Bath & North East Somerset Council

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5 December 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), Richard Orton (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 12th December, 2014

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 12th December, 2014** at **2.00 pm** in the **Somerdale Room - Fry Club and Conference Centre**

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 Guildhall Bath (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. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **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 - Reception: Civic Centre - Keynsham,- 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.

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

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

7. **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, 12th December, 2014

at 2.00 pm in the Somerdale Room - Fry Club and Conference Centre

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: 26 SEPTEMBER 2014 (Pages 7 - 12)

8. REQUEST BY ADMISSION BODY TO EXIT SCHEME (Pages 13 - 20)

9. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 21 - 32)

10. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2014 (Pages 33 - 76)

(a) LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT Q3 2014 (Pages 77 - 92)

11. PENSION FUND ADMINISTRATION (Pages 93 - 130)

12. VERBAL UPDATE OF CURRENT POSITION OF FORTHCOMING REGULATIONS AND CODES OF PRACTICE AFFECTING LGPS

13. WORKPLANS (Pages 131 - 142)

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, 26th September, 2014, 2.00 pm

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

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

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Martin Phillips (Finance & Systems Manager (Pensions)), Steve Makin (Communication and Public Relations Manager) and Alan South (Technical and Development Manager)

18 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Patrick Anketell-Jones and Councillor Mike Drew (South Gloucestershire Council).

20 DECLARATIONS OF INTEREST

There were none.

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

24 MINUTES: 27 JUNE 2014

The Minutes of the meeting of 27 June 2014 were approved as a correct record and signed by the Chair.

25 AUDITED STATEMENT OF ACCOUNTS 2013/14 AND GOVERNANCE REPORT

The Chair reminded Members that the accounts had been presented at the Corporate Audit Committee the previous meeting.

Mr Morris presented The Audit Findings Report (Annual Governance Report) giving an unqualified opinion on the Pension Fund Financial Statements Ms Choudhury summarised the audit findings.

The Chair asked about the £2.2m overpayment of employers' contributions by Bristol City Council (BCC). Mr Morris said that BCC had recognised the overpayment, but had still not decided what to do about it. It was likely they would decide next month. He confirmed that based on the fact that employers can overpay their deficit recovery payments, the overpayment has been treated as income in the accounts, giving rise to a Net Additions from dealing with members of £2.9m. Councillor Pearce (Bristol City Council) said that he was concerned at the length of time that BCC was taking to decide.

The Chair said that he was pleased that only three recommendations had been made as a result of the audit. The Head of Business, Finance and Pensions said that recommendations 1 and 3 would be implemented by 1st October. He was puzzled about recommendation 2 (automatic notification of staff leavers to IT), because he believed that the payroll system automatically sent notifications about leavers to IT services and that this had been in place for several years. The Vice-Chair responded that this might be the prescribed procedure, but to his knowledge it was not always done: he had sent emails to staff and after receiving no reply had discovered on inquiry that the member of staff no longer worked for the Council. The Chair asked for this to be investigated and for a report about it to be made to the next meeting of the Committee.

The Committee thanked the Finance team for an excellent set of accounts. The Chair was also pleased to note the current external auditor's reduced fees as compared to the previous external auditors.

Mr Morris asked if the Committee would authorise management's proposed treatment of the unadjusted misstatement described on agenda page 64 (discrepancy between NatWest cash balance and cash book) so that the Letter of Representation could be signed. The Chair asked officers to report back to the Committee on the reasons for this discrepancy.

It was then **RESOLVED** unanimously:

1. To note the final audited Statement of Accounts for 2013/14.

2. To authorise management's proposed treatment of the unadjusted misstatement reported on page 14 of the Audit Findings Report (agenda page 64).

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

4. To approve the draft Avon Pension Fund Annual Report 2013/14.

26 PENSION BOARDS

A workshop for Members on this topic had been held before the start of today's meeting.

RESOLVED:

1. To note that the budget for the Pension Board will be determined by the Committee during 2015/16 as the Board's role and workplan is confirmed by the regulations.

2. To note the Fund's draft response to the draft regulations for scheme governance.

27 TERMINATION POLICY

The Investment Manager presented the report. She explained that two changes were being sought to the current policy as detailed in paragraphs 5.2 and 5.7 of the report. The aim was to minimise the risk to the Fund from the residual liabilities when employers had exited the Fund. Such liabilities could persist for many years during which longevity factors will change.

