps on annual incentive pay plans. The absence of claw-back provisions (one of the features of remuneration concerns in last year's report) was far lower down the list of concerns this year.

Overall, Avon's managers continue to be marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2013 stood at just shy of 5% on average (compared to just over 4% in 2012 – a notable increase), Avon's fund managers opposed management on 5.17% of resolutions (up from 4.63% in 2012), which remains slightly above the institutional 'norm'.

In terms of specific themes, one prominent concern from 2012 related to absence of arrangements for claw-back of bonus, which this years research shows has receded in prominence. In this 2013 report, board independence related concerns are comparatively greater in prominence, although there are also signs that companies in general are addressing independence concerns. With a rising focus on board diversity, we expect to see board composition as a prominent theme.

In general terms this research suggest that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may wax and wane in line with contemporary concerns and developments.

A summary of the major developments and debates in global corporate governance and voting follows in the Appendix - Hot Governance Topics, featuring summary of the new Directors' Remuneration Report Regulations in the UK, changes to the UK Stock Exchange Rules and the UK Takeover Code, the issue of Gender Diversity on UK Boards and the EU Shareholders Rights Directive Part II.

3 Explanation of Voting Activity and Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Avon's fund managers in 2013, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

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

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

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

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

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

Meeting Types

Manifest's experience is that companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders.

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

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

This pattern will continue to become more marked this year due to the introduction in the UK of two remuneration report votes – one on policy and the other on practice (refer to appendix for definition). Recently, UK and European companies in particular have begun to change the legal terminology for non-Annual General Meetings. As a consequence, some meetings during the period under review were reported as an EGM, whilst other meetings identical in nature were reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting is what some companies might use to refer to an EGM, where a Special resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout).

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

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,940 meetings in the full monitoring sample Avon Fund Managers voted at, 88.04% were AGMs (85.9% in 2012), with the majority of the rest constituting GMs 6.29% (5.93% in 2012) and EGMs 3.2% (4.38%). The remaining were nearly all Special General Meetings 1.75% (compared to 1.88%) , Court Meetings 0.31% (1.16%) or Class meetings 0.31% (0.72% during 2012), with 2 Ordinary General Meetings 0.10% (0 in 2012).

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

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	OGM	Grand Total
BlackRock	1,338	1,312	104	40	26	5	5		1,492
State Street	183	181	1	17	4	1	1	2	207
Invesco	66	62	1	2	3				68
Jupiter	58	58	8						66
TT International	50	47	8		1				56
Schroders	38	38							38
Genesis	10	10		3					13
Total	**1,743***	**1,708**	**122**	**62**	**34**	**6**	**6**	**2**	**1,940**

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

The very small number of meetings voted by Genesis in this sample of ‘full’ monitored meetings means that full detailed analysis is not meaningful. This is due to the investment universe of their mandate.

3.2 Monitoring Approach

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

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

4 Common Policy Issues At Investee Companies

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

4.1 Introduction

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

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

There were 14,322 resolution analyses where one or more concerns were identified by Manifest.

When considering the most common policy issues Manifest identified at the meetings researched in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2013. This is explained in part by there being a slightly smaller number of resolutions in the data set. However, changes in the patterns of frequency also suggest some inferences.

We have compared the relative positions of each of the most common concerns identified within the list between this year and last year.

Of those which have moved up the list, or are new to it altogether, many relate in some way to remuneration. Whilst the highest of them strictly speaking relates to governance (Remuneration Committee composition), the fact that so many other remuneration issues seem to have also increased in relative frequency underlines the importance of governance as a management issue. In this case, the inference is that there is a relationship between the level of independence of the remuneration committee and the level of control over incentive pay.

The substance of the Remuneration related concerns which have moved up the list includes consideration of ESG issues in setting performance targets for incentive remuneration, the level of the upper bonus cap expressed as a percentage of salary for executive directors and a lack of disclosure of performance measures used for the exercise of options or vesting of awards.

Table 1: Most Common Policy Issues

Table Position	Flags	(2012)	Position Change	Description
1	3,837	(4,048)	=	The percentage of female directors on the (Supervisory) Board is less than 1-50%
2	3,320	(3,409)	=	Less than 50-100% of the Nomination Committee are independent of management
3	3,229	(3,333)	=	Less than 50-100% of the Audit Committee are independent of management
4	2,940	(3,172)	=	Less than 50-100% of the Remuneration Committee are independent directors
5	2,353	(2,504)	=	Less than 33-50% of the Board is comprised of independent directors.
6	1,141	(1,269)	↑ (7)	The proportion of the Remuneration Committee (excl. the Board Chairman) considered to be independent is less than 100%
7	1,124	(1,130)	↑ (9)	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
8	1,055	(1,532)	↓(6)	Nominee is not considered to be independent by the Board
9	1,049	(1,229)	↓(8)	Nominee has served for more than 84-144 months on the board
10	786	(730)	↑ (13)	The upper bonus cap for any of the executive directors as a percentage of salary exceeds100-150% of salary
11	642	(837)	=	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee are independent
12	626	(861)	↓(10)	The (Supervisory) Board will exceed 15-21 members following the meeting.
13	584	-	NEW	Nominee is non-executive and not independent and the percentage of independent directors on the Board comprises less than 33-50%
14	564	(673)	=	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100-250% of salary (on a market value basis, based on maximum possible vesting).
15	558	-	NEW	The exercise of options/ vesting of awards is not subject to performance conditions
16	550	-	NEW	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%
17	549	(809)	↓(12)	Nominee represents a major shareholder

Overall, Manifest flagged 43,042 (47,889 in 2012) governance related concerns across the 26,536 resolution analyses undertaken for this report (which includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution). Some resolutions were subject to multiple concerns hence the greater number of flagged concerns compared to the number of resolutions. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the Operation of Best Practice Governance Analysis

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

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted). We now reflect this relevance of board accountability in our research, by placing the analysis of the relevant board committee in the context of analysis of the governance matters) for which they are responsible.

4.2 Conclusions on common policy issues identified

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

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

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account. Therefore, 6 of the top 8 concerns (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees. Of the top 8, the only exceptions to this are the question of gender diversity (which should be treated more as a proxy for the likelihood of general diversity of input available to the board) and integration of ESG issues into incentive remuneration setting.

The second most common group of issues identified relate to remuneration. This is again in part due to some of their association with director elections (executive director elections demand consideration of whether the proposed remuneration and incentive structure for the individual being proposed for (re)-election is appropriate. The remuneration related issues most commonly flagged relate to the level at which the potential for excessive incentive pay might be capped (both short and long term incentive pay), the lack of linkage to ESG issues as well as the governance of remuneration policy itself.

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

4.3 Audit & Reporting

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

4.3.1 Audit Fees Exceed Non-Audit Fees

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

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

4.3.2 Overall Board independence

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

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

4.3.3 Overall board size

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

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

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

4.3.4 Auditors - Audit Committee independence

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

4.3.5 Auditor pay for non-audit work

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

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

4.4 Board

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 46.2% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Percentage of Female Directors on the board

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

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

4.4.2 Nomination Committee Independence

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

4.4.3 Board Considers the Nominee is Not Independent

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

4.4.4 Independence Criterion: Tenure

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

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

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

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

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

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

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

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

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

4.4.7 Independence Criterion: Represents a Major Shareholder

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

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

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

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

4.4.9 Audit Committee Size

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

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

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

4.5 Remuneration

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

4.5.1 Remuneration Committee independence

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

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

4.5.2 Consideration of ESG Issues When Setting Performance Targets

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

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

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

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

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

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

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

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

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

4.6 Capital

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

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

4.7 Corporate Actions

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

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

4.8 Shareholder Rights

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

4.9 Sustainability

4.9.1 Political Donations

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

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

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

5 Aggregate Voting Behaviour

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

With the exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general. Invesco and Genesis supported management noticeably less.

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

Table 2 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice voting template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In many jurisdictions, provision of such information by companies is not guaranteed. However, of the 26,535 resolutions analysed in this report, Manifest obtained poll data for 18,576 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	19,267	96.09%	95.14%	43.18%
State Street	3,474	88.57%	92.44%	55.73%
Jupiter	1,110	98.92%	97.47%	66.85%
TT International	973	99.79%	95.68%	59.61%
Invesco	854	85.13%	90.25%	34.66%
Schroders	659	91.96%	94.19%	41.58%
Genesis	198	85.35%	97.58%	31.82%
Total	**26,535**	**94.83%**	**95.03%**	**46.02%**

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

Using the "Template For Management" data as a proxy, the companies in the Jupiter, State Street, and TT portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of BlackRock, Genesis and Schroder's portfolios, which show lower levels of convergence with the voting policy template.

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

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

As was the case in the 2012 monitoring report, TT have again supported management more than most shareholders, though this year to a more marked degree, supporting management practically all the time. Conversely, Blackrock's levels of support for management are slightly higher than those of shareholders in general compared to 2012. Jupiter's support of management is also further in excess of other shareholders compared to 2012, and remains notably higher than the general average. It is likely that Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.

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

Schroders, although supporting management to a lesser degree than shareholders in general, do so to a much less marked extent than State Street and Invesco. However, taking the "Template for Management" measure as a proxy, the degree to which portfolio companies display potential issues of concern is broadly comparable to those in the BlackRock portfolios, in comparison with whom Schroders voting is notably less supportive of management.

Whereas in 2012 there was discernible pattern from fund manager to fund manager in terms of general shareholder support for management and the degree to which the policy template identified potential concerns, in 2013 this was not the case.

Jupiter and TT International portfolio companies remained the highest both in terms of shareholder support and meeting the requirements of the policy template, with Invesco portfolio companies notably at the other end of both spectrums. However, State Street companies were certainly comparable in their “compliance” with those in the TT portfolio, but received a notably lower level of support from shareholders and State Street themselves, compared to the average.

6 Voting Behaviour By Resolution Category

Table 3 and Table 4 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

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

6.1.1 Dissent By Resolution Category

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

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

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

Table 3: General Dissent By Resolution Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Board	13,691	10,016	4.46%
Capital	4,484	2,841	3.37%
Audit & Reporting	3,574	2,481	2.15%
Remuneration	2,409	1,774	10.16%
Shareholder Rights	1,501	903	8.78%
Sustainability	339	305	14.86%
Corporate Actions	315	145	5.63%
Other	222	110	13.73%
Grand Total	**26,535**	**18,575**	**4.97%**

* "Average Dissent" calculated from general shareholder voting results where available.

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

Average dissent across all resolutions in 2013 was again up compared to the previous year 4.97% (4.35% last year), though still with an approval rating of just more than 95% despite showing more dissent than 2011 and 2012.

Avon's fund managers in 2013 were not significantly more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 1,373 occasions out of 25,162 resolutions, constituting an overall average opposition level of 5.17% up from (4.65% in 2012 and 4.22% in 2011). This shows that, in line with general shareholder dissent, Avon's fund managers also voted against management to a marginally greater extent compared to the prior year for the second year running. Some more patterns within this are demonstrated and explored more fully below.

As was the case in 2012, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. The following section analyses the above categories in more detail, by exploring patterns of opposition to the resolution sub-categories in each.

6.1.2 Dissent on Shareholder Proposed Resolutions

Table 4: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Resolutions	Average Dissent
Board	198	1.45%	41.98%
Sustainability	128	37.76%	31.31%
Other	105	47.30%	17.39%
Shareholder Rights	91	6.06%	42.02%
Remuneration	87	3.61%	23.31%
Capital	10	0.22%	61.02%
Audit & Reporting	6	0.17%	2.93%
Corporate Actions	2	0.63%	7.18%
Grand Total	**627**	**2.36%**	**33.12%**

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

Regarding Board-related resolutions, Board Composition (62 of the instances of shareholder proposed resolutions), Director Elections (51), Election Rules (51) and. Board Composition and Election Rules are much more likely to be shareholder resolutions than not (Board Composition resolutions almost entirely so). The majority of the Board Composition resolutions were requests to adopt a policy of the Chairman being an independent director, which is currently a significant area of debate in US corporate governance. Many of the Election Rules related to requests at US companies to de-classify the board, or to introduce a majority-vote standard for the election of directors.

In terms of Sustainability-related resolutions, as was the case in 2012 the largest proportion (over half in 2013) were requesting disclosure of political donations, all in the US. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, most of which were in the extractive industries sector, again as was the case in 2012.

The largest proportion of the remuneration related shareholder proposals again came in the US, requesting that companies adopt a policy for senior executives to have to retain shares in the company (either in relation to share-based incentive payments, or general share ownership requirements) in order to attempt to better align interests of executives with those of shareholders.

The largest single proportion of the resolutions relating to aspects of Shareholder Rights pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this. These proposals proved relatively popular and management was defeated a number of times.

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

6.2 Board

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

Table 5: Board Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
(Re-)Elect Directors	12,277	36.50%	95.27%	96.12%
Directors Discharge	1,132	87.46%	88.78%	93.34%
Board Size & Structure	67	87.31%	94.03%	78.90%
Board Composition	62	50.00%	72.58%	67.75%
Election Rules	54	52.78%	51.85%	51.14%
Board Committee	46	66.30%	86.96%	81.86%
Other	31	64.52%	83.87%	88.19%
Remove Directors	22	56.82%	86.36%	64.38%
Grand Total	**13,691**	**41.29%**	**94.38%**	**94.54%**

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

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

Nearly all of the top governance issues listed in Table 1: Most Common Policy Issues are considerations relevant to the re-election of a director, and therefore to a very large extent explain the low levels of alignment (just 36.5%) between the governance best practice template and company management recommendations on director elections in Table 5.

Of those resolutions where the fund managers opposed management on Director Elections (581 (596 in 2012)) resolutions – of which 56 were instances where no governance issues were highlighted) the most frequent governance issues Manifest identified were:

1 (1) = The percentage of female directors on the Board (193 in total ↑ from 2012)
2 (4) ↑ Overall board independence levels (185↑)
3 (5) ↑ Audit Committee independence levels (167↑)
4 (2) ↓ Nomination Committee independence levels (155↓)
5 (6) ↑ Remuneration Committee independence levels (136↑)
6 (3) ↓ Nominee is not considered to be independent by the Board (168 -)
7 (8) ↑ Tenure (79↓)
8 (7) ↓ Nominee represents a major shareholder (77↓)

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

The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 10% of all instances where management was opposed) would suggest that fund managers are also not afraid to apply their own investment judgement on these issues, even where this implies a vote against management.

6.3 Capital

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

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

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

Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business. Furthermore, especially in the case of "income" stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed.

Table 6: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Issue of Shares & Pre-emption Rights	2,316	82.47%	93.44%	95.03%
Share Buybacks & Return of Capital	1,027	81.89%	97.96%	98.15%
Dividends	907	79.49%	99.45%	99.04%
Treasury Shares	154	83.44%	96.10%	96.22%
Capital Structure	52	75.00%	84.62%	94.24%
Authorised Share Capital	21	71.43%	95.24%	95.92%
Equity Fundraising	7	85.71%	71.43%	92.20%
Grand Total	**4,484**	**81.63%**	**95.65%**	**96.63%**

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

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

The most frequent issues on capital related resolutions where there was a voting concern highlighted (as opposed to a 'Case by Case' flag) were the same as in 2012, but in all cases less numerous, as indicated by the arrows next to the figures for total instances observed in 2013:

1 New share issue authority exceeds 5-50% of existing share capital (280🡇)
2 Ordinary dividends exceed profits (130🡇)
3 Authority being sought is greater than 12-60 months (85🡇)
4 Lack of assurance that the proposed buy-back is intended to increase EPS/ NAV for current shareholders or is in the interests of shareholders (59🡇)

6.4 Audit & Reporting

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

Table 7: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Auditor Election	1,553	46.20%	99.29%	97.77%
Report & Accounts	1,278	22.97%	99.61%	98.45%
Auditor Remuneration	596	58.64%	99.50%	97.49%
Appropriate Profits	95	89.47%	100.00%	98.54%
Other A&R related	43	84.88%	100.00%	73.73%
Auditor Discharge	7	71.43%	71.43%	92.06%
Auditor Liability/Indemnification	2	50.00%	100.00%	99.24%
Grand Total	**3,574**	**41.63%**	**99.41%**	**97.85%**

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

1,985 resolutions had at least one concern highlighted (not including 101 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. The very high degree to which Avon's fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management.

Table 8: Common Concerns Identified On Audit & Reporting Resolutions

Concern	Instances (2012)
1 (1) - Less than 50-100% of the Audit Committee are independent of management	980 (1,170)
2 (2) - There is no independent verification of the Company's ESG reporting.	370 (355)
3 (4) ↑There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration	310 (249)
4 (9) ↑The auditors have provided statutory audit services to the Company for over 10 years	281 (187)
5 (3) ↓ No meetings held by the non-executives without the executives present	215 (283)
6 (6) - The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	210 (227)
7 (7) - The roles of Chairman and CEO are combined	187 (220)
8 (8) – The aggregate non-audit fees exceed the aggregate audit fees	157 (216)
9 (5) ↓ Less than 25-66% of the Board is comprised of independent directors.	146 (245)
10 (10) - Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	136 (186)
11 The Chairman sits on the Audit Committee	134 (155)

6.5 Remuneration

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

Table 9: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Remuneration Report	1,408	18.61%	91.12%	90.32%
Long Term Incentives	538	31.32%	90.89%	91.65%
Remuneration - Other	214	56.54%	76.17%	76.50%
Non-executive Remuneration	205	69.51%	96.10%	92.80%
Policy – Other Components	27	74.07%	100.00%	98.58%
Short Term Incentives	15	13.33%	100.00%	96.17%
Policy - Contracts	2	100.00%	100.00%	N/A
Grand Total	**2,409**	**29.80%**	**90.33%**	**89.84%**

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

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

Table 10: Common Concerns On Remuneration Resolutions

Concern	Instances
1 (1) - No indication of consideration of ESG issues in performance targets for incentive pay	813 (881)
2 (2) - The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	783 (727)
3 (3) - The largest aggregate LTIP award during the year exceeded 100-250% of salary of the director (on a market value basis, based on maximum possible vesting)	562 (673)
4 (7) ↑ The exercise of options/ vesting of awards is not subject to performance conditions	552 (484)
5 (8) ↑The minimum performance measurement or options/share awards holding period is less than 2-3 years	511 (442)
6 (6) - Less than 50-100% of the Remuneration Committee are independent directors	451 (556)
7 (4) ↓ No evidence of claw back measures in place in respect of the long-term incentives.	432 (671)
8 (5) ↓ No evidence of claw back measures in place in respect of the short-term incentives.	391 (619)
9 (9) - The maximum potential severance payment exceeds 12 months' salary	320 (380)
10 (10) - Accelerated vesting of LTIP awards on termination is permitted (i.e. vesting of awards not pro-rated down on termination following a change of control)	307 (305)
11 (-)Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan	258

Table 10 shows the most common governance best practice concerns associated with remuneration-related resolutions by Manifest over the year. Despite the fact that the most frequent concern highlighted (a lack of linkage between incentive pay targets and sustainability considerations) may not be 'headline-grabbing', many of the other most prominent concerns certainly are. All but one of the most prominent concerns above featured in last year's list as well.

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

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

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

A separate, binding forward-looking policy vote has been introduced for UK companies for 2014, which has a bearing on how investors will vote this year. This came into force in respect of AGMs applying to financial years starting on or after the 1st October 2013, thereby affecting the 2014 AGM season.

6.6 Shareholder Rights

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

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

Table 11: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
General Meeting Procedures	560	93.39%	96.96%	89.04%
Other Articles of Association	523	90.82%	93.31%	95.38%
Meeting Formalities	355	92.96%	99.15%	97.81%
Corporate Governance	29	55.17%	75.86%	71.19%
Takeover Governance	21	54.76%	76.19%	63.57%
Anti-takeover Provision	7	64.29%	85.71%	75.32%
Shareholder Rights	6	66.67%	16.67%	N/A
Grand Total	**1,501**	**90.87%**	**95.14%**	**91.22%**

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

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

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

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

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

Of the 73 (41) resolutions where fund managers opposed management on Shareholder Rights related considerations, 32 (27) were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Avon's managers are well motivated to protect their interests and those of their clients.

6.7 Corporate Actions

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

Table 12: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Related Party Transactions	133	78.57%	81.95%	90.39%
Significant Transactions	85	53.53%	98.82%	96.09%
Other Corporate Action	58	62.07%	98.28%	96.20%
Transactions - Other	17	58.82%	94.12%	98.39%
Change of Name	12	100.00%	100.00%	96.07%
Company Purpose & Strategy	9	72.22%	88.89%	97.29%
Investment Trusts & Funds	1	100.00%	100.00%	70.32%
Grand Total	**315**	**68.41%**	**91.11%**	**94.37%**

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

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

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

6.8 Sustainability

With the exception of political activity, charitable engagement and sustainability reports, all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, routine categorisation of these issues is nigh on impossible, because the specific content of proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself.

Table 13: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Political Activity	276	20.83%	96.01%	88.19%
Other ESG	49	50.00%	97.96%	69.27%
Charitable Engagement	7	85.71%	100.00%	86.20%
Environmental Practices	3	50.00%	100.00%	89.91%
Ethical business Practices	2	50.00%	50.00%	63.04%
Human Rights & Equality	1	50.00%	100.00%	N/A
Sustainability Report	1	100.00%	100.00%	99.51%
Grand Total	**339**	**27.14%**	**96.17%**	**85.14%**

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

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

7 Aggregate Analyses

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

7.1 Genesis

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

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

Table 14: Genesis Voting By Category

Category	Total Resolutions	Voted with Management 2013	Voted with Management 2012
Board	681	77.24%	96.19%
Audit & Reporting	301	98.01%	95.42%
Capital	236	81.36%	87.40%
Remuneration	124	95.97%	94.70%
Corporate Actions	96	92.71%	71.67%
Shareholder Rights	73	89.04%	87.94%
Sustainability	4	50.00%	60.00%
Grand Total	**1,515**	**85.02%**	**91.06%**

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

Board related resolutions (including director elections) show a significant drop compared to last year. This is largely explained by a high number of instances of "cumulative voting" resolutions (108). Cumulative voting is where a list of directors is presented to shareholders to vote, from which shareholders vote for their preferred candidate(s). As there is no management recommendation, any vote on these resolutions counts as "against" management recommendation. However, even controlling for these resolution types, Genesis supported management only 91.80% of the time on the remaining Board-related resolutions, which may reflect the specific issues arising with Emerging Market companies.

Table 15: Genesis Resolutions Voted By Country

Country	Total Resolutions	Voted With Management
Russia	207	46.38%
India	156	91.67%
Cayman Islands	119	78.99%
Brazil	102	94.12%
Mexico	99	96.97%
South Africa	95	98.95%
China	94	91.49%
Great Britain	88	97.73%
Thailand	75	94.67%
United States	74	95.95%
Turkey	56	89.29%
South Korea	53	92.45%
Hong Kong	40	77.50%
Nigeria	40	80.00%
Malaysia	30	100.00%
Bermuda	27	70.37%
Indonesia	27	85.19%
Poland	27	100.00%
Canada	21	100.00%
Colombia	17	76.47%
Taiwan	13	100.00%
Hungary	12	83.33%
Jersey	10	80.00%
Chile	9	88.89%
Austria	8	62.50%
Zimbabwe	7	100.00%
Switzerland	5	100.00%
Netherlands	4	100.00%
Grand Total	**1,515**	**85.02%**

Table 15 shows a list of all of the countries in which Genesis reported voting, as well as how many resolutions were voted in each. As mentioned above, with so few resolutions in developed markets, a detailed statistical analysis including Genesis was not possible in the sections above. Furthermore, given the high proportion of resolutions voted by Genesis which were in developing and eastern markets (with Brazil, India, China, and Mexico 4 of the top 6 countries in which Genesis voted), analysis of Genesis' voting patterns sits most comfortably in this aggregate analysis section.

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

7.2 BlackRock

The aggregate analysis for the other fund managers relates to those markets where no detailed meeting analysis was carried out. In the case of BlackRock, the total number of resolutions voted by market is shown in Table 16 below.

The majority of the resolutions in question related to Japanese meetings. What is particularly noteworthy is the much lower average level of voting with management in all of these markets (Panama, Curacao and Liberia constituted a very small number of resolutions, so should be discounted as a statistical pattern), especially in Hong Kong and South Korea, in comparison to BlackRock's average of 96% support for management in the detailed analysis.

Table 16: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management 2013	Voted With Management 2012
Japan	5,653	90.55%	88.51%
Hong Kong	795	77.99%	76.59%
South Korea	701	73.47%	78.78%
Singapore	481	91.48%	93.49%
Panama	19	100.00%	N/A
Curacao	16	100.00%	N/A
Liberia	6	83.33%	100.00%
Grand Total	**7,671**	**87.79%**	**86.25%**

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

Noteworthy in the data set is the comparatively very low level of support for management on Audit & Reporting resolutions. Lack of sufficient disclosure in order to be able to ascertain whether the financial statements could be approved was a significant problem in Singapore, and accounts for this apparent anomaly.

Also noteworthy is the very low level of support for resolutions pertaining to Shareholder Rights. This is explained almost entirely by opposition to resolutions seeking approval of takeover defence plans (poison pills). Takeover defence mechanisms serve to artificially prevent hostile takeovers which may ultimately be in the interests of higher shareholder returns.