A Member said that the Fund should do nothing that would affect its seniority as a creditor of employers who went into to liquidation. He wondered whether it would be affected if the Fund agreed phased exit payments, and suggested that maximum and minimum periods for the deferral of these payments should be defined. The Investments Manager responded that she did not think the Fund's seniority as a creditor would be affected by phased payments, and that in any case the issue would only arise in the case of small employers. The Chair asked officers to research and report back to the Committee with an authoritative opinion on debt seniority in these circumstances.

A Member asked where the figure of 2% p.a. long-term rate for longevity improvement came from. The Investments Manager said this was the figure recommended by the Actuary and it could be varied by the Committee periodically. The Chair said that the figure to be used would be reviewed on a case-by-case basis by the Chair and Vice-Chair and that the guideline figure set out in the policy of 2% would be subject to regular review by the Committee.

RESOLVED:

1. To approve the repayment plans as set out in paragraph 5.2.

2. To approve the use of a 2% p.a. long term rate for improvement in longevity, subject to review by the Chair and Vice Chair on a case by case basis and on-going review by the Committee.

28 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager summarised the key facts in the report. The Panel had made 3 decisions, which were listed in paragraph 4.1 of the report and details of which were given in the exempt appendices.

Before discussing the exempt appendices, the Committee passed the following resolution:

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVES,** in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of appendices 2,3 4 and 5 to this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

After discussion, the Committee **RESOLVED:**

1. To note the draft minutes of the Investment Panel meeting of 3 September 2014.

2. To note the recommendations and decisions made by the Investment Panel since the last quarterly activity report as set out in 4.1.

29 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2014 (INCLUDING REVIEW OF INTERNAL CONTROL REPORTS)

The Assistant Investments Manager summarised the key information as given in paragraph 5.1 of the report. He said that of the five managers rated amber, two were improving, two were being closely monitored and the mandate of one had been terminated. He drew attention to section 8 of the report, which summarised the results of the annual review of investment managers' internal control reports.

Mr Sheth said that there were no significant issues with managers that needed to be reported to the Committee. He commented on market conditions.

A Member said that he was not comfortable with a situation where 5 out of the Fund's 18 managers were rated amber. He asked when the Fund's investment advisers were last appraised. The Investment Manager replied that the investment advisers' contract would be retendered in the current year. However the current contract could be terminated at any time, if the Committee felt that it was not getting good advice. Another Member agreed that although it was a concern that a quarter of the Fund's investment managers were underperforming, she suggested that there were a number of other indicators, such as the ranking of the Fund in relation to other local authority funds and the performance of the fund against its overall benchmark, that could be used to assess performance. The Independent Advisor commented that it was not unusual in his experience for a number of managers to be underperforming at any one time.

RESOLVED:

1. To note the information set out in the report.

2. To note the LAPFF Quarterly Engagement Report.

30 PENSION FUND ADMINISTRATION, BUDGET MONITORING, PERFORMANCE INDICATORS FOR QUARTER ENDING 30 JUNE 2014 AND RISK REGISTER ACTION PLAN

The Finance & Systems Manager (Pensions) summarised the budget report. Expenditure for the full year is forecast to be £50,000 below budget for the reasons stated in paragraph 4.2 of the report. Late payment by one employer had been found to be due to the use of a wrong sort code. This had now been rectified.

The Communication and Public Relations Manager presented the performance report.

The Investments Manager reported that there had been no changes to the Risk Register. Members asked about the impact of the new rules for taking pension early announced in the 2014 Budget. The Investments Manager replied that these represented a risk to the funding level of the Fund and would be included in the Risk Register.

RESOLVED:

1. To note the administration and management expenditure incurred for 4 months up to 31 July 2014.

2. To note performance indicators and customer satisfaction feedback for 3 months to 31 July 2014.

3. To note the summary performance report for period from 1 April 2011 to 31 July 2014.

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

5. To note the Risk Register.

31 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.34 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>12 DECEMBER 2014</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">REQUEST BY ADMISSION BODY TO EXIT SCHEME</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:

Appendix 1 – Paper from Admitted Body</td></tr>
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1 THE ISSUE

1.1 A community admission body, has approached the Fund requesting that they exit the scheme. This means that the existing members will cease to accrue pension benefits within the Fund.

1.2 The Fund's Termination Policy manages the risk arising from employing bodies exiting the scheme. It has an overriding objective to protect the remaining employers within the Fund from material financial risk.

1.3 As the admission agreement between the body and the Fund does not include provision for admission bodies to stop accruals for eligible members, any amendment to the admission agreement to stop accruals for eligible members will require the agreement of the Fund. The Fund will consider any requests in line with its Exit and Termination Policies. **The admission body has been invited to the meeting to explain their request to the Committee.** Officers consider the proposal complies with the Fund's policies.

1.4 In relation to the Fund's Termination Policy, the Committee requested assurance about the seniority of an admission body's pension debt once they have exited the Fund and an deficit payment plan is in place. The advice from the actuary and lawyer is set out in Section 5 of this report.

2 RECOMMENDATION

The Committee:

2.1 Agrees the proposal from the admission body meets the terms of the Exit and Termination Policies, subject to:

(a) payment of the outstanding deficit in full on exit;

(b) the Committee being satisfied that the admission body has effectively managed the employment issues relating to their exit from the scheme.

2.2 Notes the advice regarding the seniority of an admission body's pension debt once a deficit payment plan is agreed on exiting the scheme.

3 FINANCIAL IMPLICATIONS

3.1 When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body at the exit date prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then become the responsibility of any existing guarantor in the Fund or by the Fund as a whole (i.e. all participating employers), in which case they become known as “orphan liabilities”.

3.2 Therefore an exit contribution payment will be requested from the outgoing employer (unless the deficit passes to the guarantor within the Fund). The exit payment is assessed on the exit or termination basis which values the liabilities using corporate bond yields. This more prudent basis is used to provide protection to the other scheme employers from adverse movements in the financial markets after the exployer exits the Fund.

4 REQUEST TO EXIT THE FUND

4.1 This section sets out the Fund’s policies for employers exiting the Fund. Any request to exit must comply with these policies.

4.2 The admission body was admitted to the scheme in 2000 prior to Fair Deal and the 2007 Directive. The employer joined the fund as a community admission body.

4.3 The LGPS regulations do not prevent a community admission body from closing the scheme to new accrauls. The admission agreement between the employer and the Fund does not include provision for admission bodies to stop accruals for eligible members nor do they have a provision allowing termination in those circumstances. Therefore any amendment to the admission agreement to stop accruals for eligible members will require the agreement of the Fund.

4.4 The Fund’s **Exit Policy**, agreed by Committee on 28 March 2014, for allowing admitted bodies to stop accruals for eligible members and leave the scheme is as follows:

The Committee’s decision to allow an admitted body to exit the scheme, in circumstances not set out in the admission agreement, will be determined in accordance with the best interest of the Fund as a whole. The Committee will also consider whether the employer has conducted the process in line with employment law and their contractual obligations.

4.5 The LGPS Regulations 2013 (as amended) stipulate that termination is triggered for any employer when the last active member leaves.

4.6 The Fund’s **Termination Policy**, agreed at September 2014 Committee meeting, is as follows:

i. *The default position is for exit payments to be paid immediately in full.*

ii. *Instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.*

iii. *On exit the liabilities are assessed using the Corporate Bond funding basis.*

iv. *The assumption for longevity is adjusted to use a 2% p.a. long term rate for longevity improvement, subject to review by the Chair and Vice Chair on a case by case basis and on-going review by the Committee.*

4.7 At the 2013 valuation the admission body had a deficit of £7.5m, assets of £23.5m and liabilities of £31m assessed on the on-going basis. This accounted for 0.9% of the Fund's overall deficit. The actual deficit will be assessed in line with the Fund's policies at the date of exit.

4.8 The admission body has confirmed to officers that it will pay the outstanding deficit in full on exit.

4.9 Officers have met the admission body on a number of occasions to discuss the issue, specifically to set out the Fund's policies for exiting the scheme and termination calculations. From these discussions, officers are assured the proposal complies with the Fund's Exit and Termination Policies. In addition for the Committee, the admission body has been asked to outline the process it has undertaken in a paper it will present to the Committee. This paper is attached as Appendix 1.