Table 17: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management 2013	Voted with Management 2012
Board	5,711	90.44%	88.58%
Capital	723	82.02%	83.67%
Remuneration	444	83.33%	71.10%
Audit & Reporting	365	69.32%	77.88%
Corporate Actions	365	92.88%	93.80%
Shareholder Rights	49	12.24%	80.27%
Sustainability	8	100.00%	97.78%
Other	6	0.00%	10.00%
Grand Total	**7,671**	**87.79%**	**86.25%**

It is also notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form a much smaller percentage than the detailed analysis. This is strong evidence that a shareholder say on pay is much less well established in these markets, although readers will note an encouraging upward trend in these figures.

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

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally. However, as was the case the previous year, a large proportion of the sustainability themed resolutions in 2013 were in Japan, which was subject to some very specific circumstances. With Japan relying so comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. These resolutions recurred in 2013 as a follow-up to the 2012 resolutions observed last year.

This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

7.3 State Street

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

Table 18: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions	**Voted With Management 2013**	**Voted With Management 2012**
Japan	2,941	94.32%	95.18%
Hong Kong	502	74.50%	82.10%
South Korea	451	91.35%	90.51%
Singapore	300	89.33%	94.67%
Grand Total	4,194	91.27%	**92.56%**

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

Table 19: State Street Aggregate Voting Patterns By Resolution Category

Category	**Total Resolutions**	**Voted with Management 2013**	**Voted with Management 2012**
Board	3,113	92.96%	95.47%
Capital	430	81.40%	76.73%
Remuneration	260	87.31%	94.58%
Audit & Reporting	222	98.20%	97.76%
Corporate Actions	160	81.25%	93.44%
Sustainability	38	97.37%	93.62%
Shareholder Rights	16	81.25%	78.26%
Other	7	57.14%	50.00%
Grand Total	**4,530**	91.22%	**92.56%**

As is the case throughout this and previous reports, the breakdown of the resolutions voted by State Street in the aggregate analysis by category in Table 19 shows that the majority of resolutions were board-related, due to the large number of director elections.

Of those with a sufficient number of examples to draw patterns from, Capital (equity and debt structures in particular), Corporate Actions and Shareholder Rights (including many shareholder proposals) are the three resolution types where the fund manager is most likely to oppose management. Given the subject matter (questions related to capital structures or related party transactions for example are most likely to catch the eye of financial analysts), it is unsurprising that these three are areas characterised by higher dissent levels from the fund manager.

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

7.4 Invesco, Jupiter, TT International & Schroder

Invesco, Jupiter and TT international didn't have any events to vote in the markets for which the aggregate analysis is undertaken. Given the very small number of meetings in the Schroder voting portfolio, there was not much meaningful analysis that could be added to the detailed analysis section.

8 Conclusions

This is the 3rd annual report Manifest has produced for the Avon Pension Fund (the second with full year analysis). Consistent with the report on 2012 voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. As is evidenced with the example of shareholder proposed resolutions in the US in 2013, specific themes can be and are raised with companies on a campaign/ strategic basis on specific questions which, over time, contribute to positive progress.

We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies. Consequently, although we expect trends to improve over the long term, successfully indentifying them year on year is much harder to do.

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

2013 has shown that both Avon's fund managers and shareholders in general are gradually making more use of their voting rights to oppose management on governance issues. The themes of the shareholder resolutions in North America bear testament to this in particular.

In terms of specific governance themes, the 2012 report identified the issue of lack of claw-back in remuneration policy arrangements; 2013 has shown that claw back is relatively much less of a concern. This is one example of the dynamic of how specific issues can be addressed successfully. We anticipate that board diversity, audit independence and use of discretion in remuneration arrangements may prove to be prominent themes in commentary about 2014, which will be characterised by regulatory developments in the role and rights of shareholders over remuneration policy.

In the context of the new Remuneration Policy votes in the UK, we anticipate that claw back may once again be a prominent theme for 2014, now that policy has an explicit vote of its own. Given the direction of thinking at the FRC regarding issuer-investor engagement, we also anticipate companies may start to set out how they intend to engage with investors in the event of significant dissent on remuneration issues.

There are some key regulatory developments which come into play during 2014 that may have a bearing on next year's report. These include votes on remuneration policy, gender diversity, and shareholder voting rights where there is a majority owner. Further details on these developments may be found in the appendix, which covers:

- New directors remuneration report regulations in the UK;
- UK stock exchange rules;
- UK Takeover code;

- Gender Diversity on UK Boards; and

- The EU Shareholder Rights Directive (part II)

In summary, this report shows evidence that suggests a positive impact from the identification of governance related concerns and voting (for example, in the comparative reduction in concerns over claw-back, coupled with an increase in fund manager dissent on the issue). Whilst governance change is a long term investment issue, signs of positive change in the short term are reason for cautious optimism that fund managers are having a constructive impact with their use of voting rights on behalf of the fund.

Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term.

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9 Appendix - Hot Governance Topics

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2013" which is available upon request.

9.1 New Directors' Remuneration Report Regulations in the UK.

In July 2013, the UK government introduced revisions to the Companies Act 2006 relating to director's remuneration policy votes and reporting. In short, the previous arrangements for a single vote on a remuneration report which included review of pay in the financial year under review as well as proposals for future pay policy are being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review, and a second binding vote on proposed pay policy.

Quoted companies with year ends on or after the 30th September 2013 are required to put their proposed remuneration policy to a simple majority binding vote at the AGM. Thereafter, companies can only provide remuneration or loss of office payments that are consistent with the approved policy unless they obtain shareholder approval at a general meeting to a revised policy or to the specific payments. Once approved by shareholders, a company can retain the policy for up to three years before being required to hold another binding policy vote, unless the separate vote on the remuneration report (implementation) is lost in the intervening period in which case a fresh policy vote is required the following year.

In addition to the future looking policy vote, the main changes to the reporting of pay include:

- Requirement to show an illustration of the level of awards that could pay out for various levels of performance;
- Requirement for reporting pay in a single, cumulative figure, including methodology for calculation to ensure consistency in approach; and
- Improved disclosure on the performance conditions used to assess variable pay of directors.

The aim of the regulations is to encourage better shareholder engagement with companies regarding remuneration, It is intended to do this by giving shareholders more powers to hold companies to account at AGM's for their pay practices and policies, in particular with the introduction of the binding policy vote and the reporting of a "single figure" for the purposes of evaluating total remuneration paid.

9.2 UK Stock Exchange Rules

In November 2013 the Financial Conduct Authority (FCA) published its follow up consultation on the 2012 paper 'Enhancing the effectiveness of the Listing Regime', the policy proposals aim to strengthen minority shareholder rights and protections where they are at risk of being abused.

In particular in cases when a controlling shareholder does not maintain an appropriate relationship with a premium listed company. The FCA has focused on three areas which will improve shareholder tools necessary for active ownership; transparency; strengthening the minority voice at key points in the dialogue between a company and its shareholders; and providing enhanced protections when this dialogue is at risk of breaking down.

In order to achieve this, the package proposes three measures;

- Placing requirements on the interaction between a premium listed company and a controlling shareholder, when one exists, via a mandatory 'agreement'. This would impose a standard of behaviour that is considered fundamental to the independent operation of a listed company;
- Providing additional voting power for minority shareholders when electing independent directors where a controlling shareholder is present by requiring that they must be separately approved both by the shareholders as a whole and the independent shareholders as a separate class; and
- Enhancing voting power for the minority shareholders where a company with a controlling shareholder wishes to cancel its premium listing. Cancellation of a listing removes from shareholders significant rights of participation in the governance of a company.

During 2013 there was also the publication of the Department of Business, Innovation and Skills (BIS) consultation on 'Company ownership: transparency and trust discussion '. This was followed by an announcement that the UK government plans to implement a central registry of company beneficial ownership. The changes are the culmination of a consultation that responded to concerns from the investment community over the governance of premium-listed companies with a controlling shareholder as well as the rights of minority shareholders. The updated rules give shareowners in premium-listed companies additional voting rights and greater influence on some decisions.

The BIS consultation proposed to introduce new rules requiring companies to obtain and hold information on who owns and controls them; implement a central registry of company beneficial ownership information (the beneficial owners are the individuals that ultimately own or control the company – either because they hold an interest in more than 25% of the company's shares or voting rights; or because they control the management of the company in some other way); and to review the use of bearer shares (which do not require the identity of the holder to be entered in the company's publicly available register of members) and nominee directors (which can be used to conceal the identity of the person really controlling the company).

9.3 UK Takeover Code

The UK Takeover Panel announced the City Code on Takeovers and Mergers will be effective from 30 September 2013; the new Code takes into account the consultation the Takeover Panel conducted in 2012 on profit forecasts, quantified financial benefits statements and material changes in information.

9.4 Gender Diversity on UK Boards

During the year the Cranfield School of Management published a progress report on the Davies Report Recommendations on Women on boards and the 2012 UK Corporate Governance Code amendments. Since the Davies Report in March 2011, the Cranfield report showed that the percentage of female-held directorships on FTSE 100 boards had increased to 18.9% by October 1st 2013 and on FTSE 250 boards to 14.9% by the same point. However, given reasonably stable turnover rates, the report considers that the percentage of new appointments going to women needs to increase substantially if Lord Davies' target of 25% by 2015 is to be hit

9.5 The EU Shareholders Rights Directive Part II

During 2014 (likely to be published in Quarter 2), the European Commission will be commencing the process of revising and updating the Shareholders Rights Directive, which came into force in 2007. The proposals will seek to address some of the issues identified in the EU Corporate Governance Action Plan referred to in last year's report.

The Commission is likely to be focussing upon five broad themes that it deems need improving.

Most significant in the context of this report is the fact that the Commission is likely to propose measures designed to encourage better engagement with companies by institutional investors, because of a perceived link to the problem of short-term investment decisions facilitating excessive risk-taking by companies. This implies disclosure of aspects of investment mandates which encourage:

- strategic alignment with the liabilities and duration of the investor;
- how the asset manager takes decisions based on the long term performance of a company;
- how the asset manager's performance is evaluated; and
- information on portfolio turnover.

The proposals will also touch upon remuneration policy, and it is likely the Commission will propose all Member States should require listed companies to have a "Say on Pay Policy" vote.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It is likely to require shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals.

The Commission will also seek to address perceived concerns with what they call "proxy advisors" (i.e. companies like Manifest who provide research or voting guidance to institutional investors), relating to the transparency of methodologies used for producing voting guidance for clients and potential conflicts of interest.

Finally, it is likely the proposed Directive will include provisions on improving the ability to identify shareholders, in order to facilitate more efficient transmission of information and the exercise of shareholders rights.

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Bath & North East Somerset Council

AVON PENSION FUND

Avon Pension Fund

FRC Stewardship Code

Avon Pension Fund, Statement of Compliance with Stewardship Code 2013

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

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

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

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

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

The revised draft statement for approval is as follows:

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

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

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

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

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

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

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

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

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

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

Principle 3 - Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Avon Pension Fund
Approved, June 2013

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**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 4 June 2014 EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 4 June 2014 EXEMPT Appendix 3 – Summary of decision on Hedge Fund Review EXEMPT Appendix 4 – Summaries of Investment Panel meetings with Investment Managers		

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 March 2014 committee meeting, on 4 June 2014. 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 Appendix 1 and Exempt Appendix 2. The Panel also held a Meet the Managers Workshop on 4 June 2014.

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 4 June 2014

2.2 the recommendations and decisions made by the Panel since the last quarterly activity report, 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 decisions and recommendations were made by the Panel since the last quarterly activity report:

(1) Investment Panel Meeting, 4 June 2014:

a) See Exempt Appendix 3

(2) Meet the Manager Workshop, 4 June 2014:

a) The Panel met with Stenham and Schroder (Property mandate). There were no issues identified by the Panel.

A summary of the meetings is provided at Exempt Appendix 4.

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

Wednesday, 4th June, 2014, 11.45 am

Members: Councillor Charles Gerrish (Chair), Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors: Tony Earnshaw (Independent Advisor), John Finch (JLT), Jig Sheth (JLT)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 26 FEBRUARY 2014

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

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2013

The Assistant Investments Manager presented the report. He said that that the quarter ending 31 March 2014 had been a difficult one in some markets. The Fund’s assets had increased by 0.8%. Two managers previously rated amber had been uprated to green, and so no longer appeared in the RAG Summary Report. The implementation of the new investment strategy was substantially complete, as shown in section 4 of the report. The selection meeting for the Infrastructure mandate was planned for July.

Mr Finch commented on the JLT report. He said that emerging markets had been negative, while Japan had been significantly negative. There were emerging problems in China. Quantitative easing was to continue longer than expected, so bond yields had picked up. Emerging markets had risen strongly in the three months to the end of May, so the Fund may have been fortunate with the timing of its investment in these markets. Japan had also picked up after quarter end. In response to a question from a Member on the prospects for China and global growth, Mr Finch commented that there was suspicion about the trustworthiness of Chinese growth figures and the Chinese property market was slowing. The Chinese banks had begun to refuse credit for property. There were still doubts about growth in Europe. Inflation was not picking up. From a global perspective, the UK economy was one of the strongest. He referred to the bar charts on page 26 and the performance table on page 27 of the agenda showing the performance of managers relative to their benchmarks. Nine managers had achieved or surpassed their benchmarks over the past year. Four managers had not met their three year targets and five managers did not yet have a three-year track record. Overall he felt the Fund was near where it should be. He drew attention to the personnel changes within Schroders (page 32) and said that it would be interesting to see the impact of these.

A Member said that following the meeting with Signet, she now felt comfortable with their approach, but wondered how long the Fund should be prepared to wait for an improvement in their performance. Mr Finch replied that he had not focussed on Signet in particular, because the whole hedge fund portfolio was being reviewed. The Member said that four months had passed since the meeting with Signet, and she wondered whether the Fund should still be investing in them. The Investments Manager replied that even if the Fund disinvested, a rump of illiquid assets would be left with them, which would need to be managed on an ongoing basis. Signet's performance will be a focus of the next quarterly performance report.

RESOLVED to note the information set out in the report.

9 HEDGE FUND REVIEW

The Panel having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for this 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.

The Panel **RESOLVED** to report its preliminary discussions to the Avon Pension Fund Committee.

[Councillors Anketell-Jones and Gilchrist left the meeting at this point.]

10 WORKPLAN

The Investment Manager presented the Panel's workplan up to February 2015.

RESOLVED to note the workplan.

The meeting ended at 1.45 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1038-14

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 27 June 2014

Author: Matt Betts
Report Title: Investment Panel Activity Appendix 1 – Minutes from Investment Panel meeting held 4 June 2014 EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 4 June 2014 EXEMPT Appendix 3 – Summary of decision on Hedge Fund Review EXEMPT Appendix 4 – Summaries of Investment Panel meetings with Investment Managers

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

Weighed against this is the fact that the exempt appendices contain 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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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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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 June 2014**	**AGENDA ITEM NUMBER** **13**
TITLE:	**LGPS 2014: Policy on Discretionary Policies and Procedures, Abatement and Additional Pension Contributions - Minimum Regular Payments**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – LGPS 2014: Discretionary Policies and Procedures		

1 THE ISSUES

1.1 The new regulations for the LGPS 2014 include the requirement to have discretionary policies made and published. This report sets out for approval the Avon Pension Fund discretionary policies and procedures required by the regulations.

1.2 This report also explains the current situation on abatement of pension.

1.3 There is also a procedural requirement that requires ratification in regards to the minimum regular payments when purchasing additional pension.

2 RECOMMENDATION

That the Committee

2.1 Agrees to the three proposed discretionary policies and the delegated powers as set out in Appendix 1.

2.2 Agrees to maintain the current policy on abatement pending a future review

2.3 Agree that a minimum regular contribution level of £10 per month be set for purchasing addition pension under Regulation 16, LGPS Regulations 2013

3 FINANCIAL IMPLICATIONS

3.1 For the purpose of the regulations covered in this report, any administrative and management costs incurred by Avon Pension Fund are recovered from the Fund

3.2 There are no immediate financial implications. There could potentially be costs to the Fund when a decision is made to waive an actuarial reduction, as there would be a fund strain cost similar to that levied to employers for redundancies. The cost to the Fund would be determined by the circumstances in each case [e.g. Number of years to normal retirement age / amount of benefits].

4 LGPS Regulations: Discretionary Policies

4.1 Appendix 1 sets out the discretionary policies and procedures required by Avon Pension Fund to fulfil its obligations under the regulations

5 LGPS 2014: Abatement of Pension

5.1 Abatement of Pension is where a pensioner within the Avon Pension Fund obtains further employment which gives further eligibility to the LGPS.

5.2 Until 1 April 1998, all such cases required an automatic review to check if the pension plus the pay in the new employment exceeded the pay on which the pension was based. If this occurred, then the pension was either partially or wholly suspended.

5.3 Following the 1997 Regulations each administering authority could set out their own conditions and Avon Pension Fund resolved to only abate if the pension resulted from an employer decision to pay pension benefits early [e.g. Redundancy, Ill health]

5.4 Following the April 2008 regulation changes to the LGPS the Pension Committee resolved to continue the same policy it had previously adopted.

5.5 The LGPS 2014 has not included abatement within the regulations but abatement is still applicable where benefits are calculated under previous regulations and therefore the pre April 2014 benefits will continue to require reviewing on re employment in an LGPS post.

5.6 The implications of this change will therefore be monitored over the coming months and a full review of abatement will be made and brought to the Committee.

5.7 In the interim the Committee are asked to continue the existing policy until this time.

6 LGPS 2014: Additional Pension Contributions [APCs]

6.1 The regulations allow a Scheme member to pay additional contributions to purchase additional pension benefits.

6.2 Payment can also be made by one lump sum.

6.3 The member can also elect to pay by regular monthly payments over any number of years from 1 to the number of years until retirement.

6.4 Where it would be impractical to allow APCs to be paid by regular contributions because of the low amount involved, the appropriate administering authority can determine that the member either reduces the repayment period or pay by lump sum. Approval is sought for this minimum level to be set at £10 per month. This level will be periodically reviewed and any changes reported to the Committee

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)
Background papers	*Local Government Pension Regulations 2013* *Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014*
Please contact the report author if you need to access this report in an alternative format	

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– LGPS 2014: Discretionary Policies and Procedures

Background

Within the LGPS 2014, there is provision in specific regulations for Scheme employer to exercise discretion over the entitlements of its current or past employees.

Where a former employer has ceased to be a Scheme employer, the administering authority must exercise discretion over the entitlements of past employees of this employer in cases under certain regulations.

Under Regulation 60 a policy must be made and published on how such discretionary powers are to be exercised.

This document sets out the policy that Avon Pension Fund has decided to exercise its discretionary powers

Avon Pension Fund will exercise their discretionary policies by using the same process arrangements as used by Bath and North East Somerset, Human Resources Department for their discretions, with the actual Fund discretion being made by delegated powers granted to the Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.

In drawing up its policy, Avon Pension Fund must satisfy themselves that:

- They are applying the discretions reasonably
- The discretions are not fettered i.e. being used in such a way that individual circumstances cannot be considered.

Any policy statement must be published to LGPS Fund members and:

- kept under review
- appropriate revisions made following a change in the policy.

Discretionary powers must:

- not be used for an ulterior motive and be exercised reasonably
- be used taking account of all relevant factors e.g. the cost to the Fund must be balanced against the benefit to scheme member
- be duly recorded when used.

The policy will be kept under review by the Pensions Section.

<u>Discretions upon which Avon Pension Fund must make and publish policies.</u>

Waiving actuarial reductions

Decisions required by Avon Pension Fund as administering authority in respect of former employees where their former employer has ceased to be a Scheme employer

Local Government Pension Regulations 2013		**Discretion Criteria**
Regulation 30 (8)	waiving of an actuarial reduction	Any grounds e.g. Financial, Operational Compassionate
Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014		
Schedule 2 paragraph 1(1)(c)	To allow rule of 85 before age 60.	Any grounds e.g. Financial, Operational Compassionate
Schedule 2 paragraph: 2(1)	Waive actuarial reduction for not satisfying rule of 85	Compassionate Grounds

1) **<u>LGPS Regulations 2013:</u>**
   <u>Regulation 30(8):- relating to post 2014 benefits only</u>

Authority for Avon Pension Fund to agree to waive in whole or in part any actuarial reduction required by paragraphs 30(5) [Voluntary Retirement] or 30(6) [Flexible Retirement] where at leaving date member is over age 55 but under State Pension Age. This is in respect of former employees where their former employer has ceased to be a Scheme employer. Costs from any decisions made will be met from across the whole Fund.

<u>Discretionary Policy 1</u>

Avon Pension Fund will as a general rule not normally make use of the discretion to waive any actuarial reduction in pension benefits for an employee aged 55 to SPA. The Fund may consider using this discretion on compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.

2. **Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014**

Schedule 2: 1(1)(c) - To allow rule of 85 before age 60

A Scheme member who was subject to the LGPS 2014 scheme and who has left the Scheme and is no longer in the employment in relation to that scheme membership, can elect to receive their benefits before age 60 without obtaining employer's consent. If the Scheme Member satisfies the rule of 85 before age 60 there is potentially a strain cost to the Fund. The Government Actuary guidance has therefore introduced a reduction to cover this position. However, Schedule 2 ,1(1)(c) allows the discretion to ignore such a reduction.

Discretionary Policy 2

Avon Pension Fund will as a general rule not normally make use of the discretion to ignore any actuarial reduction on account of satisfying the rule of 85 before age 60. The Fund may consider using this discretion on compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.

Schedule 2: 2(1) - Waive actuarial reduction for not satisfying rule of 85.

In 2006 the Rule of 85 was abolished but certain protections were put in place for those nearing retirement. A Scheme member who was subject to this protection and who received their benefits before age 65 would be subject to an actuarial reduction if they did not satisfy the Rule of 85. This regulation gives the Fund the discretion to waive any such reduction. The only criteria that can be used whilst exercising this discretion is on compassionate grounds.

Discretionary Policy 3

Avon Pension Fund will as a general rule not normally make use of the discretion to waive any actuarial reduction on account of not satisfying the rule of 85 before age 65, unless there are sufficient compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.

<u>Other Requirements under the Local Government Pension Scheme.</u>

Administering Authority adopting employer responsibilities where employer has ceased to be a Scheme employer

On the abolition of Avon County Council in 1996, an arrangement was adopted whereby any employer decisions that were required for former members of employers no longer operating [e.g. Avon County Council: deferred members] would be administered by Bristol City Council as lead authority.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 have been amended and require the administering authority to fulfil such functions. Such cases would include requests from deferred members for early payment of benefits on ill health grounds or for early retirement payments before age 60 and the exercise of discretion for waiving any actuarial reductions. As a result, an arrangement was adopted with Bath and North East Somerset, Human Resources Department to process these in the same way as they would as the employing authority. The ultimate responsibility for exercising discretions is with the Fund and such cases would be approved by delegated powers granted to the Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.

All costs incurred in this process would be met by the Fund.

Approval is therefore sought to ratify this arrangement

Recommendations to be agreed in 2.1 of Report

The Pension Committee agrees that

	Discretionary Policy 1	**Delegated Power to**
Regulation 30(8), Local Government Pension Regulations 2013	**Avon Pension Fund will as a general rule not normally make use of the discretion to waive any actuarial reduction in pension benefits for an employee aged 55 to SPA. The Fund may consider using this discretion on compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.**	**Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.**
	Discretionary Policy 2	
Schedule 2 1(1)(c) Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014	**Avon Pension Fund will as a general rule not normally make use of the discretion to ignore any actuarial reduction on account of satisfying the rule of 85 before age 60. The Fund may consider using this discretion on compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.**	**Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.**
	Discretionary Policy 3	
Schedule 2 2(1) Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014	**Avon Pension Fund will as a general rule not normally make use of the discretion to waive any actuarial reduction on account of not satisfying the rule of 85 before age 65, unless there are sufficient compassionate grounds, which might include but not be limited to where the member is needed to look after and care for a dependant relative full time.**	**Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.**
	Ratification of Procedures under previous regulations and to grant delegated Powers	
Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007	**Avon Pension Fund ratify the procedures set out above for Avon Pension Fund as administering authority to make decisions in respect of former employees where their former employer has ceased to be a Scheme employer under Regulations 30 (2)(c) (choice of early payment of pension) and (5), 30A (3) and (5) (choice of payment of pension: pensioner member with deferred benefits) and 31 (6) (early payment of pension: ill-health)**	**Chief Financial Officer and Divisional Director; Business Support and exercised by Head of Business, Finance and Pensions.**

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 JUNE 2014**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT TO COUNCIL 2014**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council 2014		

1 THE ISSUE

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

1.2 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2014, will be submitted to the Council meeting in July 2014. In addition, the report will be published so that it is available for all stakeholders to inform them in detail of the work undertaken by the Committee.

2 RECOMMENDATION

That the Committee:-

2.1 Review and approve the 2014 Annual Report to Council

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations in this report.

4 REPORT

4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months to 31 March 2014 and sets out its agenda over the coming year.

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

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Support Services) 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 395277
Background papers	Committee reports
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2013 - March 2014)

1 BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2014 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2009 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of more than 190 employing bodies including the four unitary authorities. The Fund has c. 96,000 members and the value of the Fund as at 31 March 2014 was £3.3 billion. In 2013/14 the Fund received £143 million in pension contributions and paid out £146 million in pension payments.

(a) GOVERNANCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the "Committee") which is the formal decision-making body for the Fund. The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. Due to the wide scope of the Committee's remit it is supported by the Investment Panel (the "Panel") which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions. The Terms of Reference, agreed by the Council, for the Committee and Panel are set out in Appendix A to this report.

Committee Membership

The Committee structure is as follows:

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

The Committee meets quarterly. Attendance at these meetings was 83% for the voting members and 62% for the non-voting members.

Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. These workshops are designed to explore specific policy issues in detail. During the last twelve months three workshops were arranged covering the following: the Funding Strategy Statement, the implementation project for the LGPS 2014 and the opportunities for investing in infrastructure.