5 SENIORITY OF PENSION DEBT

5.1 The Fund's Termination Policy, in line with the LGPS Regulations 2013 (as amended) allow deficit payment plans to be agreed when an employer leaves the scheme. At its meeting in September, the Committee asked for advice as to whether the existence of a payment plan could impact the seniority of the debt, and therefore affect the probability of repayment in the event of insolvency after the plan is agreed.

5.2 Advice has been obtained from the Fund's lawyer, Osborne Clarke and actuary, Mercer. Both confirmed that the payment plan would not affect the seniority of any debt outstanding. Pension fund creditors, including LGPS funds, are unsecured creditors who rank behind secured creditors even with a payment plan in place as there will be nothing in the termination payment agreement that changes this. To ensure that the pension debt ranks above the debt owed to the other unsecured creditors on insolvency, the Fund would have to have some form of security in place e.g. a charge on assets to make the Fund a secured creditor. Even in this event, if there is more than one secured creditor, the normal rule on the priority of security over the same asset or assets is that security granted first in time ranks prior.

5.3 In addition, the actuary has advised that a Letter of Undertaking forms part of the Deficit Repayment Plan agreed with the outgoing employer. This will assist the Fund in monitoring the financial situation and taking appropriate action if the employer's actions are to the detriment of the Fund.

5.4 Under the terms of the Letter of Undertaking the outgoing Employer agrees to following during the period covered by the Deficit Repayment Schedule:

i. Negative pledges – i.e. actions which cannot be carried out by the employer without the prior agreement of the administering authority. These actions are those where there is a significant probability that the employer's ability to pay the termination payment could directly be affected.

ii. Notifications – i.e. events that the employer agrees that they will notify the administering authority about. These are events that may indirectly affect the amount of termination payment recoverable.

Where the Employer does not adhere to the terms in the agreement, the Administering Authority reserves the right to request full settlement of the outstanding value of the remaining payments on the Repayment Schedule as advised by the Fund Actuary.

5.5 The Committee is asked to note the advice from the lawyer and actuary regarding the seniority of debt where deficit payment plans have been agreed.

6 RISK MANAGEMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The assessment of termination liabilities that is equitable to all scheme employers is crucial part of the risk management process. Ongoing assessment of the strength of an employing body's covenant is another component in managing the potential risk of default to the Fund. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and to support the Investments Manager in managing the financial and liability risks, both on-going and at termination.

7 EQUALITIES

7.1 Not relevant.

8 CONSULTATION

8.1 Not relevant as regarding the implementation of agreed policy.

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	Correspondence with legal advisor and actuary
Please contact the report author if you need to access this report in an alternative format	

Report to Bath & North East Somerset Pensions Committee

Friday 12th December 2014

Report Author – Donna Baddeley, Executive Director Corporate Services, Curo

Executive Summary:
This report sets out the approach that Curo has adopted to review its current and future pension offer to its employees. Driven by the need to ensure long term financial viability and strength, the organisation has considered how it can best mitigate uncontrollable costs in its operating environment. The proposal to exit the Local Government Pension Scheme (LGPS) is part of this consideration. It is also part of Curo's aspiration to be an equitable employer that makes a consistent offer to all of its colleagues, based on their efforts and contributions. The organisation has sought extensive expert and legal advice to ensure that it has fully explored all options available to it as well as ensuring best practice is followed in dealings with colleagues.

Background:
As part of its long term strategic planning and risk management, Curo has been considering its ongoing pension liabilities for some time. In August 2013 the organisation sought proposals from a number of pension advisers about future pension strategy and provision and appointed KPMG.

KPMG then worked closely with Curo's Board and Executive for several months to analyse the pension position for Curo, and subsequently took a report to the Board in November 2013. This paper set out all of the considerations for Curo, and made proposals for different courses of action. In considering Curo's positon, the Board were mindful of the potential impact for individuals and therefore instigated further work to fully understand all aspects of the situation.

Subsequently, a further report was prepared in early 2014, which asked the Board to consider a future pension strategy for Curo, specifically to discontinue the current defined benefit scheme with the LGPS and replace it with a common defined contribution scheme. The Board decision was based on the need to remove uncertainty and volatility from future pension costs and the strategy, designed by KPMG and supported by the Executive, was intended to provide a fair, sustainable and generous scheme for all Curo employees.