Investment Panel

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

The Panel met formally five times during the year with attendance at 77%. Each meeting was followed by a workshop where selected investment managers present on their performance and outlook for their portfolio. In addition Panel members attended two selection panels held to appoint new managers.

2 TRAINING

The Fund provides training to committee members to ensure they possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties. The administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

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

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

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

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

3 REVIEW OF THE YEAR

a) INVESTMENTS

- The Fund generated an investment return of 6.6% during the year, generating a return of 7.8% p.a. over the last three years.
- The 2013/14 investment return was driven primarily by the strong returns from the equity portfolios which comprise 50% of the Fund's assets, the exception being emerging market equities which fell c.10% during the year. Bond returns turned negative in 2013/14 following a period of exceptional gains. The reversal was due to the improvement in economic activity which could result in interest rates rising from current low levels.

- Changes to the investment portfolio were implemented during the year following the review of the investment strategy in March 2013. New investments were made to Diversified Growth Funds and the allocation to Emerging Market Equities was increased.

b) FUNDING LEVEL

- As at 31 March 2014 the Actuary has estimated that the funding level has risen to 84% from 78% declared a year earlier.
- The funding level has increased 6% over the year from 78% to c. 84% and the deficit has contracted to c. £636m from £876m.
- The improvement in the funding level was initially due to a rise in real gilt yields used to value the liabilities. However, as the year progressed and bond yields fell back slightly, the improvement has been driven by investment returns exceeding expectations.
- The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation. Thus an increase in real gilt yields will reduce the value of the liabilities.
- The triennial valuation as at March 2013 has been completed and this sets the employer contribution rates for the three years from April 2014 to March 2017.

c) New LGPS 2014

- Project plan developed to manage the implementation and rollout of the new scheme.
- Project plan covered a number of areas including:
    - Application of new regulations
    - Introduction and testing of new pensions software
    - Training internal staff and staff at employing bodies – 10 presentation and workshop sessions arranged with Fund employers.
    - Forums to explain changes to members – 101 presentation events arranged with Fund employers over a six month period covering in excess of 1,500 members.
    - Committee workshop event to give overview of scheme changes and APF project plan.
    - Review and update of APF website and all associated communication documents
    - Newsletters (2) issued to members and regular communications with employers.
    - Feedback questionnaire covering employer responsibilities issued to identify further training requirements.
- Administration teams restructured to address the need for greater focus on accuracy of member records and data quality control in accordance with forthcoming regulator standards

d) PENSIONS ADMINISTRATION

(i) Budget

- During the year to 31 March 2014, total administration costs (excluding governance and investment management costs) were £2.2 million a saving of £170,000 (7%) on the budget.
- Total costs including Investment Management, custody fees and governance costs, were £17.7 million, 13% over budget due to a 16% increase in assets values since the setting of the budget.
- The investment management and custody fees of £15.1 million equate to 0.45% of the Fund's assets.

(ii) CIPFA Benchmarking (Benefits Administration)

- The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund".
- In 2012/2013 the Fund's overall costs at £17.34 p.a. per member were less than the average of £21.42. Staffing costs (excluding payroll) were significantly less at £5.99 per member against £9.29. Payroll costs per pensioner member of £1.88 compares favourably against the average of £3.41.
- The Fund invests heavily in communications with communication costs at £1.87 per member compared to the average of £0.84. Although significantly higher, the Committee has prioritised resources to this area as it strongly believes in the importance of providing members with timely, accurate information. This is delivered by specific newsletters to active and pensioner members, a high quality website, provision of member access to their "account" via the website and the facility for scheme employers to send information via the website's secure portal. Savings are being realised through the increased use of electronic delivery for employers 'ESS' & 'i-Connect' and through the introduction and promotion of the member self-service facility 'MSS'.

(iii) Pensions Administration Strategy

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- Performance of both the Fund and employers is closely monitored by officers and the Committee. The Strategy provides a transparent and robust operating and performance framework which improves accountability and has successfully focussed attention on the need for both parties to invest in and make use of electronic data provision to improve efficiency.
- The Strategy is due for review during 2014/15.

4 COMMITTEE BUSINESS TO MARCH 2014

a) Investment Strategy

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

- Much of the revised investment strategy was implemented during the year. The investment Panel selected two Diversified Growth Funds and appointed an additional manager to manage the increased allocation to emerging market equities.
- The hedge fund mandate with MAN Investments was terminated due to poor performance against target.
- The Fund has increased its involvement with the Local Authority Pension Fund Forum (LAPFF) as part of its Responsible Investing Policy, with members and officers attending quarterly meetings. LAPFF act on behalf of local authority funds to promote best practice in governance in investee companies either on its own or in collaboration with other organisations with similar objectives.

b) 2013 Actuarial Valuation

- The Committee's approved the Funding Strategy Statement (FSS) which set the parameters used by the Actuary in the actuarial valuation.
- Due to the fall in gilt yields since the 2010 valuation, the deficit has increased as have future service costs. The future service costs were partially offset by savings arising from the new scheme. Given affordability constraints the cost increases have been phased for the majority of employers within the Fund.
- The Committee reviewed the outcome of the valuation with particular attention as to how the Actuary has applied the FSS across the employers and how the covenant of individual employers had been taken into account.
- The Committee are updated quarterly on the funding position as part of the financial monitoring process.

c) Approval of the 3-year Service Plan and Budget 2014/17

- The Service Plan sets out the Pension Fund's objectives for the next three years (2014/17). The three year budget supports the objectives and actions arising from the plan.
- The initial focus of the plan is the Fund's response to two key government initiatives, the new governance arrangements and the restructuring of the local LGPS funds, and the introduction of the new scheme. In addition, there are investment and funding projects that need to be undertaken as well as further development of the Fund's electronic capability and facilities for stakeholder access. The later years focus on consolidation, realising efficiencies and embedding partnership working.
- Having invested in capacity and IT systems in previous years, the 2014/15 budget for Administration, Governance and Compliance of £2,834,300 included savings of £175,000 over 2013/14. The removal of one off items included in the 2013/14 budget such as the actuarial valuation and advisory costs for the strategic investment review were partially offset by investment required to maintain the level of service. Wherever possible savings have been made and inflation absorbed.
- The Service Plan included a cash flow forecast reflecting the more rapid maturing of the Fund which is no longer cash flow positive on a monthly basis. Investment income is now required to meet pension payments so

closer monitoring of the cash flow position is required for the investment strategy to be effectively managed.

d) Public Service Pensions Act 2013 and other Government initiatives

- The Public Sector Pensions Act 2013 (PSPA2013) will change the governance structure of the local LGPS funds. There was an informal consultation as to how the Act could be applied to the local LGPS funds. A formal consultation is expected in 2014/15.
- PSPA2013 also gives the Pensions Regulator a role in regulating the public service schemes including the LGPS. The Regulator issued a draft of best practice standards to be applied to public sector pension schemes to which the Committee responded. The Regulator will require greater disclosure of member training and require all members to attain a satisfactory level of knowledge in order to discharge their duties.
- The DCLG issued a "Call for Evidence" about the future structure of the 89 local LGPS funds in England. This focused on achieving savings in administration of the local schemes and in the investment fees paid by the funds.
- The Committee responded to these consultations and further consultations on the regulations for the new scheme.

e) Treasury Management Policy and Cash Management Policy

- The Committee approves the Fund's Treasury Management Policy annually. The policy sets out how the Fund's cash is invested to meet its day-to-day requirements. The cash managed under this policy at any time is c. £25 million, which represents less than 1% of the Fund's value.
- The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately (via separate bank account) to the Council's and the Fund has a bespoke Treasury Management Policy.
- The policy has been revised in line with the Council's policy due to the downgrading of the credit ratings of the UK banks, to ensure there is adequate flexibility for the efficient management and investment of the short term cash.

f) Responsible Investing Annual Report

- The Fund has a Responsible Investing (RI) Policy which supports its investment strategy. As transparency and disclosure are an important element of being a responsible investor the Fund publishes an annual report of its activities, the first of which was published in 2013.
- The policy sets out how the Fund will incorporate and manage the risks arising from its investment activities that relate to Environmental, Social or Governance factors (ESG). The approach is to identify and manage these risks in a variety of ways: through considering how they can impact the overall risk and return of the Fund; by understanding how the investment managers evaluate the materiality of such risks within their investment decisions; by using its votes as a long term shareholder and to engage with company Boards to influence corporate behaviour

- The 2013 report highlighted the main activities as follows:
    - Identified and strategically addressed ESG risks by embedding analysis of the ESG risks of asset classes in the review of the Fund's investment strategy;
    - Held managers to account and interrogated the assessment of ESG risks in their investment process and reviewed whether engagement activity of managers was in line with their policies;
    - Analysed voting patterns and sought explanations of voting behaviour from managers to evidence preferences and to seek to influence;
    - Increased participation in collaboration and engagement activities of Local Authority Pension Fund Forum.

g) Administration

- In accordance with the Pensions Administration Strategy the Committee monitors the KPI for pensions administration and the scheme employers quarterly.
- Focus in 2013/14 was on the rollout of electronic receipt and delivery of data with employers. Work with employers in this area has resulted in a significant move towards electronic data transfer with 58% of scheme employers now submitting member data electronically, representing 72% of overall fund membership.
- The committee monitored Fund's New LGPS 2014 scheme implementation plan

h) Workplans

- Separate workplans are prepared for the Committee and Panel detailing the forthcoming areas of work relating to the investment and funding strategies and to the administration of benefits to give the Committee and officers the opportunity to review the workload and accommodate issues that may arise.

5 FUTURE BUSINESS

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

a) Investments

- Investment Strategy – invest in infrastructure in line with the agreed strategy.
- Review the composition of the hedge fund portfolio.
- Investigate how liability driven investing could assist in hedging the interest rate and inflation impact on the liabilities.
- Re-tender investment advisory contract.

b) Funding Strategy

- Explore options for insuring against ill-health retirements.
- Re-tender actuarial contract.

c) Benefits Administration

- Respond to the on-going consultation exercises relating to the Governments recommendations arising from their analysis of the call for evidence.
- Ensure compliance with stringent requirements of The Pensions Regulator following outcome of TPR consultation exercise.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.
- Approve any changes as a result of the Review of the Pensions Administration Strategy due during 2014/15.

d) Governance (Public Sector Pensions Act 2013 and restructuring of the LGPS funds)

- Engage with and respond to government consultations expected during the year on the governance structure of funds at the local level. PSPA2013 requires the new governance structures to be effective from 1 April 2015.
- Engage with and respond to proposals to change the arrangements for the investment of assets across the LGPS funds nationally. A formal consultation was issued in April 2014 following the "Call for Evidence" jointly issued by the DCLG and LGA in 2013. The priorities set out in the Call for Evidence of reducing fund deficits and improving investment returns were underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. This consultation focuses on improving investment returns through lower investment costs with proposals to (i) create common investment vehicles; (ii) use of passive management for listed assets and (iii) keep asset allocation with the local fund authorities.
- The government proposes not to pursue fund mergers at this time and has decided not to consult on administration reform at this time. The Call for Evidence highlighted the scope for potential administrative efficiencies but the Government proposes to allow the administrative arrangements for the 2014 Scheme to mature before considering reform any further.

Avon Pension Fund

June 2014

Appendix A

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

(i) Avon Pension Fund Committee:

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

The key duties in discharging this role are:

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

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee ("the Investment Panel") or Officers.

Investment Panel

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

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

2. Review the Statement of Investment Principles and submit to Committee for approval.

3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.

5. Approve investments in emerging opportunities within strategic allocations.

6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.

7. Approve amendments to investment mandates within existing return and risk parameters.

8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.

9. Delegate specific decisions to Officers as appropriate.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**27 JUNE 2014**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 March 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – JLT Annual Investment Review

Exempt Appendix 3 – Changes in RAG status of Managers

Appendix 4 – LAPFF Quarterly Engagement Monitoring Report

Appendix 5 – Revised Statement of Investment Principles

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 March 2014.

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

Section 4. Funding Level Update

Section 5. Annual Investment Review

Section 6. Investment Performance: A - Fund, B - Investment Managers

Section 7. Investment Strategy

Section 8. Portfolio Rebalancing and Cash Management

Section 9. Corporate Governance and Responsible Investment (RI) Update

Section 10. Update to Statement of Investment Principles

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 4**

2.3 **Agree minor updates to the Statement of Investment Principles as explained in Section 10**

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 Key points from the analysis are:

(1) The funding level has increased 6% over the year from 78% to c. 84% and the deficit has contracted to c. £636m from £876m.

(2) The improvement was initially due to a rise in real bond yields used to value the liabilities. However, as the year progressed and bond yields fell back slightly, the improvement has been driven by investment returns exceeding expectations.

5 ANNUAL INVESTMENT REVIEW

5.1 This quarter JLT have provided an annual investment review of the year to 31 March 2014 (see Appendix 2) rather than the normal quarterly performance report. It was agreed as part of the strategic investment review in 2013 to provide an annual report to the Committee following the delegation of some investment decisions to the Investment Panel.

5.2 This purpose of this report is inform the Committee as to how the strategy has performed over the last year, whether the underlying assumptions of the investment strategy remain valid, and whether the investment manager structure is delivering against expectations.

6 INVESTMENT PERFORMANCE

A – Fund Performance

6.1 The Fund's assets increased by £26m (c.0.8%) in the quarter, giving a value for the investment Fund of £3,325m at 31 March 2014. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and 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 31 March 2014

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	0.8%	6.6%	n/a
Avon Pension Fund (excl. currency hedging)	0.9%	5.9%	7.8%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	1.2% *(-0.4%)*	4.5% ***(+2.1%)***	6.5% *n/a*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	0.8% *(=)*	6.3% ***(+0.3%)***	7.5% *n/a*

6.2 **Fund Investment Return:** Equity markets were mixed over the quarter with positive returns led by Europe and the US; Asian markets were marginally positive whilst the UK and Emerging Markets experienced a small fall. Japan was the worst performing equity market in the quarter. Gilts and corporate bonds produced strong positive returns as bond yields fell over the quarter.

6.3 Over the one year period only UK equities and property outperformed their strategic return assumption. Over 3 years only UK equities and UK bonds (gilts, corporates and index-linked) outperformed their strategic return assumption, with Property performing in line, whilst all other asset classes (overseas equities, hedge funds, emerging market equity and hedge funds) underperformed their strategic return assumption.

6.4 **Fund Performance versus Benchmark: +2.1% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **1%** over the 12 months. This was due to the underweight to fixed income gilts within the bond portfolio; underweight to hedge funds; overweight in developed equities and underweight to emerging markets in final quarter. The currency hedging programme contributed **0.7%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance contributed **0.3%** of the outperformance over the 12 month period, relative to the strategic benchmark.

6.5 **Versus Local Authority Average Fund:** Over one year, the Fund marginally outperformed the average fund.

6.6 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme has detracted -0.1% from the total Fund return over the quarter but added 0.8% over the year.

B – Investment Manager Performance

6.7 In aggregate over the three year period the managers' performance is marginally ahead of the benchmark. Eleven mandates met or exceeded their three year performance benchmark, which offset underperformance by Gottex and Signet. Genesis, RLAM, and Jupiter all continue to perform particularly well against their three year performance targets.

6.8 As part of the 'Meet the Managers' programme, the Panel met with Stenham and Schroder (UK Property mandate) on 4th June 2014. The summary of the Panel's conclusions can be found in Exempt Appendix 3 to the Investment Panel Activity Report.

6.9 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 2 amber rated managers (Stenham and TT) have been upgraded to a Green rating (explained in Exempt Appendix 3).** Currently 3 managers are amber rated.

7 INVESTMENT STRATEGY

7.1 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	Complete:
2	Emerging Market Equity Mandate	Complete:
3	Restructuring passive equity portfolio	Complete:
4	Rebalancing bond portfolio	Complete:
5	Infrastructure	On Track: Evaluation of tender responses underway. Selection meeting planned for early July.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

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

8.2 There was no rebalancing in the quarter. At 21 May 2014 the Equity:Bond allocation was 77.9:22.1. In April/May the Fund received lump sum deficit contribution payments from some employers which was invested to maintain allocation targets, resulting in a small reduction in the Equity:Bond ratio. Monies were invested in the following portfolios: Royal London, Pyrford and Barings. The remainder is held as cash as monthly contributions will be lower as a result of the lump sum payments. Officers will continue to incorporate any rebalancing considerations as the new strategy is implemented.

Cash Management

8.3 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

8.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and during the quarter were invested in line with the Fund's Treasury Management Policy (latest approved on 28 March 2014).

8.5 The Fund continues to deposit internally managed cash on call with NatWest, Barclays and Bank of Scotland. The Fund deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated) and another AAA rated fund with Deutsche Bank is available for deposits if required. The Fund also has access to the Government's Debt Management Office; however the interest paid currently may not cover the transfer and administration costs incurred.

8.6 During the quarter the net cash flow was neutral with benefits paid and costs incurred approximately equalling contributions and income received. However the overall trend continues to be cash flow negative as costs exceed income. This trend was offset during the quarter by a fall in lump sum payments and unusually high "Strain on the fund" receipts. The Strain receipts related to early retirements at the end of March that resulted in lump sum payments at the start of April. The model forecast an average monthly outflow of c. £0.9m over the year to 31 March 2014, and greater outflows in subsequent years. The outflow of cash during 2013/14 has been very close to this forecast.

8.7 In April 2014 the four Unitary Authorities and two Universities paid their deficit recovery payments in advance. This gave the Fund a temporary cash boost that will be offset by lower deficit recovery payments in the next two years. To date there has been no cash flow affect from the 50:50 option of LGPS 2014 or auto enrolment.

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	143
Resolutions voted:	1,899
Votes For:	1,789
Votes Against:	117
Abstained:	3
Withheld* vote:	0

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

9.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

10 STATEMENT OF INVESTMENT PRINCIPLES

10.1 The Fund's Statement of Investment Principles sets out the Fund's investment strategy and policies and states how the Fund complies with the

Myners Principles for Effective Decision Making. The requirement to produce a Statement of Investment Principles is set out in the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009. These regulations provide that "the written statement must be revised by the administering authority in accordance with any material change in their policy … and published".

10.2 The SIP has been updated to include the new investment managers appointed and the revised allocations between mandates. These changes are highlighted in Appendix 5.

10.3 The Committee is asked to approve the revised SIP in Appendix 5.

11 RISK MANAGEMENT

11.1 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.

12 EQUALITIES

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

13 CONSULTATION

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

14 ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 The issues to consider are contained in the report.

15 ADVICE SOUGHT

15.1 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 - 31 MARCH 2014

	Passive Multi-Asset		Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds	DGFs		Property		In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	BlackRock #2	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Barings	Pyrford	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																		
UK	221.0	12.6	182.2	151.4			17.8										585.1	17.6%
North America	173.1	5.9					112.1										291.2	8.7%
Europe	159.1						38.7		41.1								238.9	7.2%
Japan	40.0						18.2		35.8								94.0	2.8%
Pacific Rim	52.3						8.5		30.2								90.9	2.7%
Emerging Markets					145.1	166.7	12.1										323.9	9.7%
Global ex-UK								239.8									239.8	7.2%
Global inc-UK																15.9	15.9	0.5%
Total Overseas	***424.4***	***5.9***	***0.0***	***0.0***	***145.1***	***166.7***	***189.6***	***239.8***	***107.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***15.9***	***1294.6***	**38.9%**
Total Equities	**645.4**	**18.6**	**182.2**	**151.4**	**145.1**	**166.7**	**207.5**	**239.8**	**107.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**15.9**	**1879.7**	**56.4%**
DGFs												**209.8**	**104.5**				**314.3**	**9.4%**
BONDS																		
Index Linked Gilts	190.1																190.1	5.7%
Conventional Gilts	93.6	14.2															107.8	3.2%
Corporate Bonds	18.2									249.9							268.1	8.1%
Overseas Bonds	74.6																74.6	2.2%
Total Bonds	**376.5**	**14.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**249.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**640.6**	**19.2%**
Hedge Funds											163.0						**163.0**	**4.9%**
Property														148.9	112.1		**261.0**	**7.8%**
Cash	5.1	12.9	3.0	9.4			7.0							1.3		33.0	**71.7**	**2.2%**
TOTAL	**1026.9**	**45.6**	**185.3**	**160.9**	**145.1**	**166.7**	**214.5**	**239.8**	**107.1**	**249.9**	**163.0**	**209.8**	**104.5**	**150.2**	**112.1**	**48.9**	**3330.4**	**100.0%**

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

NOTE Due to rounding the figures on this document may not appear to add up exactly.

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Avon Pension Fund

Annual Investment Review to 31 March 2014

Contents

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1 Executive Summary

This report is produced by JLT Employee Benefits ("JLT") to assess the one and three year performance and risks of the investment managers of the Avon Pension Fund (the “Fund”), and of the Fund as a whole.

- Absolute returns – one year
  - Over the year the Fund has not met its strategic return target of 7.2% (based on JLT return expectations), returning 6.6% (5.8% excluding Record)
  - Only UK equities and property outperformed their strategic return assumption.
- Relative returns – one year
  - The Fund return of 5.8% outperformed the benchmark of 4.5% (i.e. if the fund had been invested passively in line with benchmark allocations).
  - This was mainly due to the asset allocation, as the Fund was overweight to developed equities and underweight to emerging market equities. Active management also added value, in particular from UK equities.
- Absolute returns – three years
  - Over 3 years the Fund has outperformed its strategic return target of 7.2% p.a., returning 7.8% p.a. excluding the impact of Record (7.9% p.a. with Record).
  - UK equities and UK bonds (gilts, corporates and index-linked) outperformed their strategic return assumption. Overseas equities, hedge funds, emerging market equity and hedge funds underperformed the strategic return assumption. The Property return of 6.9% p.a was very close to the strategic return assumption of 7.0% p.a.
- Relative returns – three years
  - The three-year benchmark return was 6.5% p.a. Hence the fund outperformed its benchmark by 1.3% p.a., and this outperformance took the Fund return above the assumed strategic return.
  - Over three years, active management in UK and overseas equities were the main contributors to the outperformance. The Fund also benefited from being underweight in hedge funds and property.
- Returns relative to gilts
  - The strategic absolute return assumptions above are derived from the long term expected return from gilts plus the expected outperformance over gilts over the long term from the asset classes within the Fund’s strategic benchmark. This is because gilt returns are a key driver in the valuation of the liabilities. It is therefore informative to compare the Fund’s returns relative to gilt returns.
  - Over the year, compared to the strategic return assumption relative to gilts, the Fund significantly outperformed its target.
    - Gilts returned -3.1% and therefore the Fund outperformed, returning 6.6% versus the gilts based target of -0.4% (i.e. -3.1% from gilts +2.7% assumed outperformance).
    - Emerging market equities, index-linked gilts and overseas fixed interest underperformed their gilts based targets whilst all other asset classes outperformed.

- Over three years the Fund underperformed its gilts based target, with all asset classes except index-linked gilts (and, obviously gilts) underperforming their assumed target return relative to gilts.
  - The Fund returned 7.9% p.a. versus a gilts based target of 11.4% p.a.
  - This is driven by the unusually high returns from gilts, which returned 8.7% p.a. over the past three years compared to a long term assumed return of 4.5% p.a.
- It should be noted that the changes in strategy agreed in 2011 have meant the assumed return above gilts going forward will be +2.8% p.a.

- Risk
  - The three-year volatility of each asset class (as measured by the standard deviation of monthly return) has remained broadly stable compared to the same measure 12 months ago.
  - There has been a small fall in the volatility of gilts and developed equities as uncertainty over the European Sovereign Debt crisis has reduced over the period, and the Japanese earthquake disaster which caused volatility in early 2011 is now not part of the three year figures.
- Currency
  - The impact of currency movements adds to the volatility of the Fund's assets. The dynamic currency hedge has reduced this volatility and added value compared to having an unhedged portfolio.
- Funding level
  - Over the past twelve months, there is an estimated improvement in the funding level driven by investment returns and manager outperformance.

Conclusions

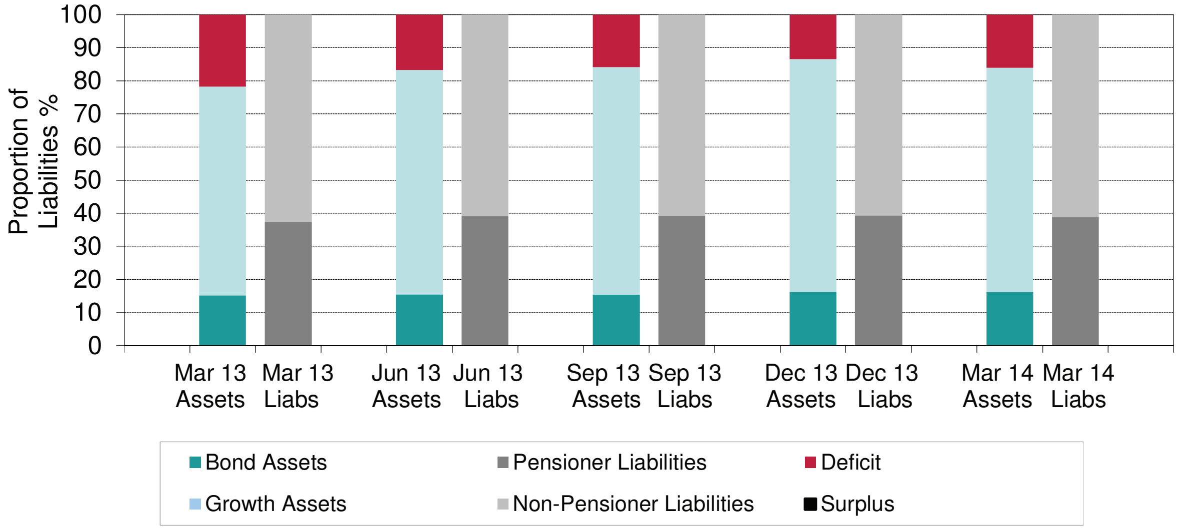
- Over twelve months, the strategy has underperformed the absolute strategic assumption but significantly outperformed relative to the 2.7% outperformance assumption over gilts.
- Over three years, the Fund has delivered the assumed strategic return due to outperformance from both active management and from asset allocation, but it underperformed relative to the gilts based target.
- We believe the strategy is well positioned to deliver the required return relative to gilts going forward:
  - The new allocations to diversified growth and infrastructure offer diversification relative to equities following a period of strong equity returns
  - Gilt returns are expected to be below their long term absolute assumed return in an environment of rising interest rates
- We expect that absolute returns may continue to be below the absolute assumed strategic return whilst interest rates and yields remain below their long term average. However we do not consider this to require a change in strategy.