KPMG were then requested to work with the Executive team to prepare a detailed implementation plan and design a suitable defined contribution offer, which would be fair to all employees, sustainable and generous, and to also consider transitional arrangements to enable employees to move across with a "soft landing".

Key Issues:
Curo is a "not for profit" organisation which is dependent on rental income; Government grants and revenue funding; privately secured funds and surplus from certain commercial activities. As the former two income streams are increasingly constrained and reduced, the organisation needs to be more creative in generating income and in making greater efficiencies. It also needs to

find ways to limit exposure to fluctuating and increasing costs in its operating environment.

Curo currently has circa 130 employees in the Avon Pension Fund (APF), some of whom transferred over to the organisation in 1999, when BANES council transferred its housing stock to Somer Community Housing Trust. The LGPS scheme through the APF was subsequently closed to new entrants in 2007, following a detailed analysis of the associated costs, and a defined contributions pension was offered in its place. This is currently provided by Aviva to circa 300 colleagues, and is part of the total reward package offered to all Curo employees.
(NB There are also 4 colleagues in the Social Housing Pensions Scheme (SHPS) who are being consulted about moving into the SHPS DC scheme).

For Curo, the key issues in considering an exit from the LGPS can be summarised as follows:

- Exposure to volatile pension costs;
- Fair and equitable pension provision
- Escalating pension costs;
- Complexity of current pension arrangements;

The Board and the Executive have a fiduciary duty to ensure the long term financial health of Curo. As an ethical and socially minded organisation, there is also a values driven culture, which has a focus on fairness and equity.

As part of this consultation process, there are two additional proposals for all colleagues in the mix:

1. To improve the current contributions offer from Curo to all colleagues in the group pension plan, and raise the upper level from 8% to 10%, where colleagues raise their contributions from 4% to 5%, and

2. To include the Group Pension plan into the flexible benefits offer, so that colleagues can take up a salary sacrifice approach to their pension if they wish to do so. (This has not been offered previously, due to the number of different schemes being administered).

Process and Consultation:
Having made a decision to work towards potential exit from the LGPS, a meeting was held with Officers of the APF on 17.03.14 to commence initial conversations. Following on from this, further work was undertaken to analyse the impact for Curo and its employees, and then in early May, a valuation for the indicative termination fee was commissioned with the APF actuaries. The figures were supplied towards the end of July, at which point Curo was able to firm up its financial calculations and formulate a detailed consultation plan.

For several months, there have been ongoing discussions with Curo’s “Joint Partnership Forum” (JPF) in the background. This Forum is made up of both colleagues who are members of a union and colleagues who represent a non-unionised employee network. It is also attended by a paid representative from Unite, and one from Unison. The organisation recognises a collective bargaining arrangement, and has been working closely with the unions throughout the

process. This group has been kept appraised of the work by KPMG and all aspects of the pension's strategy being considered.
Having prepared all relevant information, along with commissioning a range of support offers, the formal negotiations commenced with colleagues in mid-September. There were initially a number of small group, face to face sessions held, at which individuals were provided with a presentation from the Executive Director Corporate Services and a representative from KPMG. A formal and detailed letter setting out all aspects of the proposal to exit the LGPS was also handed out to every colleague.

To fully support colleagues, a number of other arrangements have also been arranged and implemented, this includes:

- Dedicated HR staff available for one to one meetings on request;
- A session with colleagues from the APF – both as a group and on an individual basis;
- A number of sessions with staff from Aviva, to explain the Group pension plan in more detail;
- A microsite built by Aviva, to enable colleagues to test out different permutations in the DC offer;
- Facilitated meetings for affected colleagues to come together and
- Joint Union meetings to agree a negotiating position.

In addition, an e-mail group was established for all affected colleagues so that a weekly table of "Frequently Asked Questions" (FAQs) could be produced and circulated. (This is posted out to anyone not on e-mail). This has been rigorously implemented every week so that all affected colleagues could be kept aware of any information or conversations pertaining to the pensions position.

The unions have been extremely supportive to both sides and have put a number of requests and counter offers on the table over the past few weeks. They have advised Curo that colleagues are not planning any industrial action. Following the initial upset and concern about what the exit from the LGPS might mean for individuals, the resultant mood of the colleagues is one of general disappointment, but with a genuine understanding of the drivers for Curo, and the rationale for the business.

Next Steps:

At the Board strategic planning event over the weekend of 28th November 2014, the Board agreed its final offer to the affected colleagues. This has been communicated to the unions, and followed up in writing to every individual.

The timescales are as follows:
Week Commencing 1st December – letter to colleagues inviting consent to amend contracts;
Week commencing 15th December – one to one meetings with colleagues who have not consented to amend contracts;
Week commencing 22nd December – serve formal notice of termination to anyone who has not consented with the offer to re engagement on 1 April 2015 on the new terms.

Colleagues will be asked to indicate their acceptance (or otherwise) by 31st January 2015.
The Committee may wish to note that even if colleagues move along a route of "dismissal and re-engagement" they will still be re-engaged at the enhanced offer Curo has made to the affected colleagues, i.e. they will not be penalised. (NB The unions were surprised but pleased with this proposition).

The aspiration is to proceed with the proposed exit from the LGPS to be effected by the end of March 2015, but with an additional "soft landing" for the affected colleagues.

Subject to the final actuarial valuation, the intention is to pay the exit fee in full as at the 31st March 2015.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**12 DECEMBER 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 21 November 2014 EXEMPT Appendix 2 – 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 September 2014 committee meeting, on 21 November 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. The Panel also held a Meet the Managers Workshop on 21 November 2014. The recommendations and decisions arising from these meetings are set out in paragraph 4.1. In addition, the Panel held a Clarification meeting on the Diversified Growth mandate tender on 5 December 2014, the outcome of which will be reported at the March Committee meeting.

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meetings held on 21 November 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, 21 November 2014:

a) There were no decisions or recommendations made by the Panel.

(2) Meet the Manager Workshop, 21 November 2014:

a) The Panel met with TT (UK Equity Mandate) and Jupiter (UK SRI Equity Mandate). There were no issues identified by the Panel.

A summary of the meetings is provided at Exempt Appendix 2.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

5.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary as the report is primarily for information only.

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

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

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

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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held
Friday, 21st November, 2014, 1.30 pm

Members: Councillor Charles Gerrish (Chair), Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors: Jignesh Sheth (JLT Employee 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) and Matthew Clapton (Investments Officer)

21 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

22 DECLARATIONS OF INTEREST

There were none.

23 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Gilchrist had indicated that he would arrive late, because of a previous appointment.

24 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There were none

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

There were none.

26 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

27 MINUTES: 3 SEPTEMBER 2014

The public and exempt minutes of 3rd September 2014 were approved as a correct record and signed by the Chair.

28 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2014

The Assistant Investments Manager introduced this item.

He reported that the Infrastructure manager had been selected and would draw down the allocation over the next eighteen months. A clarification meeting for the Diversified Growth Fund mandate would be held in December; all Panel Members were invited to attend. The clarification meeting for the Fund of Hedge Funds mandate would take place in March.

He reported that 2 managers previously rated amber had now achieved a green rating. A decision on Signet was awaiting the outcome of the tender for the Fund of Hedge Funds mandate; for the time being the illiquid portion of the Signet allocation would continue to have an adverse impact on returns from this manager. Schroder Equity team would meet officers in December and would meet the Panel again in March 2015.

He mentioned that there was an issue with returns reported for Partners by WM, which may be related to how WM treated the distributions. Officers were clarifying and would report back to Panel at the next Panel meeting. A Member said that this was an important issue, because there needed to be assurance about the true level of returns earned by the Fund. Mr Sheth said that he was confident that the issue was one of reporting, not of performance.

Mr Sheth commented on the JLT performance report. He said that in general the latest quarter had been positive and that the Fund's assets had increased in value. Most equity regions had had positive returns. There were strong returns from Frontier Markets.

Commenting on the performance of individual managers, he said that in JLT's view Alex Tedder, the new Head of Global Equities at Schroder, was a very competent investor. However, the Head of Business, Finance and Pensions, noting that another two members of the Schroder Global Equity team had left, wondered whether the Panel should be seriously concerned Schroder. Mr Sheth said that Alex Tedder had been appointed specifically to deal with problems in the Global Equity team. A Member suggested that if Schroder had not improved by March, the Fund's allocation to them should be reviewed, as other more profitable investment opportunities might be lost. The Chair said that the former Head of Global Equity had left over a year ago. He recalled that Schroder had said that they wanted to develop a more collegiate approach to investing, but on present evidence this approach was not working. The Investment Manager said Schroder's meeting with officers in December and with the Panel next March would provide opportunities to raise concerns.