2 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

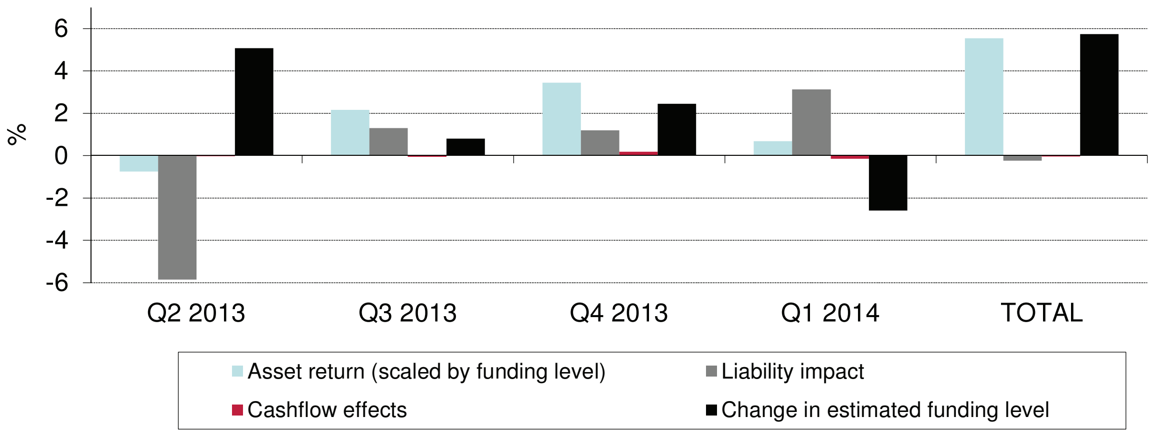
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield. The liability 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 6% over the year, all else being equal. This was driven by:
  - » A positive asset return, following positive returns from nearly all portfolios, in particular from the developed equity funds and property. Part of this contribution came from most managers' outperformance above their benchmarks.
  - » A smaller positive effect from the liabilities, as the interest rate used to value the liabilities slightly increased over the year, reducing the value placed on liabilities.
- 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%.

Scheme performance relative to estimated liabilities

- The chart below shows, quarter by quarter, the return on the assets and the impact on the liabilities due to changes in financial market values and expected member movements.
- As detailed above, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

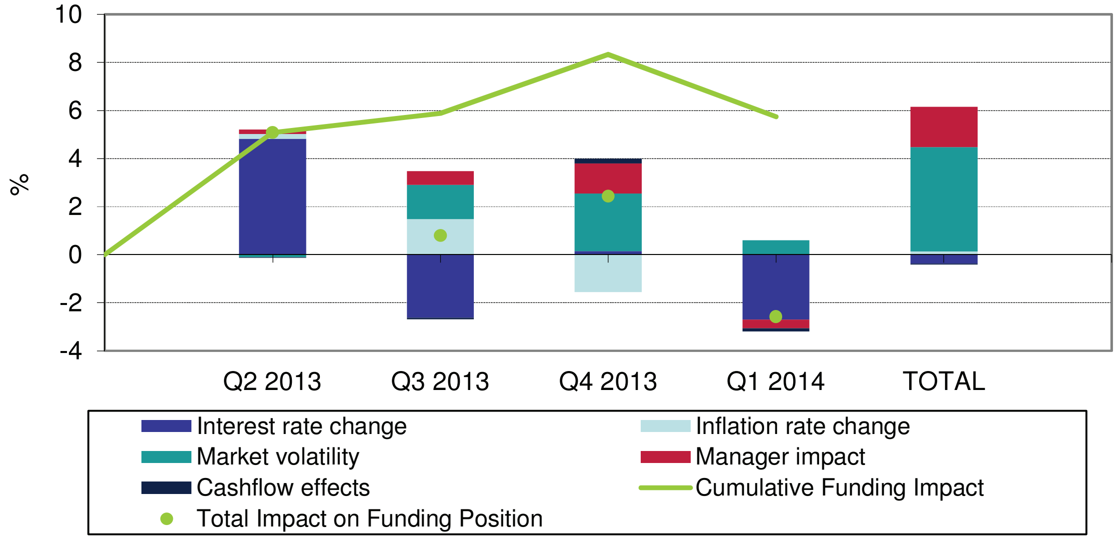


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 5.5% over the year, following positive returns in the last three quarters. Of this return, 1.7% was due to outperformance above the benchmark.
- The value placed on the liabilities increased by an estimated 0.2% over the year as rising yields, particularly in Q2 2013, offset the majority of the impact of the unwinding of the discount rate.
- Overall, the combined effect has led to an increase in the estimated funding level by 6%, from 78% to 84%, over the year.

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, as in Q2 2013. Over the year, the rise in yields in the first quarter was offset by the unwinding of the liabilities in subsequent quarters, giving a negligible ‘interest rate change’ effect.
- The Market Implied (RPI) inflation was unchanged over the year, having decreased in Q3 2013 only to increase again in Q4 2013. This gives a negligible contribution for the year.
- 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 year, mainly due to equity markets posting positive returns.
- 'Manager impact’ is the investment performance compared to the strategic benchmark. This was positive over the year as most portfolios outperformed their respective benchmarks, and also due to the positive impact of currency hedging.
- The small ‘cashflow effects’ reflect factors such as pension payments, contributions and disinvestments.
- Overall the investment factors are estimated to have had a positive impact on the estimated funding level of the Fund over the year.

3 Fund Valuations

Manager	Asset Class	31 March 2013 Value £'000	31 March 2013 Proportion of Total %	Net new money £'000	31 March 2014 Value £'000	31 March 2014 Proportion of Total %
Jupiter	UK Equities	139,815	4.5	-	160,880	4.8
TT International	UK Equities	162,741	5.2	-	185,267	5.6
Invesco	Global ex-UK Equities	218,121	7.0	-	239,795	7.2
Schroder	Global Equities	199,613	6.4	-	214,480	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	103,009	3.3	-	107,146	3.2
Genesis	Emerging Market Equities	158,436	5.1	-	145,088	4.4
MAN	Fund of Hedge Funds	63,955	2.0	-61,898	1,115	0.0
Signet	Fund of Hedge Funds	67,197	2.1	-	66,155	2.0
Stenham	Fund of Hedge Funds	34,937	1.1	-	37,654	1.1
Gottex	Fund of Hedge Funds	55,059	1.8	-	58,062	1.7
BlackRock	Passive Multi-asset	1,446,466	46.1	-462,075	1,026,945	30.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	60,652	1.9	-16,600	45,643	1.4
RLAM	Bonds	176,526	5.6	45,000	249,851	7.5
Schroder	UK Property	132,500	4.2	-	150,249	4.5
Partners	Property	95,729	3.1	11,100	112,058	3.4
Record Currency Mgmt	Dynamic Currency Hedging	-3,117	-0.1	-	12,044	0.4
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,955	0.3	-	15,988	0.5
Pyrford	DGF	-	-	105,000	104,542	3.1
Barings	DGF	-	-	210,000	209,798	6.3
Unigestion	Emerging Market Equities	-	-	165,000	166,687	5.0
Internal Cash	Cash	15,836	0.8	4,473	20,915	0.6
Rounding		-1	-	-	-	-
TOTAL		**3,135,429**	**100.0**	**0**	**3,330,362**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

The table below shows the asset allocation of the Fund as at 31 March 2014, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 Mar 2013 Value £'000	Strategic Benchmark Weight %	31 Mar 2014 Value £'000	31 Mar 2014 Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,866,365	60.0*	1,567,935	47.1	40.0
Emerging Market Equities	158,436	-	311,776	9.4	10.0
Diversified Growth Funds	-	-	314,340	9.4	10.0
Bonds	611,590	20.0	640,599	19.2	20.0
Fund of Hedge Funds	221,147	10.0	162,986	4.9	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	55,550	-	71,739	2.2	-
Property	222,341	10.0	260,987	7.8	10.0
TOTAL FUND VALUE	**3,135,429**	**100.0**	**3,330,362**	**100.0**	**100.0**

* On 31 March 2013 the strategic benchmark for equities was 18% UK equities and 42% overseas equities. The Fund had an investment in emerging markets of around 5% but this was not explicitly part of the benchmark.

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £195m over the year to £3,330m.
- In terms of asset allocation, the main changes over the year were as follows:
  - Emerging Market equity exposure was approximately doubled to 9.4% following the investment in Unigestion.
  - The Fund invested in two Diversified Growth Funds with Pyrford and Barings.
  - The Blackrock passive investment was significantly reduced to fund the investments in Emerging Market Equity and Diversified Growth.
  - MAN fund-of hedge fund was redeemed due to concerns with performance. This took the hedge fund allocation down to the revised benchmark allocation of 5%.
  - There was an increase in corporate bonds following a change in the strategic allocation to corporates bonds from 5% to 8%.
- There are some deviations from the strategic benchmark weight on 31 March 2014 that will continue until the changes to the investment strategy, agreed in 2013, are fully implemented.
- An allocation to infrastructure is expected to be built up over time.

4 Performance

Total Fund performance

The table below shows the performance of the total Fund over 1 and 3 year periods.

Fund	1 year (%)	3 years (% p.a.)
Total Fund (ex currency hedge)	5.8	7.8
Total Fund (inc currency hedge)	6.6	N/a
Strategic Benchmark (no currency hedge)	4.5	6.5
Relative (ex currency hedge)	+1.3	+1.2
Relative (inc currency hedge)	+2.0	N/a

Source: Data provided by WM Performance Services

Benchmark allocation

The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over 1 and 3 years to 31 March 2014, and thereby analyses what we would expect the strategy to return if all assets had been invested passively and met their benchmark returns. The final two columns shows how the index returns compare to the Fund's long term strategic assumed returns, and the contribution of each asset class to the difference, over a three year period, between the benchmark return and the assumed strategic return. For example, overseas equities returned 7.1% p.a. compared to an assumed return of 8.25% p.a,, contributing -0.5% p.a. to the difference between the benchmark return and assumed strategic return.

Asset Class	Weight in Strategic Benchmark		Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark	Assumed strategic return	
	Until Sep 13	From Oct 13	1 year	1 year	3 yrs pa	3 yrs pa	Return pa	Contrib pa
UK Equities	18%	15%	8.8%	1.5%	8.8%	1.6%	8.25%	0.1%
Overseas Equities	42%	25%	7.3%	2.2%	7.1%	2.7%	8.25%	-0.5%
Emerging Market Equities	-	10%	-10.0%	-0.2%	-3.8%	-0.1%	8.75%	-0.3%
Diversified Growth Funds	-	10%	4.5%	0.2%	4.8%	0.1%	8.25%	0.0%
UK Government Bonds	6%	3%	-3.1%	-0.2%	8.7%	0.6%	4.5%	0.3%
UK Corporate Bonds	5%	8%	1.5%	0.1%	7.4%	0.4%	5.5%	0.1%
Index Linked Gilts	6%	6%	-4.4%	-0.3%	8.9%	0.6%	4.25%	0.3%
Overseas Fixed Interest	3%	3%	-8.5%	-0.3%	0.3%	0.0%	5.5%	0.0%
Fund of Hedge Funds	10%	10%	3.2%	0.3%	-0.4%	-0.0%	6.0%	-0.7%
Property	10%	10%	11.9%	1.2%	6.1%	0.6%	7.0%	-0.1%
Total Fund	**100%**	**100%**		**4.5%**		**6.5%**	**7.2%**	**-0.7%**

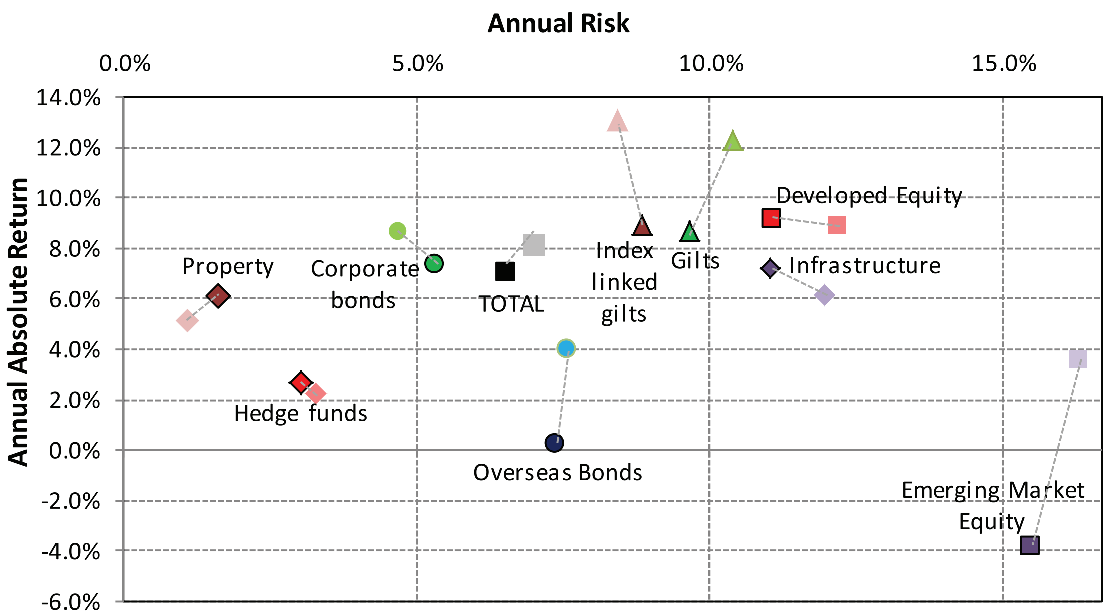
Source: Returns data provided by WM Performance Services

- The benchmark weights above are those held by WM to partly reflect the changes to the investment strategy, agreed in 2013, whilst they are implemented.
- Over one year, the benchmark was 4.5%, which was mainly driven by the contributions from UK and overseas equities, which represented 60% of the index at the start of the year.
- Over three years the benchmark was 6.5% p.a. Again equities were the main contributor, with UK bonds and property also contributing.
- The assumed strategic return for the Fund as a whole, weighted by the strategic benchmark allocation over the last three years, is 7.2% p.a. Hence the actual three-year benchmark return was 0.7% p.a. behind this. The contributors to this difference are shown in the right hand column above.
  - The 3 year benchmark for overseas equities (7.1% p.a.) and fund of hedge funds (-0.4% p.a.) are below their assumed strategic returns of 8.25% and 6.0% respectively. These were the main contributors to the Fund not meeting its assumed strategic return.
  - Positives were from UK bonds and index-linked gilts, which were ahead of the assumed strategic return over three years.

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 data points in sterling terms, to the end of March 2014 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as the end of March 2013, as shadow points.

3 Year Risk v 3 Year Return to 31 March 2014 and 31 March 2013



- Gilt returns have fallen from the earlier high returns that resulted from the "flight to quality" after the 2009 credit crisis. The three year return at the end of March 2014 remains higher than we would expect in the long run.
- Overseas bond returns have fallen due to a negative return in the last year, affected by rising yields within European bonds, and more recently by the view that the US Federal Reserve would start 'tapering' its Quantitative Easing.
- The three year emerging market equity return has fallen as the return over the last twelve months of -9.9% has replaced a return on 12.4% in the year to March 2011.
- Property returns have been improving over the last 12 months – this also explains the increase in the risk figure. The hedge fund index continues to produce steady returns, with very little change in the rolling 3 year return.
- In terms of risk, the three-year volatility for equities has reduced over the three year period, particularly due to lower experienced volatility over the past 12 months.
- The volatility of gilts has fallen as returns have been more consistent over the last year (albeit low/negative) compared to 2010-11, when monthly returns ranged from -3.7% (in Jan'11) to +8.4% (in Aug'10). Similarly, developed equities were more volatile in 2010 than in 2013.
- Factors contributing to volatility at the start of the period were the uncertainty over the European Sovereign Debt Crisis and the Japanese earthquake disaster in March 2011.
- Emerging market equity volatility remains high as there were significant negative returns towards the end of 2011, followed by a recovery at the start of 2012. Volatility at the start of the period was driven by the political uncertainty in the US and Europe, whereas more recent volatility has been driven by concerns over slowing emerging market growth, structural concerns and a return of capital to developed markets following the tapering of the US's quantitative easing programme.

Drivers of performance - market

Over the last year, market returns have been driven by increasing optimism over the developed market economic recovery. Positive economic news from the US, UK and, albeit to a lesser extent, Europe, has seen risk assets in general provide positive returns, particularly Developed market equities. Bond returns have been negative or subdued as the market brought forward its expectations of interest rate rises. Gilt yields continued to rise from their 2012 lows, which resulted in negative returns from UK government bonds.

Optimism over the developed market recovery saw (primarily retail) investors reallocate from emerging markets. This, along with concerns over slowing growth and economic structural headwinds in emerging markets, particularly China, saw negative equity return from emerging markets and Asia, in sharp contrast the to the developed market equity returns described above.

Developed Equities - UK

- The UK equity benchmark (FTSE All Share) was positive over the last year due to improved business confidence, earnings and falling employment.
- These factors also contributed to developed equities being the best performing asset class over three years, exceeding the assumed strategic return.

Developed Equities - overseas

- Over the last twelve months, overseas equity returns varied considerably by region. European and US equities produced double-digit returns of 15.7% and 11.3% respectively due to similar factors as in the UK. Negative returns came from Asia Pacific (-6.5%) and Japan (-1.6%), as economic growth in both regions was not as high as expected and there was a slowing commodity demand.
- The Far Eastern equity performance over the last twelve months contributed to the overall return from overseas equities (7.1%) being below the assumed strategic return (8.25%).

Emerging market equities

- Emerging market equities produced a significant negative return (-10.0%) over the last twelve months due to the sentiment from slowing growth and a weakening of domestic and export demand in China.
- Negative Emerging Market equity returns were also seen in 2011 when there was political uncertainty in the US and the US Federal Reserve implemented quantitative easing. Emerging market equity is the worst performing asset class in this report over three years, with a negative absolute return of -3.8% p.a.

Multi-asset/DGF

- Libor(and therefore LIBOR +4% p.a.) is currently at a historically low level, and behind the assumed strategic return.
- Note, however, that the impact of this is small as DGF only became part of the strategic benchmark in November 2013.

Bonds

- Gilt yields have risen over the last year, resulting in a negative return for UK Government Bonds (-3.1%). Spreads (yield relative to gilts) on corporate bonds fell, hence corporate bonds saw a small positive return (+1.5%).

- Over the longer three-year period, significant falls in gilt yields during the second half of 2011 resulted in high gilt returns (in the one year to March 2012, gilts returned 22.5%). This contributed to the three-year return being above the assumed strategic return.
- Overseas bonds performed relatively poorly over both the last year and the three year period as they were affected by rising yields, particularly in peripheral Europe.

Fund of Hedge Funds

- The majority of hedge fund strategies have performed reasonably well over the 12 month period, and since Q3 2012 returns have been steady at around 1% to 3% per quarter.
- Low short term interest rates have meant, though, that hedge funds have generally performed below the long term assumed strategic return.

Property

- Over the last year, both UK commercial property values and house prices have begun to rise, resulting in a one-year return well ahead of the assumed strategic return.
- Prior to this, over the last three years the majority of property returns came from rental income rather than capital appreciation.

5 Active investment manager contribution

Attribution – asset allocation and active management

The tables below attributes the difference between the achieved fund return and the benchmark return over the 1 and 3 year periods. Note that the manager-by-manager analysis that follows these tables includes only the current active managers and so the total contribution to performance shown in the later tables does not reconcile with the tables below because the managers that the Fund no longer holds, such as MAN, are not included. Additionally, WM compare all property elements against Schroder's benchmark for their attribution analysis in the tables below whereas later in the report we look at the individual fund benchmarks.

1 year attribution

Asset Class	Weight in Strategic Benchmark		Average overweight position*	Fund return	Index return	Asset allocation impact	Active mgm't impact
	Start	End					
UK Equities	18%	15%	+1.5%	12.2%	8.8%	0.1%	0.6%
Overseas Equities	42%	25%	+3.9%	7.2%	7.3%	0.2%	0.1%
Emerging Market Equities	-	10%	-0.3%	-10.1%	-10.0%	0.3%	0.0%
Diversified Growth Funds	-	10%	-0.2%	-	2.2%	0.2%	-0.2%
UK Government Bonds	6%	3%	-1.3%	-3.3%	-3.1%	0.1%	0.0%
UK Corporate Bonds	5%	8%	+0.6%	3.9%	1.5%	0.0%	0.2%
Index Linked Gilts	6%	6%	+0.2%	-4.5%	-4.4%	-0.1%	0.0%
Overseas Fixed Interest	3%	3%	-0.6%	-8.5%	-8.5%	0.1%	0.0%
Fund of Hedge Funds	10%	10%	-4.0%	2.6%	3.2%	0.0%	-0.1%
Property	10%	10%	-1.1%	9.4%	11.9%	0.1%	-0.4%
Cash	-	-	+1.2%	1.2%	-	0.0%	0.0%
Total Fund	**100%**	**100%**		**5.8%**	**4.5%**	**1.0%**	**0.3%**

Source: Data provided by WM Performance Services * Average of overweight position at the start and end of the period.

- Over the last year, if the Fund had been invested passively in line with strategic allocation, it would have returned 4.5% over last year.
- The actual fund return was 5.8% (ex currency hedging), outperforming the by benchmark 1.3% (absolute difference). This outperformance was attributed +1.0% due to asset allocation and +0.3% due to active management.
- **Asset allocation:** The Fund benefited from being overweight to developed equities and underweight to emerging market equities. An overall underweight position to bonds also contributed, as government and overseas bonds posted negative returns.
- **Active management:** The largest contributor in terms of active management was from UK equities, which added 0.6%.

3 Year attribution

Asset Class	Weight in Strategic Benchmark		Average overweight position*	Fund return	Index return	Asset allocation impact	Active mgm't impact
	Start	End		pa	pa	pa	pa
UK Equities	27%	15%	-0.4%	10.6%	8.8%	0.0%	0.3%
Overseas Equities	33%	25%	+4.5%	7.5%	7.1%	-0.1%	0.3%
Emerging Market Equities	-	10%	0.0%	-0.8%	-3.8%	0.1%	0.1%
Diversified Growth Funds	0%	10%	-0.2%	-	4.8%	0.0%	0.0%
UK Government Bonds	6%	3%	-0.1%	8.4%	8.7%	0.1%	0.0%
UK Corporate Bonds	5%	8%	+0.1%	9.2%	7.4%	0.0%	0.1%
Index Linked Gilts	6%	6%	-0.1%	8.9%	8.9%	0.0%	0.0%
Overseas Fixed Interest	3%	3%	-0.5%	0.3%	0.3%	0.0%	0.0%
Fund of Hedge Funds	10%	10%	-3.4%	0.8%	-0.4%	0.1%	0.1%
Property	10%	10%	-0.7%	6.9%	6.1%	0.1%	0.0%
Cash	0%	0%	+1.0%	0.9%	-	0.0%	0.0%
Total Fund	**100%**	**100%**		**7.8%**	**6.5%**	**0.5%**	**0.8%**

Source: Data provided by WM Performance Services * Average of overweight position at the start and end of the period

- Over three years, the Fund outperformed by 1.3% p.a. compared to had it been invested passively in line with strategic allocation. This outperformance was attributed +0.5% p.a. due to asset allocation and +1.0% p.a. due to active management.
- **Asset allocation:** The fund benefited from being underweight in hedge funds and property during a time when these asset classes experience low returns.
- The overall asset allocation impact is not as marked as over one year because there was less variation in the index returns between the different asset classes.
- **Active management:** UK and overseas equities were the main contributors to the outperformance due to active management. Each asset class made a small positive contribution apart from UK Government Bonds.

Developed Equities – UK

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
Jupiter FTSE All Share					
1 year	15.0	8.8	+5.7		+0.28
3 years	13.7	8.8	+4.5	+2.0	+0.22
TT International FTSE All Share					
1 year	13.9	8.8	+4.7		+0.26
3 years	11.9	8.8	+2.8	+3.0	+0.16
TOTAL					
1 year	**14.4**	**8.8**	**+5.2**		**+0.54**
3 years	**12.7**	**8.8**	**+3.6**	**+2.5**	**+0.38**

Source: Data provided by WM Performance Services, totals and contributions are JLT estimates

Returns

- Both UK equity managers have outperformed their benchmarks over both 1 and 3 years. This has contributed to 0.54% to the overall Fund return over the past 12 months, 50% of the total outperformance.
- Jupiter's industry allocation has continued to remain considerably different to the benchmark allocation (as expected given Socially Responsible Investing criteria used in the mandate), so the variability of relative returns (tracking error) is expected to be high.
- Nonetheless, Jupiter has also shown that its stock selection has added value and the fund manager continues to believe in his philosophy that seeking companies which contribute to or benefit from the trend toward environmentally and socially sustainable activity will lead to outperformance over the long term.
- TT's performance is slightly below their target over three years but this has improved over the year.