[Councillor Gilchrist arrived at this point}.

A Member noted that Pyrford (Diversified Growth Fund) had given a negative relative return over the last three quarters and asked whether a further negative quarter should prompt a review of this manager. Mr Sheth replied that Pyrford was at present following a defensive stance by holding short duration bonds to protect the capital value of the portfolio from expected rises in yields. He agreed it would interesting to see how they had performed after two years rather than the short period since inception and noted that their allocation to Equities was low. The Investments Manager said that they would be expected to have performed better in the more volatile markets of October 2014 given their defensive portfolio.

RESOLVED:

1. To note the information as set out in the report.

2. To report issues identified to the Committee.

The Chair asked why Partners gave the fund earnings in cash, which then had to be reinvested, which incurred additional transaction costs. The Investments Manager said this was connected with the investment structure as a private partnership, closed ended fund, where income and capital realised is distributed to investors. .

29 WORKPLAN

RESOLVED to note the workplan.

The meeting ended at Time Not Specified

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-2078-14

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 12 December 2014

Author: Matt Betts
Report Title: Item - Investment Panel Activity Exempt Appendix 1 to the Investment Panel Activity Report

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

The exempt appendix also 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 Performance Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time.

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

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**12 DECEMBER 2014**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 September 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT Performance Monitoring Report Exempt Appendix 3 – Changes in RAG status of Managers	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 September 2014.

1.2 The main body of the report comprises the following sections:

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Voting Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2013 will affect the next triennial valuation in 2016. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report at Appendix 2 (section 3). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) The funding level has fallen from 87% to 83% since June 2014 and compares to 78% at the March 2013 valuation.

(2) The fall in the funding level was due to an increase in the liabilities. The discount rate has fallen from 5% to 4.7% due to a reduction in the bond yield from 3.4% to 3.1%. This compares to a bond yield of 3.2% at the March 2013 valuation. A fall in implied inflation from 3.5% to 3.4% offset some of the impact from bond yields. Likewise asset returns were marginally ahead of expectations.

(3) Since the 2013 valuation the discount rate has been broadly neutral on the funding position. The improvement in the funding level has been due to excess investment returns and the advance payment of deficit contributions.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £53m (c.1.5%) in the quarter, giving a value for the investment Fund of £3,539m at 30 September 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 30 Sept 2014

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	1.9%	9.4%	12.0%
Avon Pension Fund (excl. currency hedging)	2.0%	8.9%	11.7%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	2.4% *(-0.5%)*	8.7% ***(+0.6%)***	10.8% *(+1.1%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	1.8% *(+0.1%)*	8.5% ***(+0.9%)***	11.7% *(+0.3%)*

5.2 **Fund Investment Return:** All Equity markets achieved positive returns over the quarter with the exception of the UK (-1%) and Europe (-2.6%) whilst Frontier markets (+7.1%) and the USA (+6.4%) were the strongest returning markets. Bond yields again fell over the quarter leading to strong positive returns from Gilts (+7.2%) and Corporate Bonds (+5.5%) over the quarter.

5.3 Over the one year period, of the equity markets only North American outperformed the strategic return assumptions. Of the other asset classes, property and UK bonds (gilts corporates and index linked) all outperformed. Over 3 years developed market equities, UK bonds (gilts, corporates and index-linked) and property all outperformed their strategic return assumption, whilst emerging market equities and hedge funds underperformed their strategic return assumption.

5.4 **Fund Performance versus Benchmark: +0.6% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **0.8%** over the 12 months. This was due to an underweight to emerging markets equities and hedge funds and an overweight in developed market overseas equities. In addition the currency hedging programme contributed **0.5%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance detracted -**0.7%** over the 12 month period, relative to the strategic benchmark. The main impacts were that the small outperformance by UK and Emerging market equity managers was offset by the underperformance of the global equity manager.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund significantly outperformed the average fund.