Market environment

- At the beginning of the three 3 period, equity markets were in a "risk on / risk off" phase, meaning that different equity stocks were rising and falling together without much distinction for the underlying fundamentals of one company over another. However, as the global economy has showed signs of recovery over the past 12 months, fundamentals have become the driver of changing equity prices once more, which is more conducive to outperformance for an active equity manager.
- This provides an environment over the past 12 months for good active management decisions to be rewarded and the strong performance from both managers is pleasing. This, as well as good performance over the more testing 3 year period has led to outperformance over 3 years also.

Investment activity

- No significant activity to note for the Fund's UK equity managers.

Developed Equities – Overseas

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
Invesco MSCI World ex UK NDR					
1 year	9.9	8.6	+1.2		+0.09
3 years	10.1	8.9	+1.1	+0.5	+0.08
SSgA Europe FTSE AW Europe ex UK					
1 year	19.4	17.2	+1.9		+0.02
3 years	7.8	6.3	+1.4	+0.5	+0.02
SSgA Pacific FTSE AW Dev Asia Pac					
1 year	-3.7	-4.1	+0.4		+0.01
3 years	4.2	3.3	+0.9	+0.5	+0.02
Schroder MSCI AC World Free					
1 year	7.4	6.7	+0.6		+0.04
Since inception	5.6	7.4	-1.7	+4.0	-0.11
TOTAL					
1 year	**8.0**	**7.0**	**+0.9**		**+0.16**
3 years	**7.5**	**7.5**	**+0.0**	**+1.8**	**+0.01**

Source: Data provided by WM Performance Services, totals and contributions are JLT estimates

Returns

- Both Invesco and SSgA enhanced indexation have outperformed their targets over 1 and 3 years.
- Overall, outperformance from the Fund's active overseas / global equity managers contributed just less than 0.2% to the overall Fund return over the year.
- Schroder's held companies in "later-cycle sectors", such as capital goods, which performed well. Financials stocks, such as insurance companies and US banks, also performed well.
- The Schroder Global Equity Portfolio has not yet been in place for three years but has underperformed its target over the period since inception, April 2011.

Market environment

- As with UK equities, the environment over the past 12 months has been more favourable for active management than compared to the 3 year period.
- Increasing sentiment in Europe and its peripheral countries has given opportunity for outperformance, which has been delivered by all funds.
- The Pacific region has suffered from negative sentiment over the past 12 months and the outflow of capital and has been a difficult environment in which to outperform.
- Over a period where there have been large differences in equity returns between regions, Schroder's unconstrained stock picking approach could have suffered due to country allocation. They have outperformed over 1 year but remain significantly behind their outperformance target, and they are behind both benchmark and target over the period since inception.

Investment activity

- In April 2014 it was announced that the Financial Conduct Authority fined Invesco £18.6m for breaches in their risk systems. The issue has not impacted the Fund's investment in the Global ex UK Enhanced Indexation Fund but a further update will be provided following meetings between JLT and Invesco later in the quarter.

- In January 2014, State Street were fined £22.9m by the FCA for overcharging six clients that used its transition management service between June 2010 and September 2011. We note that this was a different part of the business to their fund management and does not affect the funds.

- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds are at a size such that Avon's investment now represents almost all of the pooled fund holdings. However, the Panel has concluded that the funds could be sustained even if the Avon Pension Fund was the only investor.

- Over the year, the lead portfolio manager for the Schroder Global Equity Portfolio, Virginie Maisonneuve, left Schroder for another opportunity. The Avon Pensions Committee met with the new fund manager, Simon Webber (who had worked under Virginie on the portfolio), and were comfortable that no immediate action was necessary.

- In April 2014 Schroder announced the appointment of Alex Tedder as Head of Global Equity to replace some of the management responsibilities that Virginie Maisonneuve previously undertook. Such an appointment was consistent with the message Schroder provided following Virginie's departure.

- In May 2014 Schroder announced the promotion of Peter Harrison from Head of Equities to Head of Investment. The progress of Peter within Schroder is not a surprise, albeit this was not necessarily expected to occur imminently.

Emerging Market Equities

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
Genesis MSCI EM					
1 year	-8.5	-9.9	+1.6		+0.07
3 years	-0.5	-3.8	+3.4	0.0	+0.15
Unigestion MSCI EM					
1 year	n/a	n/a	n/a		n/a
3 years	n/a	n/a	n/a	0.0	n/a

Source: Data provided by WM Performance Services, contributions are JLT estimates

Returns

- Outperformance from Genesis contributed 0.1% to the overall Fund return over the past 12 months.
- The poor absolute performance is solely due to market impact as Genesis outperformed and met their objective. The Genesis fund is overweight to India and South Africa, while underweight to South Korea, Russia and China.
- The Fund doubled its exposure to emerging markets in January 2014 through a £165m allocation to Unigestion.

Market environment

- Negative sentiment towards emerging markets has led to negative returns over the 1 and 3 year periods and significant underperformance relative to developed market equities. This has also coincided with generally more volatility.
- Emerging market equities are expected to continue to be volatile, with events in Ukraine and slowing growth in China contributing to volatility. However, strong demographics, favourable debt levels (compared to many developed markets) and higher growth rates (albeit slower than previously) are key reasons the allocation is expected to outperform developed markets over the long term.
- The volatility within markets means that there is scope to outperform but, particularly over the short term, correctly identifying the macro factors that will affect individual companies' prospects is vital. Furthermore, whilst there may be opportunities from volatility, the stock price of companies with strong fundamentals may not outperform immediately.
- In this context, the consistent outperformance from Genesis is pleasing.
- Whilst the Unigestion investment has only recently been made, their investment approach is to take into account macro factors. However, in a strongly rising market they are likely to underperform and similarly protect value relative to the benchmark in negative markets.

Investment activity

- No significant activity to note for the Fund's emerging market equity managers.

Fund of Hedge Funds

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
Signet 3M LIBOR + 3%					
1 year	-1.5	3.5	-4.9		-0.10
3 years	0.2	3.7	-3.8	+3.0	-0.07
Stenham 3M LIBOR + 3%					
1 year	7.8	3.5	+4.2		+0.05
3 years	3.3	3.7	-0.3	+3.0	-0.00
Gottex 3M LIBOR + 3%					
1 year	5.4	3.5	+1.8		+0.03
3 years	2.7	3.7	-1.0	+3.0	-0.02
TOTAL					
1 year	**3.1**	**3.5**	**-0.3**		**-0.02**
3 years	**1.7**	**3.7**	**-2.0**	**+3.0**	**-0.10**

Source: Data provided by WM Performance Services, totals and contributions are JLT estimates

Returns

- In aggregate, the performance of the Fund's Fund of Hedge Fund managers is expected to have had a neutral contribution to the Fund's total return.
- Over the year, outperformance from Gottex and, in particular, Stenham, offset underperformance from Signet.

Market environment

- Strong equity returns have favoured long/short equity strategies (which generally have a long bias) as well as the return of company fundamentals as a key driver for equity returns.
- It is therefore not surprising to see Stenham outperform the other two managers given their respective mandates as Stenham focus on macro considerations whereas Signet focus on fixed income and Gottex on market neutral strategies. Nonetheless, Stenham correctly identified an opportunity to increase the level of risk within their portfolio.
- The majority of hedge fund strategies performed well over the 12 month period, thus outperformance would be expected.

Investment activity

- The Panel met Signet at the last meeting and discussed their joint venture with Morgan Creek Capital Management.
- In December 2013 Gottex announced a merger with EIM. The Panel met with Gottex to assess the potential impact of the proposed merger.
- Stenham appointed Damian Brannan to the role of Managing Director in July 2013 to help Stenham's business development and management.

Multi-asset and DGF

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
BlackRock (passive multi-asset) Customised					
1 year	5.3	4.8	+0.5		+0.15
3 years	8.8	8.7	+0.1	0.0	+0.03
Pyrford RPI + 5%					
1 year	n/a	n/a	n/a		n/a
3 years	n/a	n/a	n/a	0.0	n/a
Barings 3 Month Libor + 4%					
1 year	n/a	n/a	n/a		n/a
3 years	n/a	n/a	n/a	0.0	n/a

Source: Data provided by WM Performance Services, contributions are JLT estimates

Investment activity

- The passive multi asset (equity and bond) portfolio managed by Blackrock continues to perform as expected in line with the indices.
- The Pyrford and Barings investments were made in Q4 2013, and therefore have a limited impact on the overall 1 and 3 year Fund returns.
- Initial conclusions can be drawn in the 31 March 2015 annual review.

Bonds

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
RLAM iBoxx £ non-Gilts all mat					
1 year	4.0	1.5	+2.5		+0.18
3 years	9.3	7.3	+1.8	+0.8	+0.14

Source: Data provided by WM Performance Services

Returns

- Outperformance from Royal London has contributed 0.2% to the overall Fund return over the past 12 months.
- RLAM have maintained a consistent investment approach since appointment and the portfolio remains significantly underweight to AAA and to a lesser extent AA and A rated bonds.

Market environment

- Investor's appetite for yield has seen spreads (yield relative to gilts) on riskier, higher yielding assets fall.
- Thus outperformance would be expected given RLAM's investment approach.

Investment activity

- Royal London acquired the Co-operative Banking Group's Life Insurance and Asset Management businesses, comprising Co-operative Insurance Ltd and The Co-operative Asset Management.
- Additional investments with RLAM were made of £19m in August 2013 and £45m in October 2013 as part of strategic changes.

Property

Fund	Return (%pa)	Benchmark (%pa)	Relative (%pa)	Target (%pa)	Contribution to outperformance (%pa)
Schroder IPD UK pooled					
1 year	12.9	11.9	+0.9		+0.04
3 years	7.4	5.7	+1.6	+1.0	+0.07
Partners IPD Global pooled					
1 year	8.0	9.1	-1.0		-0.03
3 years	5.9	5.2	+0.7	0.0	+0.02
BlackRock Customised					
1 year	3.5	3.3	+0.2		0.00
3 years	7.5	7.5	0.0	0.0	0.00
TOTAL					
1 year	**9.7**	**9.6**	**+0.1**		**+0.01**
3 years	**6.9**	**5.8**	**+1.0**	**+0.5**	**+0.09**

Source: Data provided by WM Performance Services, totals and contributions are JLT estimates

Returns

- Over the year, outperformance from Schroder offset the underperformance from Partners such that, in aggregate, relative performance from the property managers did not contribute negatively or positively to performance.
- Schroder Property has benefited from exposure to central London offices. The Schroder property return has moved ahead of the assumed strategic return due to their outperformance.
- Partner's draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested. Their IRR since inception is 9.9%, in line with the mandate's expectations.
- The Blackrock portfolio refers to the monies held to invest in property. It is invested in equities, gilts and cash.

Market environment

- Increasing demand for commercial property from institutional investors within the UK provides opportunity for outperformance but it also provides challenges as high demand can make attractive opportunities scarce. Relative performance will have been driven by positioning over the long term.
- Partners performance over the shorter term can be impacted by the (re-)development stage of properties they purchase, the dilution effect of new monies coming into the funds and currency fluctuations. Therefore the focus should be on their longer term relative performance.

Investment activity

- No significant activity to note for the Fund's Property managers. Partners have continued their drawdown programme in line with expectations, whilst Schroder are now fully invested.

6 Record – Active Currency Hedging

The tables below show the assess performance of Record currency hedging over the one and three year period.

Performance (Total Hedging Portfolio)

	1 year (%)	3 years (% p.a.)
Record Hedge	2.7	n/a
50% Illustrative Hedge	4.6	n/a
Relative	-1.8	n/a

Currency Hedging 1 Year Performance in Sterling Terms

	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	552,310,659	438,127,692	-8.9	4.7	2.3	-6.6
EUR	202,454,635	195,291,888	-2.2	1.2	-0.3	-2.5
JPY	140,321,606	115,802,811	-16.8	9.4	9.2	-7.7
Total	**895,086,899**	**749,222,392**	**-8.6**	**4.6**	**2.7**	**-5.9**

Source: Record Currency Management. Note: Exposures are 1 month lagged. Returns are estimated by JLT.

Returns

- The total size of the mandate (i.e. the amount of foreign currency assets that are in the programme) has reduced over the year as global equities (as well as UK equities) were reduced to fund allocations to DGFs and Emerging market equities.
- Exposure to overseas currency, particularly the Yen and US$, has been a detractor over the 12 month period, detracting approximately -2.5% to the total Fund return (although this is shown within the overseas equity return).
- The strengthening of Sterling against the US dollar, Euro and Yen meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements. The impact of Record's currency hedging activity has added 0.8% to the total Fund return over the past 12 months.
- The combination of the currency effect (-2.5%) and the impact of Record (+0.8%) gives the overall impact of currency exposure, adjusted for Record's hedging, of -1.7%.

Market environment

- Whilst Record have underperformed a passive 50% hedge (an alternative to dynamic hedging), they have reduced the negative cashflows associated with currency hedging.
- Record's process performs best in environments where currency movements are trending, rather than when currency movements are largely "sideways". It is therefore expected that Record's Yen and US$ hedging added value whilst hedging of the Euro detracted slightly.

Appendix 1: 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	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	-
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%
Pyrford	DGF	RPI + 5%	-
Barings	DGF	3 Month Libor + 4%	-
Cash	Internally Managed	7 day LIBID	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1037-14

Meeting / Decision: Avon Pension Fund Committee
Date: 27 June 2014

Author: Matt Betts
Report Title: REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 March 2014) Exempt Appendix Title: Exempt Appendix 3 – Changes in RAG status of Managers

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

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

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

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

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

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

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

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

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

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Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

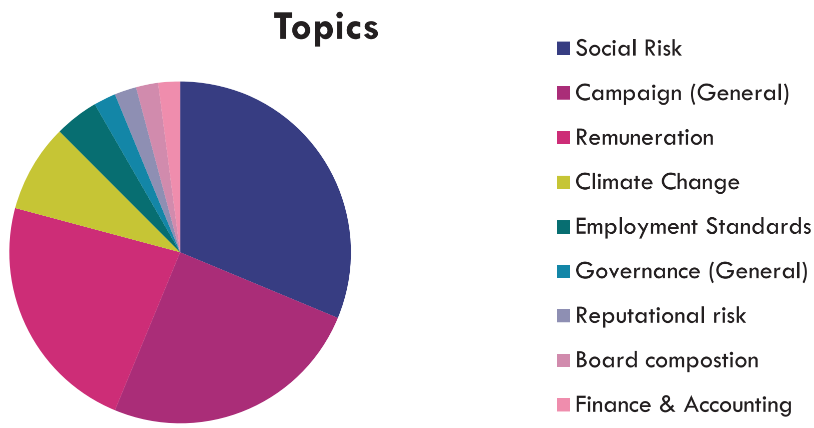
JANUARY TO MARCH 2014

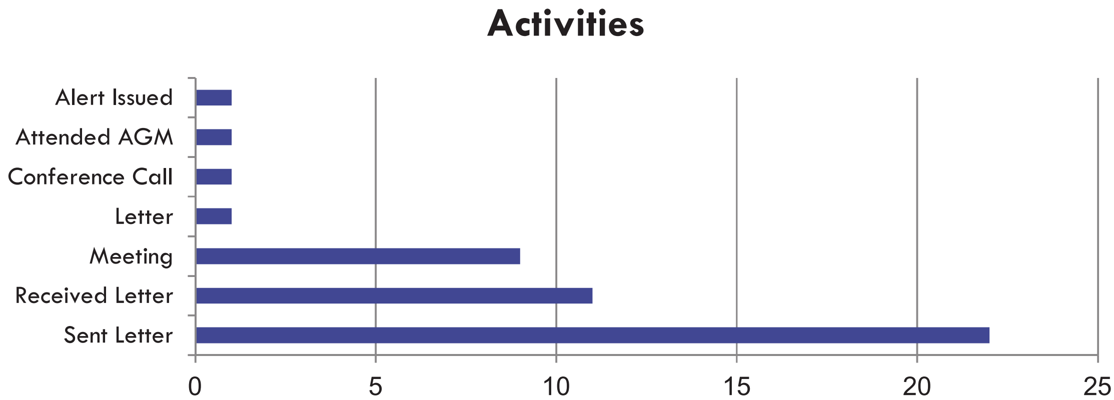
Local Authority Pension Fund Forum

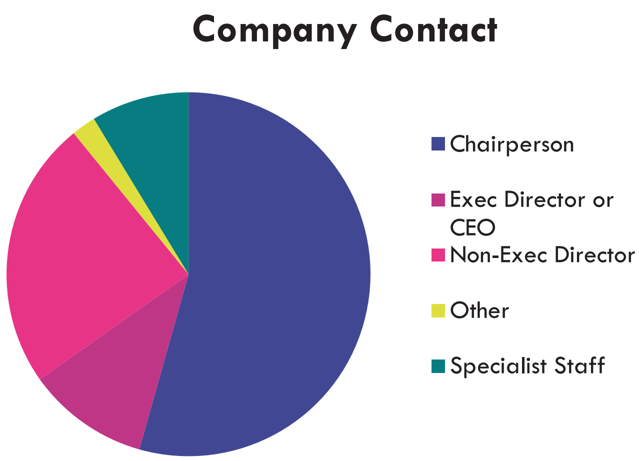
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £125 billion.

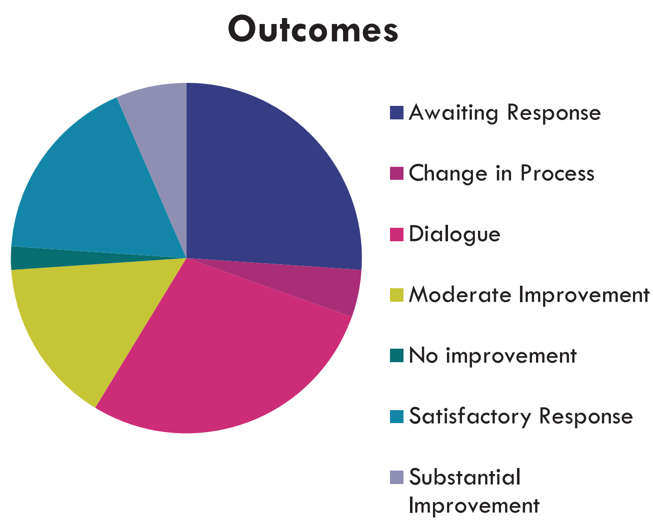
ENGAGEMENT SUMMARY

JANUARY TO MARCH 2014









ACHIEVEMENTS

- **UK Listing Authority** amends listing rules for independent directors in majority controlled companies to only be elected by non-majority members, in line with LAPFF position set out in its response to the 2012 consultation on the issue.
- Attended **Lonmin** AGM as part of ongoing engagement around labour relations, and pressed board members for more detail on the company's 'five-point plan'.
- Held meetings with **easyJet, G4S** and **Afren** remuneration committee chairs regarding pay complexity and overall pay awards. Met with **BT** to discuss the company's approach to remuneration.
- Following collaborative engagement on board diversity, **London Stock Exchange** appointed two women to the board.
- Met with the **Nestlé SA** chair, with **Roche Holding** and **Jardine Matheson,** prompted by the Forum's holdings-based approach. Pay was a central focus of these meetings.
- Supported **Wilmar** in its commitment to sustainable palm oil sourcing subsequent to collaborative letters to US companies on the sustainability of their supplies. **Kelloggs** also announced a policy for sourcing sustainable palm oil following engagement.
- Responded with the investor coalition to the second **FRC** consultation on Sharman and Going Concern, to support the original Sharman proposals, not the FRC amendments. Given the opposition the FRC is now going to have to consult for the third time.
- Provided a response to the **Law Commision** fiduciary duty consultation presenting a LGPS perspective on key issues of stewardship, short termism and beneficiaries' interests.

THE FORUM IN THE NEWS

LAPFF leads high profile demands to return to 'prudent' accounting regulations.
The Telegraph and again The Telegraph

UK pension funds weigh in on board re-election threat over female director targets
Responsible Investor

LAPFF challenges bus operator over human rights
Investment and Pensions Europe, Professional Pensions, Market Watch

Investors demand scalp of Barclays Bonus-setting chief
The Times, Bloomberg

Early blow for 'say on pay' guidelines
Financial Times

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The Forum has progressed its engagement on 'blacklisting' by writing to a further six construction companies supporting the development and implementation of a compensation scheme for any individuals affected by blacklisting. LAPFF requested that the companies work constructively with relevant trades unions and others representing the victims of blacklisting in order to ensure that the scheme is implemented quickly and in a way that is acceptable to those affected. Of the companies contacted, **Carillion, Amec** and **Costain** responded, giving further company specific information. Two companies expressed support for a code of conduct aimed at preventing any repetition of similar practices in future.

Together with some members of the Investor Group of the 30% club, LAPFF had written to a number of companies on board gender diversity in late 2013. A meeting had been set up with the chairman of the **London Stock Exchange** as it had no women on its board. However, shortly prior to the meeting, the company announced the appointment of Sherry Coutu and Joanna Shields to the board. This leaves Glencore Xstrata as the sole FTSE 100 company with no female board directors.

PROMOTING GOOD GOVERNANCE

Holdings Based Engagement

In line with an increasing focus on holdings based engagement, analysis was undertaken on governance and corporate responsibility concerns at those European and Asian companies most widely held by member funds. Letters were sent to six companies and meetings held with Roche Holding and Jardine Mattheson, and LAPFF attended a roundtable with the Nestle chairman.

All three meetings sought to establish a positive, ongoing dialogue and understand each company's approach to managing shareholder concerns over governance and company specific issues. Nestlé and Roche Holding are both Swiss companies, for whom the mandatory pay vote was a key concern and thus was a core component of discussion.

The conversation with **Roche Holding** was a first and explored the possibility of strengthening minority shareholder rights as descendants of the founding families own 45% of issued share cap and another Swiss pharma company owns a further one third of shares. On remuneration, further clarity was sought on clawback and introductory payments. LAPFF also sought a better understanding of the company's approach to patents and their application in developing countries.

The Forum previously met with **Nestlé** in 2011, to discuss a range of governance issues including compensation and succession planning. The meeting this quarter was in the form of a chairman's round-table. The chairman set the agenda around the new requirement for a binding vote on pay in Switzerland, the 'Minder' initiative. One concern raised was that the framework for informing variable pay is opaque and makes it difficult for investors to assess whether amounts paid were in line with performance expectations.

The meeting with **Jardine Mattheson** was a first for LAPFF. The Keswick family is a controlling shareholder of this Hong-Kong based conglomerate, with three family members holding board positions as chair, managing director and deputy managing director. LAPFF explored the importance of independent directors and the company's recent decision to withdraw from a premium listing in London.

Executive Pay

Meetings continued with companies to solicit feedback to LAPFF's Expectations for Executive Pay document. A meeting with Patricia Hewitt, the remuneration chair at **BT Group** was prompted by the LAPFF's positive viewing of the company's decision to reduce the short-term bonus opportunity for the Chief Executive of BT Retail. The company places greater emphasis on variable pay in relation to base pay than the Forum promotes. However, in doing so this does appear consistent with seeking to ensure widespread financial participation in the performance of the firm. The focus on variable pay also helps ensure that pay awards are felt to be fair throughout the Company.

Other company meetings aimed to focus on complexity in pay practices. In the Forum's view excessive complexity can confuse both executives and shareholders and obscure the relationship between executives' everyday actions and the expected outcome of better shareholder return.

easyJet had been identified as a company that had received significant dissent over its pay practices at its 2013 AGM and had been making its long-term incentive plan (LTIP) metric more complicated over time. The company regularly consulted with institutional shareholders and moved from a return on equity to a return on capital employed metric. After further consultation with shareholders, leases were then included in this measure. On further consultation a measure of relative total shareholder return was added. It was clear that the company had been proactively consulting with its institutional investors to ensure pay practices were in line with their expectations. Prior to the 2014 AGM, the Forum issued a voting alert recommending members approve the remuneration report.

The Forum also had discussions over remuneration disclosure with **G4S** in particular for the 2012 period. The company clarified that the only long-term award that accrued for that period was under the TSR metric and that disclosure could be clearer as regarded adjustments to incentive scheme metrics in future. G4S recognises the down-side of complexity in remuneration scheme metrics but they have to balance this against the benefits of aligning the scheme with the company's strategic objectives.

As a company that only listed in 2005, **Afren** has grown rapidly and entered the FTSE 250 in 2010. LAPFF has met with company representatives several times since 2011 to discuss its remuneration practices. The company has had high oppose votes in four of the last five years including its pay vote being defeated at the 2013 AGM. A major issue previously had been the ability to award special bonuses and this provision has been removed. At a follow-up meeting, the chair of the remuneration committee was pressed on further measures to ensure that shareholders will view remuneration arrangements as appropriate in the binding vote on pay at the 2014 AGM.

Reliable Accounts

LAPFF had, under the former LAPFF Chair, met with Baroness Hogg Chair of the Financial Reporting Council (FRC) regarding problems with International Financial Reporting Standards (IFRS) and the implications for the accounts (and the audits of banks). The FRC public position remained positive towards IFRS despites strong criticism in the UK and EU Parliaments.

LAPFF also engaged with Sir Win Bischoff (outgoing chair of Lloyds Banking Group) who had been publicly critical of IFRS. Sir Win is now the incoming chair of the FRC from 1 May 2014 which LAPFF supports. (LAPFF with the investor coalition had written to Vince Cable with the view that the new FRC Chair should not be from one of the Big 4 accounting firms).

An Evening Standard article dated 28 February 2014 is an interview with the outgoing Baroness Hogg. The headline is "the numbers must add up next time, warns the Footsie's first lady". In it she also expresses concern about the effectiveness of bank auditors and the delay in the FRC investigating accounting/audit failures.

MANAGING ENVIRONMENTAL RISK

Palm oil

Following its engagement with a number of US companies on sustainable palm oil, LAPFF signed an investor statement of support for **Wilmar**'s recently announced commitment to eliminate deforestation, peatland development and human rights violations from its palm oil supply chain. Wilmar is the world's largest palm oil trader, controlling 45% of the global palm oil trade and the aim of the statement was to ensure that the company was appropriately recognised for their groundbreaking commitment.

Wilmar and Kelloggs commit to eliminate deforestation from their palm oil supply chains

The Forum had already written to **Kelloggs** on this same concern, in collaboration with other investors in late 2013. In February, Kellogg's announced a policy to only purchase sustainable palm oil with a target of end 2015 for compliance.

Energy and Environmental Risk

Continuing its engagement with listed companies on 'fracking' activities, LAPFF is participating in a collaborative initiative coordinated through the PRI with a number of asset managers and asset owners. The Forum has co-signed letters to six companies in the oil and gas sector requesting meetings aimed at ensuring a proper understanding of the risks involved and to encourage best practice to minimise these risks.

TARGETING SOCIAL ISSUES

Employment Standards

Following correspondence in late 2013 with **Lonmin** regarding media coverage of actions during the 2012 Marikana mine incident, LAPFF attended the company's AGM for the second year running in January. Over the year, there have been a number of board changes, including the appointment of the new chief executive, Ben Megara.

The Chair and Chief executive gave useful updates on progress on the company's 'five-point plan' and wider initiatives. The company has recovered well from the impact of the previous wildcat strike, but is now being badly hit by the recently started protected strike by the Association of Mineworkers and Construction Union (AMCU). Cllr Brayshaw pressed for as much detail as possible on plan projects, timescales and metrics, in particular on reforming shift patterns, housing provision, on the local/migrant labour balance and on other points in the plan. He indicated LAPFF would continue positive dialogue with on overall progress at its various South African operations.

Further changes have emerged at **Deutsche Post** following engagement by LAPFF, unions and other investors. These have been negotiated through a settlement mediated by the German National Contact Point for the OECD Guidelines for Multinational Enterprises and include assessments of industrial relations with affiliate unions in India and Columbia.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

LAPFF remains closely involved in shaping the debate around the proposed restructuring of the Local Government Pension Scheme. The LAPFF chair and vice-chair are active members of the **LGPS Advisory Board Investment and Engagement Subcommittee**. The Forum submitted a report to the Subcommittee on 'Local Authority Pension Funds and Active Stewardship' setting out how LAPFF operates to bring together funds to engage collectively and effectively.

LAPFF has been concerned about the governance of both the process of setting accounting standards and of the Financial Reporting Council. One aspect of concern is the dominant representation of the Big 4 Accounting firms, their immediate alumni, investment banking interest and sell-side analysts. LAPFF and the investor coalition have not engaged directly with the IASB because of these governance concerns, instead have engaged with accountable parties aiming to make the IASB accountable.

During January and February, the Economic Affairs Committee of the EU Parliament followed up on Daily Telegraph reports of serious compliance issues with the IASB being up to seven years in arrears with Companies House filings. The matter has been pursued by a cross party coalition of MEPs including UK Lib Dem Sharon Bowles MEP and UK Conservative leader Syed Kamall MEP, plus the Greens and Socialists. The IASB issued a public rebuttal which was then proven wrong.

CONSULTATION RESPONSES

In response to a request from the Department for Business, Innovation & Skills (BIS) and the Department for Work and Pensions (DWP) the **Law Commission** issued a consultation on how fiduciary duties currently apply to those working in financial markets. This asked questions to flesh out views on how far pension duties require trustees to maximise financial return over a short time scale, and how far trustees can consider other factors, such as environmental and social impact. LAPFF's response presented a LGPS perspective on key issues of stewardship, short termism and beneficiaries' interests.

A response was also provided to the **Financial Reporting Council's (FRC)** second consultation on Risk management, Internal Control and the Going Concern Basis of Accounting. In its response, LAPFF strongly supported the original Sharman proposals not the amendments proposed by the FRC, pointing out that recent FRC statements on the quality of audits at UK banks would suggest that directors and auditors should be undertaking their basic task properly as opposed to reviewing a list of generalised risks. The FRC is now in a position of having to re-consult, i.e. for a third time.

All LAPFF consultation responses can be viewed 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 attended is as follows:

- **ICGN - PRI meeting** – board composition and director elections
- **PRI Fixed Income Event** – hosted by AXA Investment Managers
- **Centre for the Study of Financial Innovation** – round table on carbon bonds

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration	Moderate Improvement
AIA Group	Holdings Based Engagement	Awaiting Response
Amec	Blacklisting	Satisfactory Response
Balfour Beatty	Blacklisting	Awaiting Response
BT Group	Remuneration	Satisfactory Response
Carillion	Blacklisting	Dialogue
Costain	Blacklisting	Satisfactory Response
Deutsche Post	Social Risk	Substantial Improvement
easyJet	Remuneration	Moderate Improvement
Essar Energy	Governance (delisting)	Awaiting Response
ExxonMobil	Climate Change	Change in Process
G4S	Remuneration	Dialogue
Golden Agri	Sustainable Palm Oil	Dialogue
Hormel Foods	Sustainable Palm Oil	Satisfactory Response
Jardine Matheson	Holdings Based Engagement	Dialogue
London Stock Exchange	Board composition	Substantial Improvement
Lonmin	Employment Standards, Social	Change in Process
N Brown	Social Risk	Satisfactory Response
Nestle	Holdings Based Engagement	Dialogue
Novartis	Holdings Based Engagement	Dialogue
Roche Holding AG	Holdings Based Engagement	Dialogue
RSA	Finance & Accounting	Awaiting Response
Samsung	Holdings Based Engagement	Awaiting Response
Skanska AB	Blacklisting	Awaiting Response
Svenska Handelsbank	Remuneration	Awaiting Response
Trinity Mirror	Reputational risk, Social Risk	Dialogue
Vinci	Social Risk	Dialogue

Companies LAPFF has not previously engaged with individually are indicated in bold. ‘Awaiting response’ indicates a letter was sent during the period but a written response was not received.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £125 billion.

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

PIRC

www.lapfforum.org

Aberdeen City Council
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
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Hampshire Pension Fund
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
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 ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

This statement sets out the principles that will guide the Avon Pension Fund Committee ("the Committee") when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets and is consistent with the Fund specific funding strategy as set out in the Funding Strategy Statement.

The Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 ("the regulations") require the Avon Pension Fund ("the Fund") to prepare, publish and maintain a statement of the principles governing its investment of the Fund's monies. As required by the regulations, the Committee will review this statement periodically to ensure it is consistent with the Fund's funding strategy.

This statement is required to cover the following:

- Types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of voting rights (if there is any such policy)
- Stock lending
- Statement of compliance with the Myners Principles

1 Investment Objective

The investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long term as well as reflect the balance between maximising returns consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a longer term strategy.

Implementation: The Fund has a strategic benchmark which reflects the Fund's liability profile. The expected return of the current strategy is equivalent to 2.8% p.a. over the expected return on long dated gilts and the expected volatility of the returns relative to liabilities is 10.0% p.a. (source: JLT). This investment objective is consistent with the investment return assumptions in the funding strategy used in the actuarial valuation.

2 Types of Investment Held

The Fund may invest in any type of investment permitted under the regulations. Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

Implementation: The Fund invests in equities (both UK and overseas), diversified growth funds, index-linked and fixed interest stocks, Fund of Hedge Funds and property funds. The strategic benchmark includes an allocation to infrastructure which has yet to be invested. Some of these investments are in segregated portfolios but the majority are in pooled funds. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

3 Asset Allocation and Expected Long Term Returns on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the longer-term it provides a framework within which de-risking strategies could be implemented.

For each portfolio managed on an active basis, the manager has an outperformance target which means that the Fund should outperform its strategic benchmark, everything else being equal. The outperformance target will reflect the level of risk and approach to investing taken by each active manager. The strategic benchmark does not assume any outperformance from the investment managers.

Implementation: The strategic asset allocation along with assumptions for expected return and volatility for each asset class is set out in the table below. This strategy was agreed in 2013 and will be implemented during 2013 and 2014.

Asset Class	% of Fund	Range	Expected return*	Expected Volatility
Growth assets	**80%**	**65 -85%**		
Equities	*50%*	*45 - 55%*		
Developed	*40%*	*35 - 45%*	*+3.75%*	*15 - 20%*
Emerging	*10%*	*5 - 15%*	*+4.25%*	*15 - 25%*
Diversified Growth Funds	*10%*	*5 - 15%*	*+3.75%*	*10 - 15%*
Illiquid Growth	*20%*	*15 - 25%*		
Hedge Funds	*5%*	*0 - 7.5%*	*+1.5%*	*6 - 15%*
Property	*10%*	*5 - 15 %*	*+2.5%*	*5 - 10%*
Infrastructure	*5%*	*0 - 7.5%*	*+2.5%*	*5 - 10%*

Other Growth	*0%*	*0 - 5%*	*+2.5%*	
Stabilising Assets	**20%**	**15 - 35%**		
Government Bonds	*3%*	*0 - 10%*	*0%*	*5 - 10%*
Index linked bonds	*6%*	*3 - 10%*	*-0.25%*	*5 - 10%*
Corporate Bonds	*8%*	*4 - 20%*	*+1.0%*	*5 - 10%*
Other Bonds	*3%*	*0 - 5%*	*+1.0%*	*5 - 10%*
Cash	**0%**	**0 - 5%**		

** Expected return is expressed as an excess return over UK gilt yields or the "premium over gilts" to reflect the extra risk being taken. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.*

The inclusion of diversified growth funds (DGFs), property and hedge funds in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. The reduction in volatility results from these assets and investment approaches having a lower correlation to both bond and equity returns over the long term. In addition the Fund expects to benefit from the "illiquidity premium" from investing in property and infrastructure, and to a lesser extent, hedge funds.

The Fund takes an active approach to hedging its US dollar, Yen and Euro developed market equity exposure. This is managed on a segregated basis. Foreign currency exposure is expected to be an unrewarded risk over the longer term, thus the currency hedging is to protect the sterling value of the hedged portfolios and to reduce the volatility that arises from currency. The active approach attempts to reduce the cash outflows associated with currency hedging during times of sterling weakening, by reducing the hedge when sterling weakens.

A dynamic rebalancing policy is triggered when the proportions invested in bonds and liquid growth assets (equities and DGFs) deviates by more than permitted. The rebalancing policy will ensure that the allocations remain within the strategic ranges.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The cash held internally is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

The strategic policy and the medium term performance of the managers are monitored at quarterly Panel and Committee meetings.

4 The balance between different types of investment and the Investment Management Structure

The Fund will at all times invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing. Whilst the Fund experiences a deficit in its funding position, there will be a significant allocation to "return generating" assets such as equities and diversified growth funds. The equity portfolio will be diversified by manager, geography and investment style.

The Fund will invest via segregated and pooled portfolios based on the appropriateness for each portfolio (namely, cost, liquidity, impact on voting rights, flexibility and speed of implementation). The Fund will invest across a combination of passive, enhanced indexation, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Implementation: A significant proportion of the Fund is invested in passive mandates (across equity and bonds markets only) which rely solely on market returns to generate the investment return. The rest of the Fund is invested in active mandates (across equities, bonds, DGFs, hedge funds, and property) where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent.

Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner. These are suitable for equity and bond portfolios managed on a pooled or segregated basis. An "enhanced indexation" approach to managing equity portfolios aim to provide an incrementally higher return than the index but at a low risk relative to the index. This approach utilises quantitative models to generate portfolios. Active managers seek to outperform the index or benchmark through the selection of the underlying investments. Such portfolios are usually more concentrated and can be more or less volatile than the index/benchmark depending on the investment approach. Within the Fund, the active equity mandates tend to be more volatile than the index whereas the DGFs target a lower volatility through active management.

Each mandate has a portfolio specific outperformance and risk target. Absolute return portfolios seek to provide a positive return in all market environments. These managers use a wide range of investment techniques to generate returns. An active currency hedging mandate aims to manage the currency exposure so that the Fund benefits from favourable foreign currency movements but that adverse movements (i.e. when sterling strengthens) are hedged against.

The investment structure is detailed in the table below. As the Fund is transitioning to the strategic benchmark set out in 3 above the allocations per manager will not be consistent with the strategic benchmark allocations and will exceed 100% as new mandates yet to be awarded are included:

Manager	***Mandate***	***Performance Objective***	***% of Fund***	***Inception date***
BlackRock	*Passive multi-asset*	*In line with customised benchmark*	*32%*	*01/04/03*
Jupiter Asset Management	*UK Equities (Socially Responsible Investing active)*	*FTSE All Share +2% p.a.*	*5%*	*01/04/01*
TT International	*UK Equities (unconstrained active)*	*FTSE All Share +3-4% p.a.*	*5%*	*11/07/07*
Invesco Perpetual	*Global ex-UK Equities (Enhanced Indexation)*	*MSCI Global ex-UK Index +0.5% p.a.*	*6.5%*	*19/12/06*
State Street Global Advisors	*Europe ex-UK Equities (Enhanced Indexation)*	*FTSE World Europe ex-UK Index +0.5% p.a.*	*3.5%*	*14/12/06*
State Street Global	*Pacific inc. Japan Equities*	*FTSE Developed Asia*		*14/12/06*

Advisors	*(Enhanced Indexation)*	*Pacific Index +0.5% p.a.*		
Schroders Investment Management	*Global Equities (unconstrained active)*	*MSCI All World Index +2-4%*	*6%*	*01/04/11*
Genesis Investment Management	*Emerging Market Equities (unconstrained active)*	*MSCI Emerging Markets Index*	*5%*	*13/12/06*
Unigestion	*Emerging Market Equities (active)*	*MSCI Emerging Markets Index + 2% p.a.*	*5%*	*21/01/2014*
Baring Asset Management	*Diversified Growth Funds (active)*	*LIBOR + 4% p.a.*	*6.7%*	*12/11/2013*
Pyrford International	*Diversified Growth Funds (active)*	*RPI + 5% p.a.*	*3.3%*	*14/11/2013*
Royal London Asset Management (RLAM)	*UK Corporate Bond Fund (active)*	*iBoxx £ non-Gilt Index +0.8% p.a.*	*5%*	*11/07/07*
Gottex Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*2.5%*	*01/08/07*
Signet Capital Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*3%*	*01/08/07*
Stenham Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*1.5%*	*01/08/07*
Schroders Investment Management	*UK Property (active)*	*IPD UK Pooled Property Fund Index +1% p.a.*	*5%*	*01/02/09*
Partners Group	*Overseas Property (active)*	*IPD Global Property Index +2% p.a.*	*5%*	*18/09/09*
Record Currency Management	*Currency hedge (US$, Yen and Euro equity exposure)*	*N / A*	*n/a*	*26/07/11*
Current Structure			**100%**	
New mandates				
New Mandate	*Infrastructure*	*To be agreed*	*5%*	*To be appointed*

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

5 Risk

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is partially offset through diversification.

Investment by its very nature is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in the section "Responsible Investment Policy".

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. An independent custodian safe keeps the assets on behalf of the Fund.

Implementation: Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit (and counterparty) risk arises in the bond portfolios, the currency hedging programme, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

The currency hedge manages the unrewarded risk that arises from the foreign currency exposure. Adverse movements in the currency that overseas assets are denominated in will reduce the value of those assets when translated into sterling.

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds and infrastructure.

Risk and return of the overall Fund and the individual portfolios is monitored closely to ensure the managers are investing in line with their expected long term risk return parameters and that the Fund overall is achieving its investment objectives.

The investment strategy provides some protection against the liability risks, mainly interest rates and inflation. The gilt, corporate bond and other bonds (14% of the Fund) provides an interest rate hedge. Infrastructure could also provide some interest rate protection depending on the structure of the mandate. Index Linked bonds provide a direct hedge against inflation and changes to inflation expectations whilst property and infrastructure, and to a lesser extent, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

6 Regulatory Investment Limits

The regulations impose certain “prudential” limits on the way in which the Fund’s assets can be invested. In principle these are designed to ensure diversification and reduce risk. For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of prudential limits. The first tier is the “normal” limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

Implementation: Currently all the “normal” prudential investment limits apply to the Fund, except for the following:

- *Investments in Life Funds - following a Committee resolution in March 2006, this has been increased to the maximum limit of 35% to accommodate the life fund investments managed by Blackrock.*

- *Investments in single partnerships - following a Committee resolution in December 2008, this has been increased to the maximum limit of 5% to accommodate the property investments managed by Partners.*

7 Realisation of Investments

The Fund must be able to realise its investments within a reasonable period appropriate for its cash flow and maturity profile. Therefore the investment strategy must reflect the need to realise assets or use of investment income to meet projected cash flow requirements.

Implementation: The Fund's investment policy is structured so that the majority of its investments (70% in quoted equities and bonds, 10% in DGFs) which it holds can, except in the most extreme market conditions, be readily realised. However, the growth in indirect investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Property and infrastructure are long term investments which the Fund will not be able to realise in a short period. "Lock-up" periods are normal practice in Fund of Hedge Funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realised. However, the Fund has sought to minimise the length of these "lock-up" periods when selecting managers and investment vehicles.

The Fund is transitioning to a more mature membership profile as the monthly payment of pensions is no longer met by pension contributions, thus there is a need to realise assets or utilise investment income on an on-going basis within the investment strategy. Based on projected cash flow, investment income from the segregated portfolios will be used to meet any shortfall in cash inflows prior to divesting of assets.

8 Responsible Investing Policy

The Avon Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee has a Responsible Investing Policy that sets out the framework for considering such issues throughout the investment decision-making process.

Implementation: The Committee approved its Responsible Investing Policy in June 2012. The full policy can be accessed via www.avon.avonpensionfund.org.uk.

The policy includes:

- *analysis of the impact of RI issues on each asset class as part of strategic reviews*
- *evaluation of an investment manager's approach for assessing RI risks within their investment process in mandate tenders*
- *monitoring of the decisions by its investment managers regarding RI issues that have a material financial impact on the Fund*
- *voting and engagement policy*
- *participation in collaborative groups to influence corporate behaviour*

Although the investment structure means that some parts of the policy are more relevant to some mandates than others, the strategic aspects will apply across the entire Fund.

The managers of actively managed portfolios have provided a statement setting out the extent to which they take social, environmental and ethical considerations into account in their investment processes, which are included as Appendices to this Statement.

The Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, Jupiter manages a UK equity portfolio in accordance with Socially Responsible Investment (SRI) criteria (within this context SRI means investing in companies which contribute to, or benefit from, more environmentally and socially sustainable economic activity), justified by the argument that superior performance could be achieved over time from a portfolio constructed on this basis. Given the mandate objective, this SRI portfolio has a bias towards mid-sized / smaller companies and this, together with the concentrated nature of the portfolio, means that the volatility of investment returns is high. The portfolio includes companies providing products/services which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

At the strategic level, a manager's approach to identifying and managing SRI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund has adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies. The aim is to improve long-term returns to shareholders and by setting out good practice on engagement with investee companies, improve governance standards. The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code. As a result, each of the investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers, the monitoring of its voting activity by an independent 3rd party and through membership of the Local Authority Pension Fund Forum, a collaborative body seeking to promote best practice in corporate governance.

9 Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

Implementation: The Fund requires its managers to vote their UK company shares in line with their internal voting policy. The Fund has appointed an independent proxy voting agent to monitor the voting activity of the managers which will be reported to the Committee at least annually. The Fund will also publish an annual summary of its voting activity and trends (provided by the proxy voting agent).

For overseas markets voting is left to the discretion of the managers but they are encouraged to exercise voting rights where practical.

10 Stock Lending

The Fund allows stock held by the Fund to be lent out to market participants.

Implementation: The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund's custodian acts as the Fund's lending agent and the Fund receives income from the lending activities. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason.

The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

11 Myners Principles

The Myners Principles sets out a code of best practice in pension fund governance, investment decision making and disclosure. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

Implementation: The Fund fully complies with the principles. Appendix 6 sets out the Fund's compliance.

To be approved by Avon Pension Fund Committee on 27 June 2014

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**27 JUNE 2014**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR FULL YEAR TO 31 MARCH 2014;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 30 April 2014;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 30 April 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1	Summary Financial Accounts: Full year to 31 March 2014
Appendix 2	Summary Budget Variances: Full year to 31 March 2014
Appendix 3A	Balanced Scorecard : 3 months to 30 April 2014 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 30 April 2014 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5	Active membership statistics over 37 months to 30 April 2014
Appendix 6	Joiners & Leavers statistics over 12 months to 30 April 2014
Appendix 7	Summary Performance Report on Scheme Employers/APF performance for the period to 31 January 2014 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferred cases*
Appendix 8	New LGPS 2014 Engagement Activity
Appendix 9	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 12 months to 31 March 2014. 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 30 April 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 January 2014 as well as the Risk Register. In addition, this report also includes a summary of engagement activity with stakeholders on the communication of the New LGPSA 2014.

2 RECOMMENDATION

That the Committee notes:

2.2 Administration and management expenditure incurred for 12 months to 31 March 2014

2.3 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 April 2014

2.4 Summary Performance Report for period from 1 April 2011 to 30 April 2014, 2.5 Member roadshow events and employer training sessions undertaken to communicate the New LGPS 2014, including sample customer feedback.

2.6 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 12 months to 31 March 2014 are contained in **Appendix 1.**

4.2 The Net Expenditure to 31 March 2014 was £1,542,000 under budget. Within the directly controlled Administration budget expenditure was £347,000 below budget. This was mainly because a contingency for investment advice was not required, the production of the new scheme guide was postponed pending delayed Government announcements, and the annual Employer Conference was re-scheduled to September 2014. Additionally, there were late appointments of staff in the Benefits and Data Quality teams. In that part of the budget that is not directly controlled expenditure was £1,195,000 below the original budget. This was due to the appointment of new investment managers later than assumed when the budget was set.

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

5 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 30 April 2014

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 C4 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 6670 new cases were received and 6463 were cleared representing 96.9% of outstanding cases. This shows a slight decrease in performance over the previous quarter (103.77%) however the number of new cases received represented an increase in workload of 48% (previous quarter 4505 cases).

6.2 Graph 4 shows an increase in the number of workable cases at the end of the reporting period. Contributory factors to these increases can be attributed to the number of member enquiries generated by the introduction of the New LGPS 2014 and the ongoing Bristol CC severance exercise. The total for the 12 months to 30 April 2014 shows 20658 new cases being received and 208924 cleared representing 101.13% of outstanding cases over the year.

6.3 Other areas shown in selected **Graphs** the Fund:

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

6.5 **CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 October 2013**

6.5.1 ***Retirement Questionnaires***

Appendix 4 reports on the customer satisfaction based on 106 questionnaires returned from members retiring from both active and deferred status (out of a total of 299 questionnaires issued in respect of the reporting period). 99% reported that the information provided by the Fund was both clear and concise with 99% rating the service as good or excellent.

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 indicate that 0.19% of active membership with more than 3 months service opted out over the period to 30 April 2014.

7.3 The additional introduction of an alternative 50/50 scheme will also give members a cheaper option for '*when times are tough*'. This bodes 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. A report will also be developed to report to the committee on the number of members electing for the 50/50 scheme.

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 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 60 months period from 1 May 2009 to 30 April 2014 are shown in a graph format in **Appendix 5**.

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 AVON PENSION FUND & EMPLOYER PERFORMANCE

9.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is now sent monthly to each of the four unitary authorities to report on their own and APF's administration performance against agreed targets set in the SLA.

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 30 April 2014 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 30 April 2014.
- Report on any late pension contributions by employers to the Fund due for the 3 months to 30 April 2014.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 The Fund is continuing to progress towards electronic receipt of all member data change information:

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 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 30 April 2014 58% of employers had received full training on ESS data submission – representing 72% of total scheme membership.

10.3 ***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. Bristol City Council, B&NES and North Somerset are all live users of the product.

10.4 Considerable work has been undertaken by APF to ensure that the i-Connect product is fit for purpose. With technical changes brought about by the introduction of New LGPS 2014 and on-going work required to resolve historic issues with employer data extracts a temporary project team has been set up to work with both employers and the soft-ware provider to ensure a robust process and set of procedures is signed off and operational. An audit of the i-Connect process is planned for July 2014.

10.5 South Gloucestershire Council: has requested deferment on going live on i-Connect pending revised extract specification requirements needed to incorporate the new LGPS 2014. Following testing, It is expected that the service will go live in the near future.

10.6 **LGPS 2014 Engagement Activity**

- **Member Roadshow Events**: Avon Pension Fund is visiting employers to deliver a one hour presentation (including a question & answer session) to members about the new LGPS 2014. Member Self Service (MSS) is also promoted. These events have been advertised and booked online via the

APF employers' website. Roadshow events commenced in February and will continue until mid-July. A summary of the impact on APF available staff resource during this time is reported in **Appendix 8**.

- Employer Training Events: A series of training sessions specifically aimed at employer HR and Payroll staff have been arranged. Six sessions have so far taken place, with 71 employer organisations attending. One session was specifically targeted at academies (22 academies attended) and another aimed at town and parish councils.
- A series of workshops have also been arranged for employers. An LGPS Discretions Policy workshop, with a representative from the Pensions Ombudsman Office, took place in February with over 50 employers in attendance. Feedback was extremely positive and a further 3 employer framework events were held in April to cover employer discretionary policies and ill-health requirements were held in April attracting 45 employer representatives.

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 9.**

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 RISK MANAGEMENT

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

13 EQUALITIES

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

14 CONSULTATION

14.1 None appropriate.

15 ISSUES TO CONSIDER IN REACHING THE DECISION

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

16 ADVICE SOUGHT

16.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - 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

	FULL YEAR 2013/14		
	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	71,483	67,241	(4,242)
Administration Costs	76,944	91,422	14,478
Communication Costs	90,133	22,628	(67,505)
Payroll Communication Costs	81,716	74,802	(6,914)
Information Systems	246,211	230,571	(15,640)
Salaries	1,476,511	1,457,679	(18,832)
Central Allocated Costs	425,851	412,470	(13,381)
Miscellaneous Recoveries/Income	(134,328)	(193,182)	(58,854)
Total Administration	**2,334,521**	**2,163,631**	**(170,890)**
Governance & Compliance			
Investment Governance & Member Training	327,755	156,680	(171,075)
Members' Allowances	39,105	37,238	(1,867)
Independent Members' Costs	28,000	26,846	(1,154)
Compliance Costs	471,127	526,241	55,114
Compliance Costs recharged	(191,000)	(248,359)	(57,359)
Total Governance & Compliance	**674,987**	**498,646**	**(176,341)**
Directly Controlled Expenditure & Income	**3,009,508**	**2,662,277**	**(347,231)**
Investment Fees (subject to markets)			
Global Custodian Fees	129,400	93,517	(35,883)
Investment Manager Fees	12,525,500	11,365,904	(1,159,596)
Total Investment Fees	**12,654,900**	**11,459,420**	**(1,195,480)**
NET TOTAL COSTS	**15,664,408**	**14,121,697**	**(1,542,710)**

APPENDIX 2

Summary of main budget variances for full year to 31 March 2014

Variances Analysis of full year budget against actual expenditure / income at year end.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Communication Costs	(67,500)	Production of 2014 new scheme leaflet postponed until 2014/15 due to delays in government announcements regarding details of the scheme. Savings in postage were achieved by combining the distribution of the newsletter with the sending out of payslips.
Salaries	(19,000)	Reduced expenditure following delayed appointments of staff to Benefits and Data Quality sections. Positions are now filled.
Information Systems	(15,500)	The replacement of a server has been avoided by the use of extended maintenance.
Central Allocated Costs and other minor variances.	(10,000)	The budget included £10,000 for an Employer's data base. This has not yet been developed. It is proposed that the 2014/15 budget will include a provision for this.
Miscellaneous recoveries	(59,000)	There has been an increase in the number of Pension Sharing cases, the costs of which are recharged.
Administration	**(171,000)**	
Investment Governance & Member Training etc.	(174,000)	The budget for investment advice included a contingency for new mandate searches and further projects arising from the investment review some of which was not used. Some of the projects have been delayed and are included in the 2014/15 budget (including the infrastructure search, hedge fund review and LDI project).
Compliance Costs	55,000	Additional actuarial fees have been incurred in relation to the Triennial Valuation and to the production of FRS17 / IAS19 statements required for employer's end of year Statements of Accounts. The FRS17 / IAS19 costs are passed on to the employers (see below).
Compliance Costs Recharged	(57,000)	A greater amount of actuarial costs than anticipated were at the discretion of employers and therefore rechargeable.
Governance & Compliance	**(176,000)**	
Directly Controlled Budget	**(347,000)**	

Expenditure subject to Markets

Global Custody Fees	(36,000)	The cost of transition to new portfolios and the custody costs of the new portfolios were less than allowed for in the budget.
Investment Manager Fees	(1,159,000)	Investment Manager fees were below the budgeted estimate due to the new managers for Emerging Markets and the Diversified Growth Fund being appointed later than had been assumed in the budget. The fees include those that are paid or become due for payment during the year.
Expenditure Outside Direct Control	**(1,195,000)**	
Total Overspend	**(1,542,000)**	

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

PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 30 April 2014

	INDICATOR	Green Red Amber	2012/13 Actual	Target for 2013/14	Actual 3 months to 30/04/2014	Comments	
A	**Customer Perspective**						
1	General Satisfaction with Service - retirees feedback	G	97%	97%	99%	105 out of 106 responses received from retirees in reporting period	Appendix 4
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	G	59%	90%	92.86%	26 of 28 Tasks were completed within target	
	Retirements [15 days]	G	83%	90%	93.45%	556 of 595 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	68%	75%	89.72%	943 of 1051 Tasks were completed within target	
	Refunds [5 days]	G	80%	75%	89.24%	199 of 223 Tasks were completed within target	
	Transfer Ins [20 days]	G	45%	75%	73.91%	119 of 161 Tasks were completed within target	
	Transfer Outs [15 days]	G	67%	75%	77.19%	88 of 114 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	94.25%	623 of 661 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			0	No complaints received in the period	
4	Pensions paid on time	G			100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)	G			100%	Due next quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	3000 pcm	17,465	5821 per calendar month for reporting period	3B Graph 1
7	Advising members of Reg Changes within 3 months of implementation	G			100%	Issued June 2014	
8	Issue of Newsletter (Active & Pensioners)	G			100%	Pensioner member news letter issued May 2014	
9	Annual Benefit Statements distributed by statutory deadline	G			N/A	Due by 6th October 2014	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining	G			0%		
2	% Sickness Absence: a) Short Term; b) Long Term	G	a) 1.30% b) 0%		a) 1.47% b) 1.56%	Within corporate target of 5%	3B Graph 2
C	**Process Perspective**						
1	a) Services actually delivered electronically; b) Services *capable* of delivery to members	A			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	(a) Active membership covered by employer EDI; (b) % of employers submitting data electronically	G	0%	100% of 25 largest employers	a) 72% b) 58%	96% of 25 largest employers achieved (excluding south Glos)	
3	% Telephone calls answered within 20 seconds	G	97%		97.8%	9250 calls, 9049 answered within 20 seconds	3B Graph 3
4	Maintain work in progress/outstanding at **below 10%**	G	20658 created, 20892 cleared		96.90%	6670 Created, 6463 cleared	3B Graphs (4,5,6)
5	Year End update procedures (employer data received by 30.04.14 deadline)	G	85%	100%	96%		
6	No. of errors (due to incomplete member data from employers)	G			2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	89.00%	Business Financial Services (inc Pensions)	
2	Temp Staff levels (% of workforce)	G	0.74%		3.85%	Within target	

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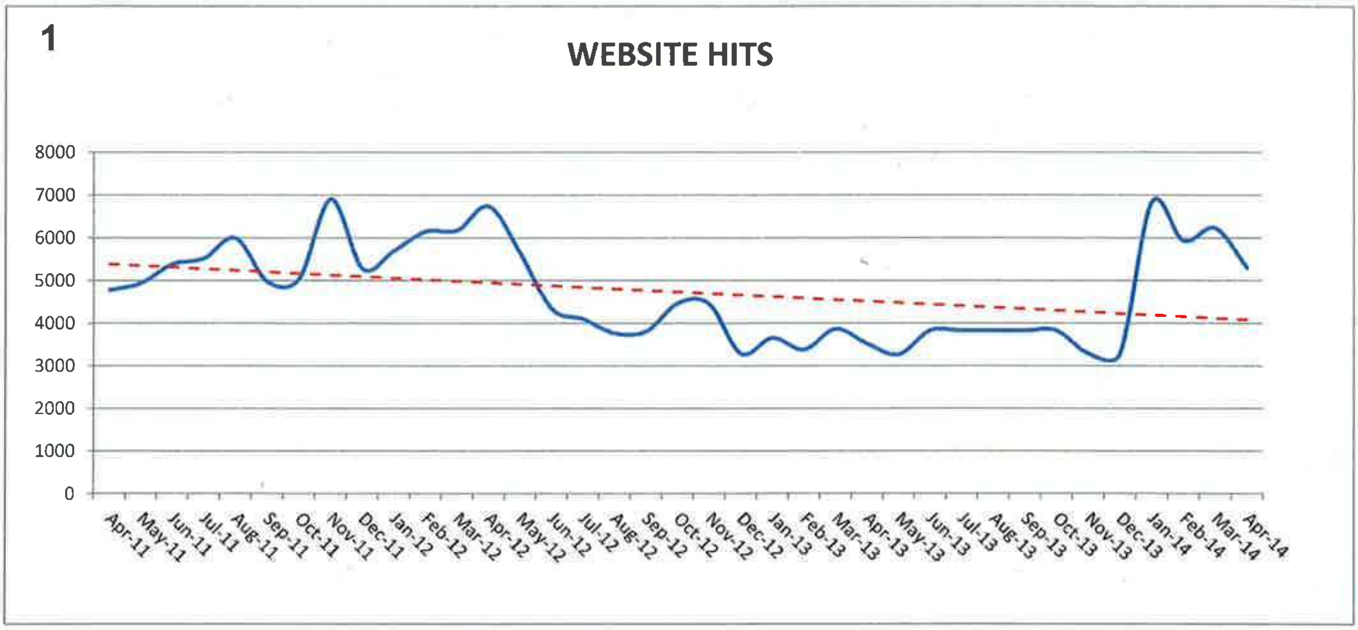
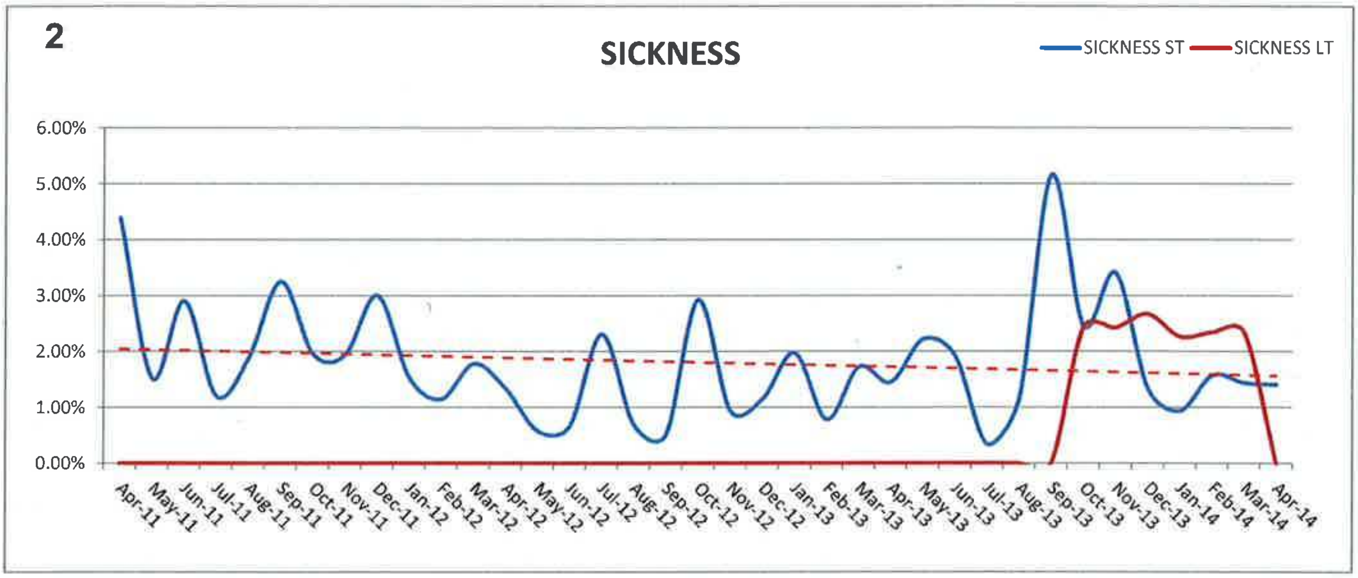
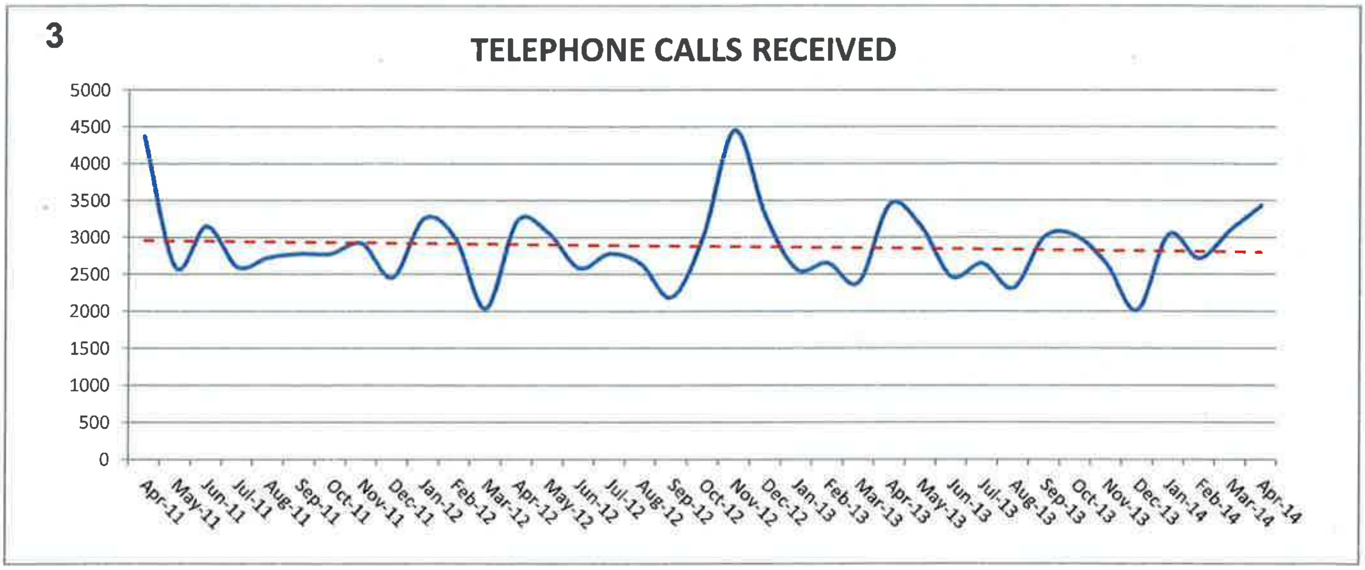
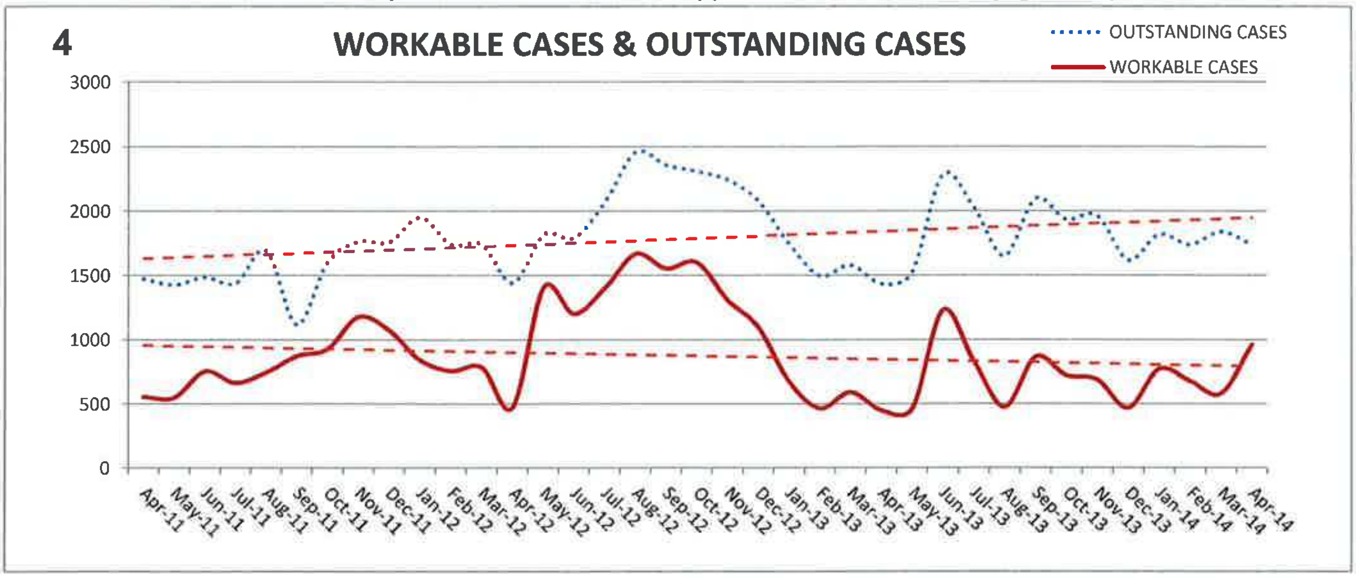
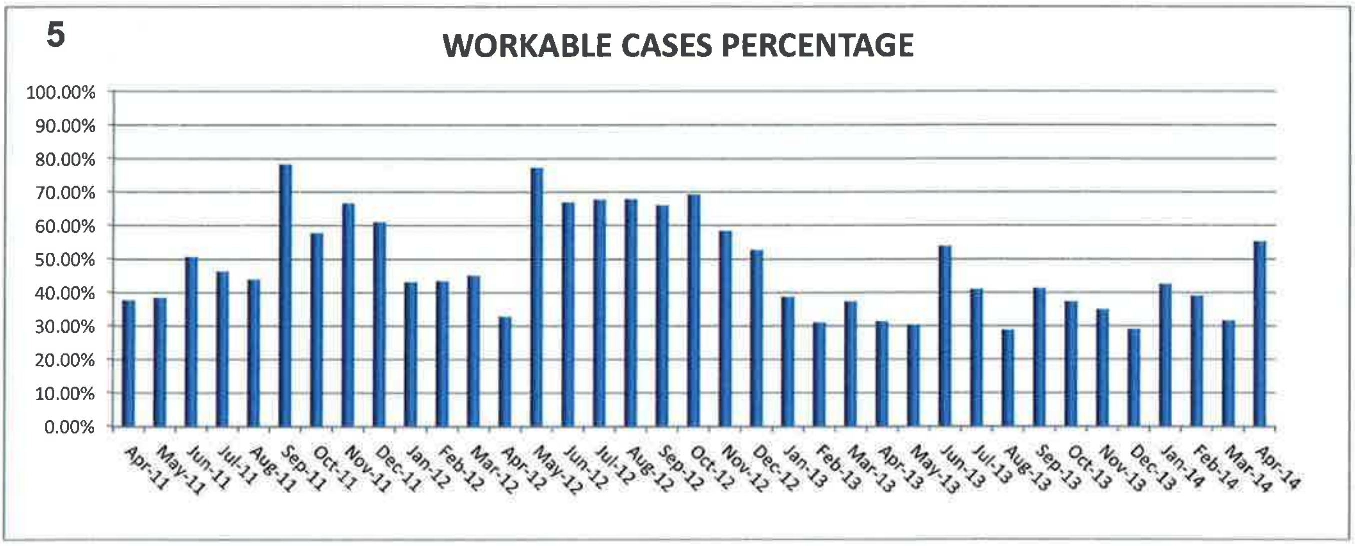
Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @30th April 2014

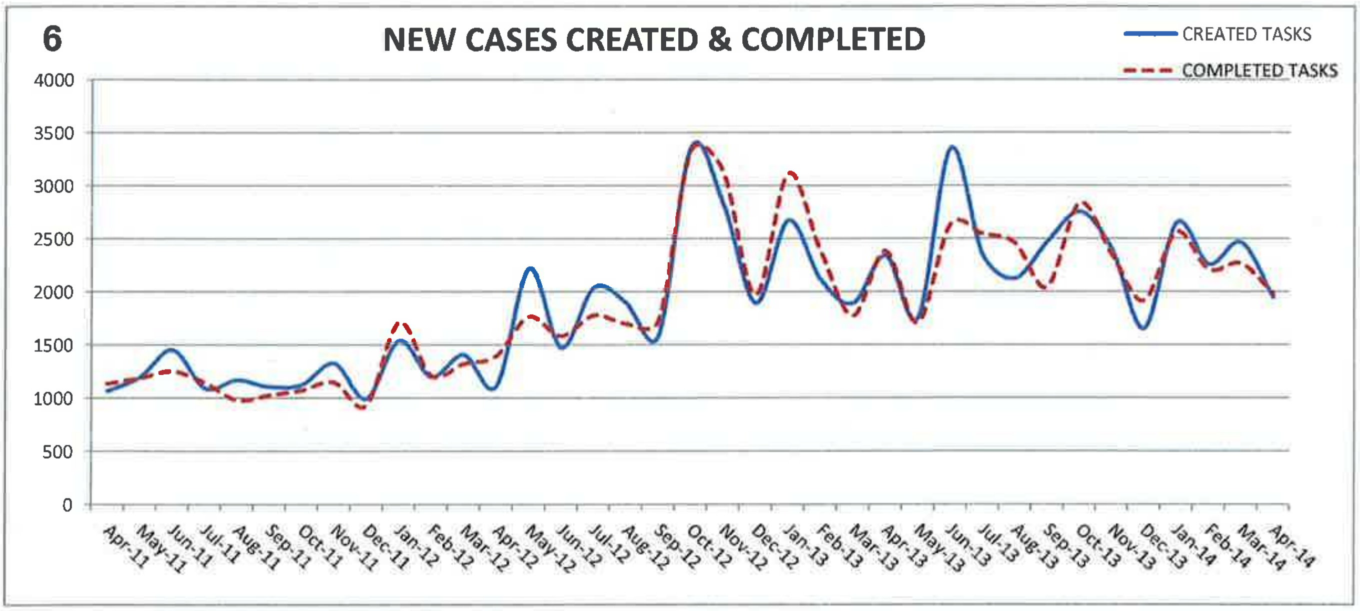






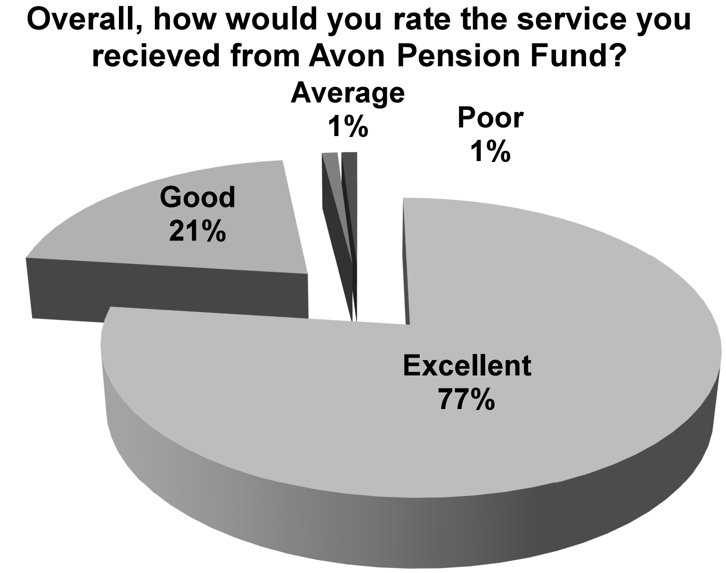

4
WORKABLE CASES & OUTSTANDING CASES
OUTSTANDING CASES
WORKABLE CASES
3000
2500
2000
1500
1000
500
0
Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14 Apr-14


5
WORKABLE CASES PERCENTAGE
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14 Apr-14

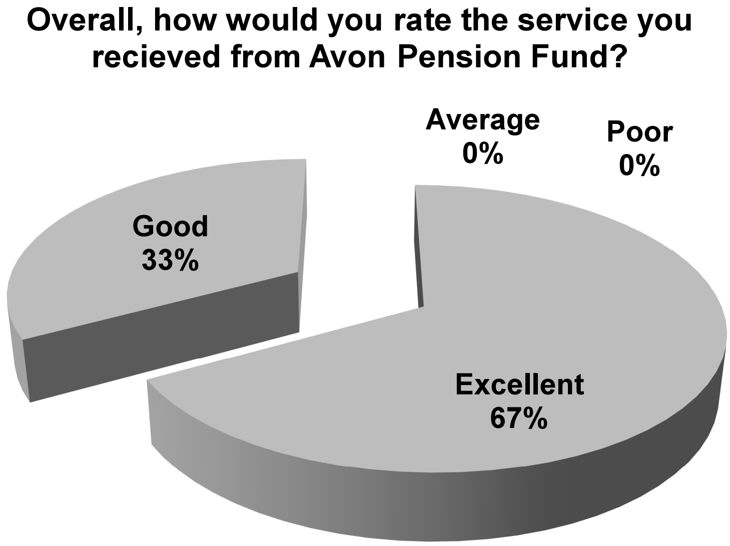

6
NEW CASES CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
4000
3500
3000
2500
2000
1500
1000
500
0
Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14 Apr-14

Responses to customer feedback
Feb 2014 – Apr 2014

Retirement from Active status
143 members
85 responses
59% response rate



Deferred into payment
156 members
21 responses
13% response rate



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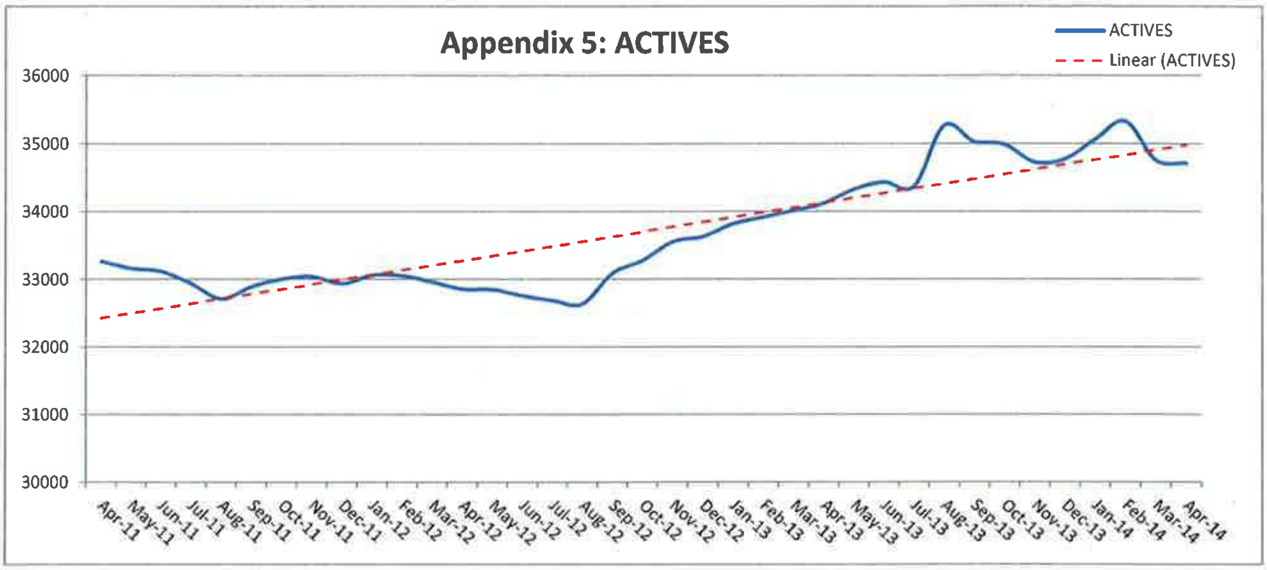
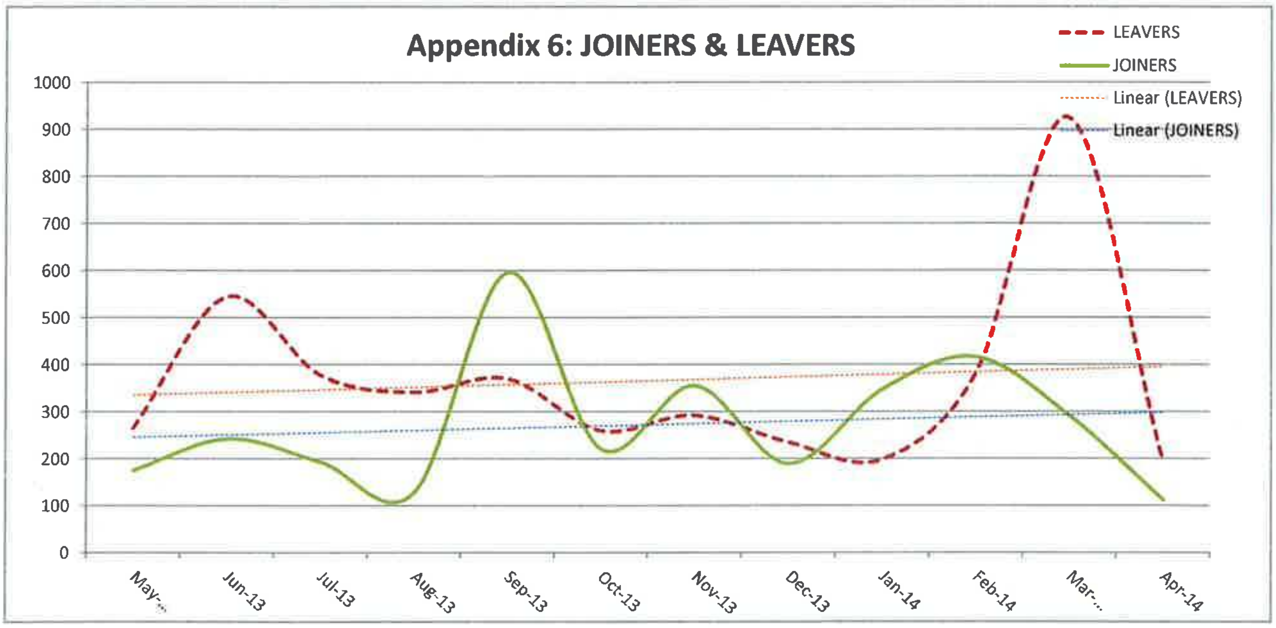
Admin Reports - Appendices 5 and 6.   Actives, Joiners and Leavers to 30th April 2014





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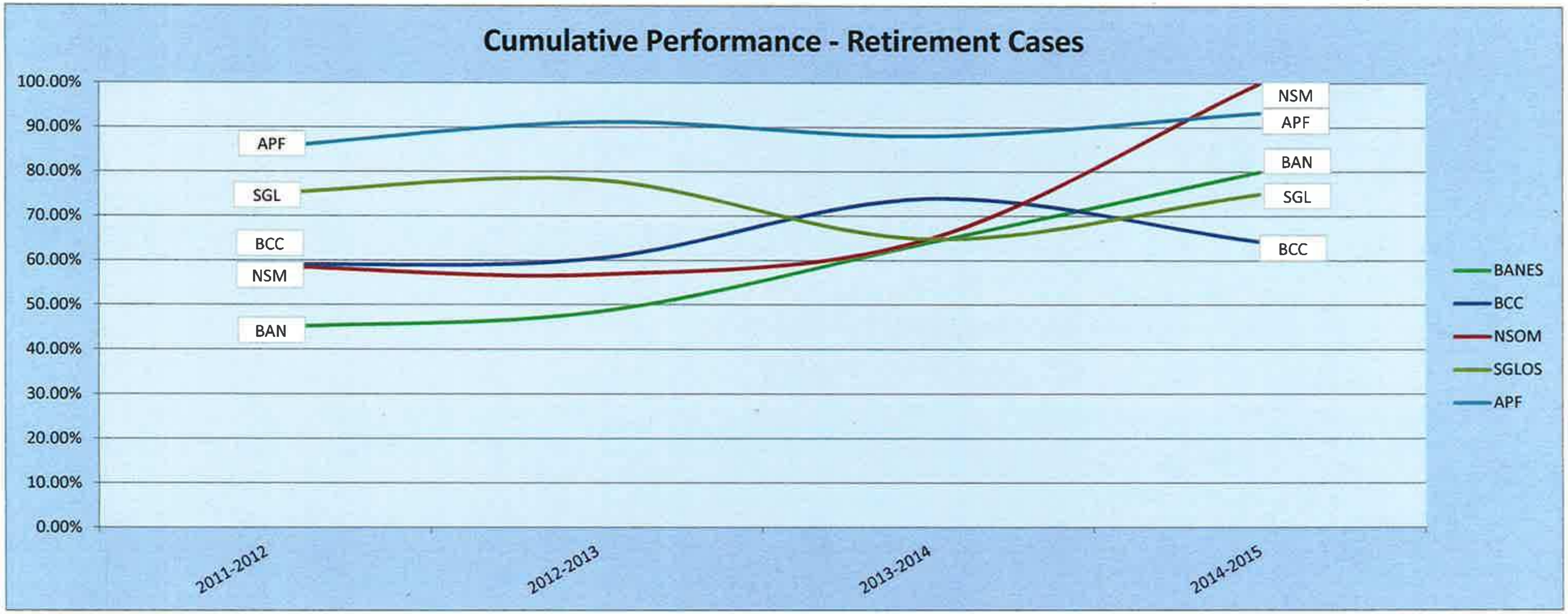
Employer Performance to 30th April 2014



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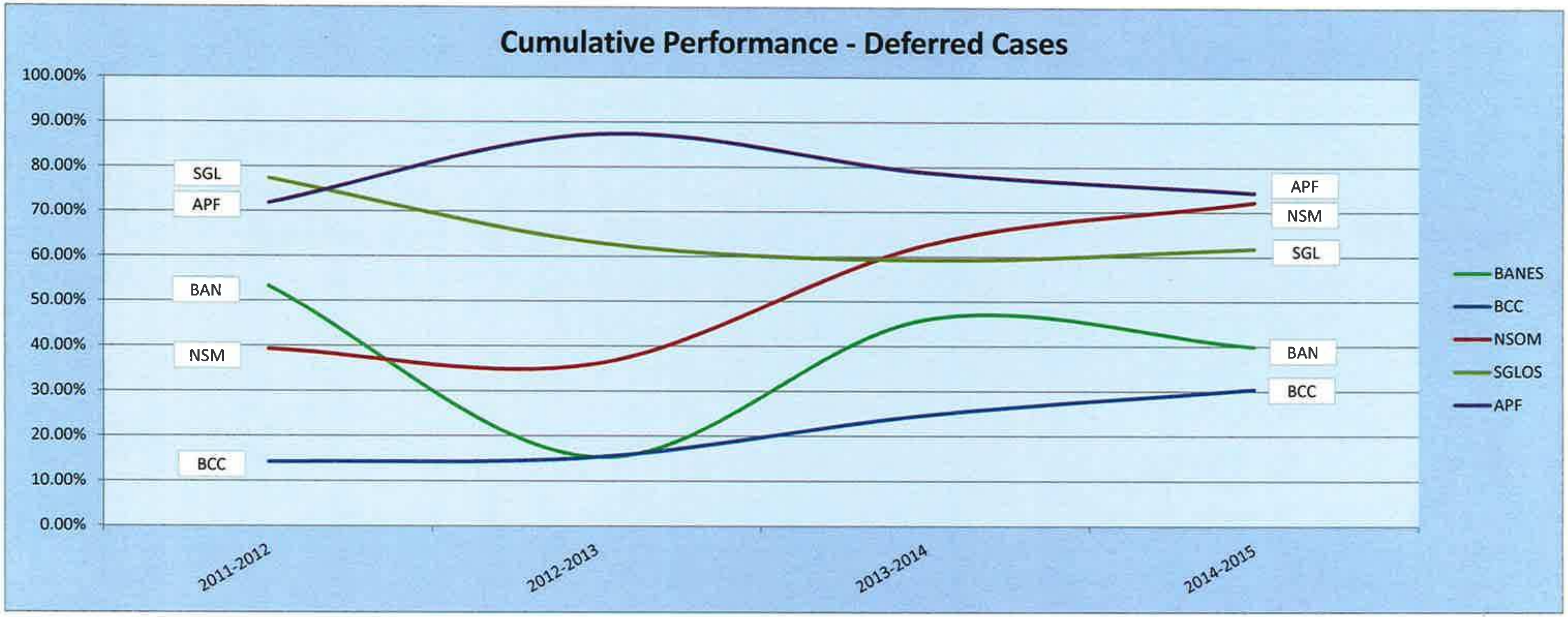
Cumulative Performance - Deferred Cases
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
SGL
APF
BAN
NSM
BCC
APF
NSM
SGL
BAN
BCC
2011-2012
2012-2013
2013-2014
2014-2015
BANES
BCC
NSOM
SGLOS
APF

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APPENDIX 7 (to Pension Fund Administration Report   Agenda Item 16)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the tenth 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 1st April 2011 to 30th April 2014.

2. Report of late payers of pension contributions (employers) in the 3 month period 1st February 2014 to 30th April 2014

*** 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

Late payment of contributions due in 3 months to 30th April 2014:

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 = 199
Total contributions received in period = £34,746,000
Total late contributions = £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. 2013/14 Year end Returns –Annual Benefit Statements

Details of the data requirements for year end 2013/14 were issued electronically to all employer lead officers on 14th February 2014. The deadline for data returns has been set at 30th April 2014. Annual Benefit Statements are due by the legal deadline of 5th October 2014.

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

APPENDIX 8

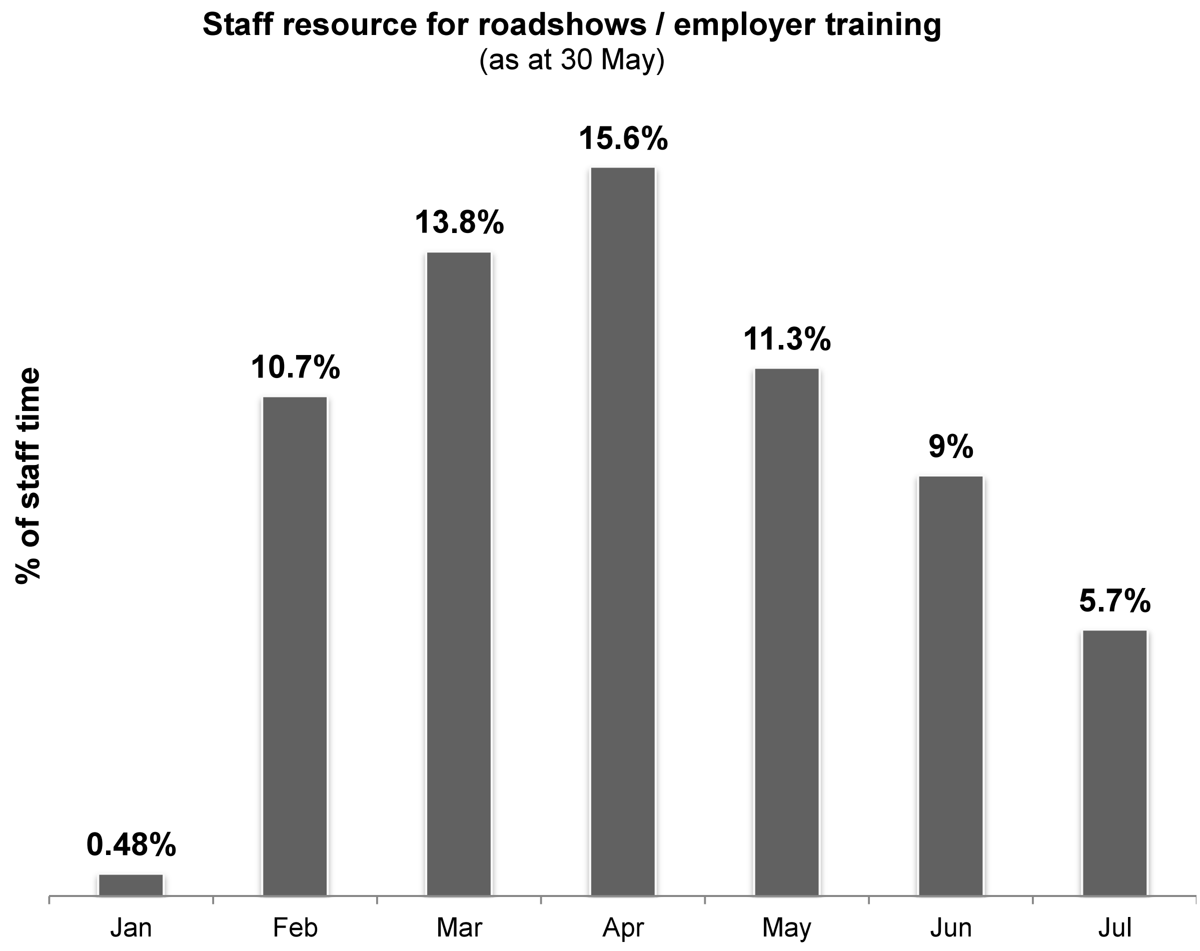
LGPS 2014 engagement activity

Member roadshows

All figures quoted below are as of 30 May.

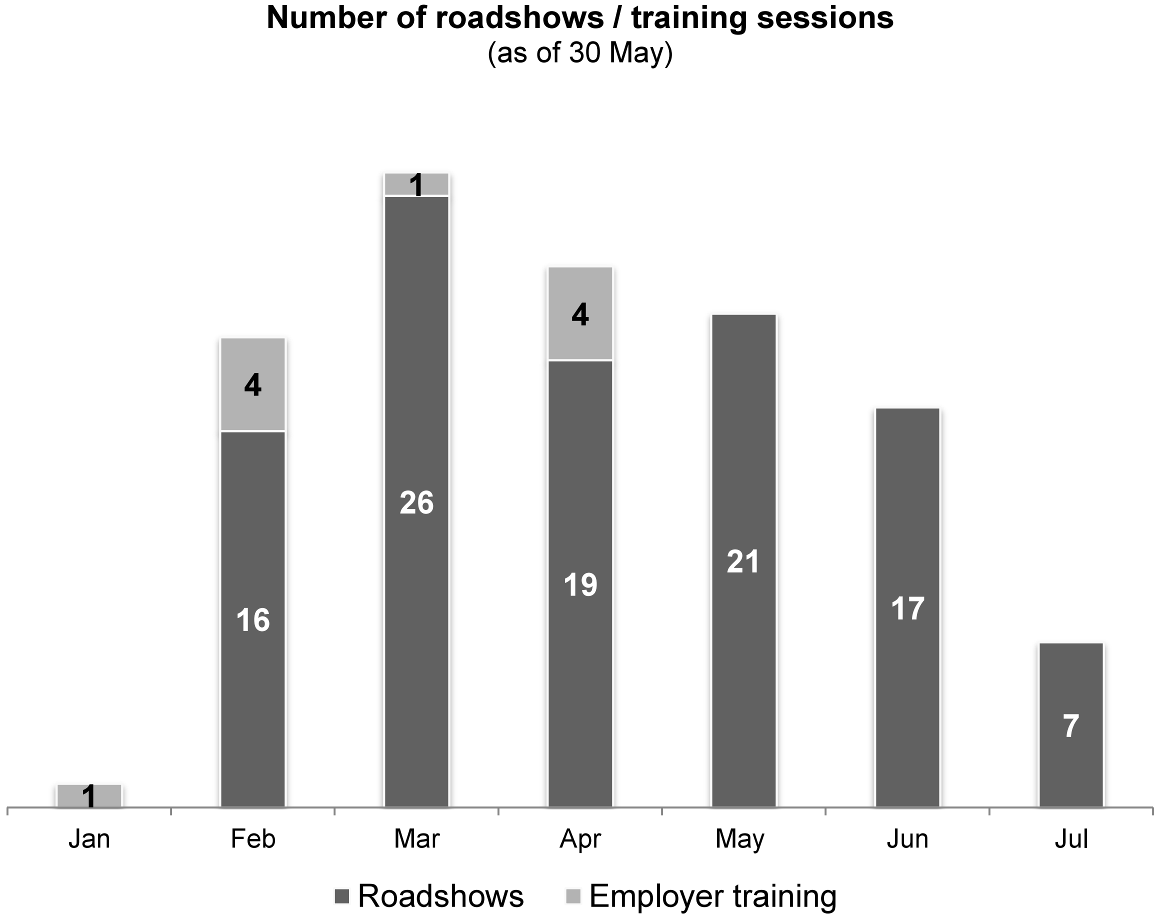
Number of roadshows booked	103
Number of roadshows held	79
Number of employers booking roadshows	67
Number of attendees	1460

Staff resource for roadshows and employer training sessions



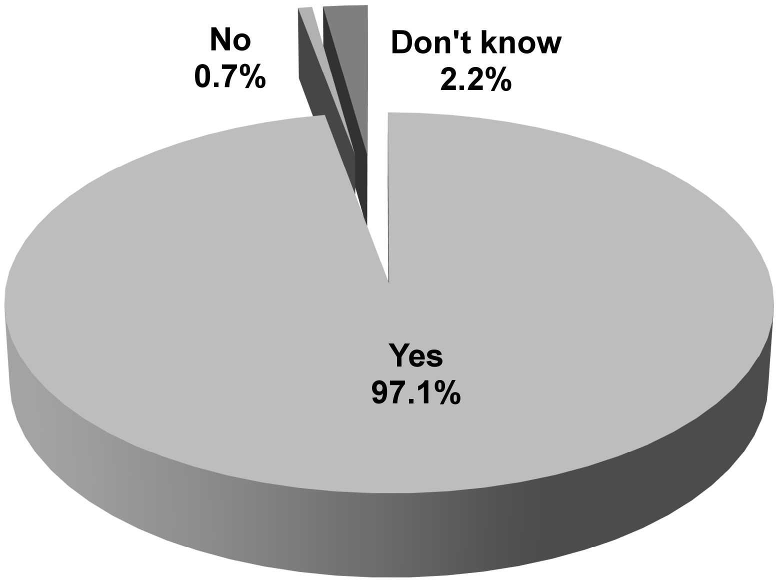
The above is based on available working days for each month / number of events each month / APF resource / average event duration.

Roadshows and employer training sessions



Roadshow feedback
Feedback forms are distributed at the events. So far 848 have been completed (response rate of 58%)

Do you feel we have provided you with a good overview of the 2014 scheme?



Some comments include:

"Impressed – thank you" – CEO B&NES
"It was clear and concise – thank you"
"Well presented session and very informative"
"Literature sent previously was also useful and explained changes"
"Benefits only had general info – not enough detail/specifics given"
"Great presentation with knowledgeable and friendly presenters. Now feel more at ease about the changes that will affect me"

			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
3	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:	**27 JUNE 2014**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2015** **Appendix 2 – Pensions Benefits Workplan to 31 March 2015** **Appendix 3 – Committee Workplan to 31 March 2015** **Appendix 4 – Investments Panel Workplan to 31 March 2015** **Appendix 5 – Training Programme 2014-15**	

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 2015 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 2014 - 15 is included as Appendix 5.

1.4 The workplans are consistent with the 2014 - 17 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 2015 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 2014-15 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 395277
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 2015

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. • Infrastructure – evaluation of tender in progress; selection in July 2014 • Review of hedge funds – start 2Q14 • Liability hedging – preliminary work to start in 2014	On track
Re-tender actuarial and investment advisory contracts	Separate contracts; both will be re-tendered under the SW LGPS funds advisory framework	Commence 3Q14
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	3Q14
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 4Q14
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	Commence 4Q14
Employer Database	Create structure for document management system ready for using Council solution or Altair	Commence March 2014
Develop online form for receipt of contributions	Develop online form for employers to send contribution information (LGPS50 form). Roll out during year with aim of only accepting	Commence March; roll out during year

	online forms from 1/4/15.	
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
2015 Interim Valuation	As at 31 March 2015; preparatory work 1Q15	Commence 1Q15

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 MARCH 2015

Project	Proposed Action	Report
Employer Self Service rollout	Employer Self Service rolling out of all remaining employers to enable full electronic data delivery by the end of Q4 2014/5 including employer training	4 Q 14
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. Remaining project to admit final unitary authority and then assess requirements for on-going support. Market to other employers during 2014/15 once complete.	2/3 Q14
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). Campaign to increase the sign up of members to Member Self Service (*My Pension on line)* to allow electronic access to documents	2/3 Q14
Successfully Communicate proposed government changes to LGPS benefits	To follow through the project plan to effectively communicate the New LGPS 2014 and what it will mean for members/employers utilising electronic (website), paper and face to face meetings with employers' and their staff.	On track to end 2/3Q 14
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent) concerning pension refund payment.	Report quarterly from 2Q 14
2013/14 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 6.10.2014	3Q 14
Review Workflow & Data Processing	Implement new Task Management procedure and Workflow Arrangements. Introducing new software – Auto Task assignment.	4Q 14
TPR Requirements	Data Quality Management Control – ensure processes & procedures in place to satisfy TPR minimum requirements.	3 /4 Q 14

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Appendix 3

Committee Workplan to 31 March 2015

SEPTEMBER 2014
Review of Investment Performance for Quarter Ending 30 June 2014 (including review of Internal Control Reports)
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 30 June 2014 and Risk Register Action Plan
Report on Investment Panel Activity
Approval of Final Accounts 2013/14 prior to formal approval by Corporate Audit Committee
Review of AVC Arrangements
DCLG Consultation on Governance Arrangements (timing depending on DCLG)
Workplans
Planned Workshops : Implications of new governance arrangements

DECEMBER 2014
Review of Investment Performance for Quarter Ending 30 September 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 30 September 2014 and Risk Register Action Plan
Report on Investment Panel Activity
Review options for Ill health insurance for smaller employing bodies
Workplans
Planned Workshops

MARCH 2014
Review of Investment Performance for Quarter Ending 31 December 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 31 December 2014 and Risk Register Action Plan
Budget and Service Plan 2015/18
Report on Investment Panel Activity
Audit Plan 2014/15
Workplans
Planned Workshops

Appendix 3

Committee Workplan to 31 March 2015

Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2015

Panel meeting / workshop	Proposed reports
7/8 July 2014	• Infrastructure Training • Panel to appoint infrastructure manager
3 September 2014	• Review managers performance to June 2014 • Hedge Fund Managers evaluation • Review of AVC funds • Meet the managers workshop (Schroder Equity, Record)
21 November 2014	• Review managers performance to September 2014 • Bond portfolio / LDI training • Meet the managers workshop (Jupiter, TT, Partners)
February 2015 (TBA)	• Review managers performance to December 2014 • Meet the managers workshop (Genesis, Royal London)

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Appendix 5

Avon Pension Fund Committee Training Programme 2014-15

General Topics

<table>
<tr><th>Topic</th><th>Content</th><th>Timing</th></tr>
<tr><td>Fund Governance and Assurance
(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)</td><td>• 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</td><td>June 2014</td></tr>
<tr><td>Manager selection and monitoring
(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management)</td><td>• 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</td><td>Ongoing by Panel in quarterly monitoring of manager performance

Annual report to Committee by Investment Consultant</td></tr>
</table>

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 investing in different assets e.g. 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	Funding update reports quarterly to Committee 2015 interim valuation