5.6 **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 marginally detracted from the Fund's total return over the quarter (-0.1%) but added 0.5% over the year.

B – Investment Manager Performance

5.7 In aggregate over the three year period the managers' performance is marginally ahead of the benchmark (+0.2%). Twelve mandates met or exceeded their three year performance benchmark, which offset underperformance by Schroder Global Equity, and Signet. Genesis, RLAM, TT and Jupiter performed particularly well against their three year performance targets.

5.8 As part of the 'Meet the Managers' programme, the Panel met with TT (UK equity mandate) and Jupiter (UK SRI equity mandate) on 21 November 2014. The summary of the Panel's conclusions can be found in Exempt Appendix 3 to the Investment Panel Activity Report.

5.9 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 (TT and Gottex) have been upgraded to a Green rating (explained in Exempt Appendix 3).** Currently 2 managers are amber rated.

5.10 The reported performance data of the Partners property portfolio was discussed at the Investment Panel meeting. Officers are clarifying with WM (the Fund's independent performance provider) how WM calculate the return of this particular portfolio to ensure they are reflecting the cash flows accurately. Officers will report back to Panel once WM have clarified the situation.

6 INVESTMENT STRATEGY

6.1 During the quarter, progress on implementing the remaining changes to the Investment Strategy agreed in March 2013 was as follows:

(1) Infrastructure investments - Selected IFM to manage the Funds infrastructure allocation, and completed the subscription process. Note that it is expected that funds will be drawn down over a period of up to 2 years.

6.2 Following a review of the Fund of Hedge Funds portfolio, the Fund is currently tendering for a manager to manager a bespoke portfolio of hedge fund investments (as notified in last quarter's Committee meeting).

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 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.

7.2 In September the Fund redeemed its holding with Barings realising £232m; the majority of this money (£225m) was placed with the BlackRock passive portfolio on a temporary basis. Approximately 63% of funds were placed in Global Equities, 14% in overseas bonds and the remainder in Gilts. The effect of this change reduced the Equity:Bond ratio and still remains within the tactical range for rebalancing. The latest Equity:Bond allocation is 74.8:25.2 as at 5 Nov 2014. Officers will continue to incorporate any rebalancing considerations as the new infrastructure mandate is funded.

Cash Management

7.1 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.2 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).

7.3 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.

7.4 Following the lump sum deficit recovery payments in April it was forecast that there would be an average cash outflow of c. £3m each month during the year to 31 March 2015. In the quarter ending 30 September the outflow of cash averaged just over £4m. This was due to the advanced payment of deficit recovery payments in previous quarter and the payment of a high level of retirement lump sums. The increase in future service contributions since the commencement of the new rates on 1 April 2014 has in general terms been offset by the increase in pension payments following Bristol City Council's bulk redundancy exercise. To fund the cash flow shortfall £10m of investment income was transferred from the custodian in August. A further £10m of investment income has been transferred from the custodian in October.

8 VOTING UPDATE

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

Companies Meetings Voted:	189
Resolutions voted:	2,658
Votes For:	2,631
Votes Against:	28
Abstained:	5
Withheld* vote:	1

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

9 RISK MANAGEMENT

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

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

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

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	LAPPF Member Bulletins, Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND VALUATION - 30 SEPTEMBER 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		Pyrford	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																	
UK	219.5	6.2	168.5	153.0			20.3									567.6	16.0%
North America	189.1						123.5									312.6	8.8%
Europe	154.9						34.2		40.1							229.2	6.5%
Japan	42.4						19.7		39.5							101.7	2.9%
Pacific Rim	52.1						7.2		30.5							89.7	2.5%
Emerging Markets					154.4	185.3	11.8								0.0	351.6	9.9%
Global ex-UK								254.8								254.8	7.2%
Global inc-UK	141.6														31.6	173.2	4.9%
Total Overseas	***580.1***	***0.0***	***0.0***	***0.0***	***154.4***	***185.3***	***196.5***	***254.8***	***110.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***31.6***	***1512.8***	***42.7%***
Total Equities	**799.6**	**6.2**	**168.5**	**153.0**	**154.4**	**185.3**	**216.8**	**254.8**	**110.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**31.6**	**2080.3**	**58.8%**
DGFs												**118.8**				**118.8**	**3.4%**
BONDS																	
Index Linked Gilts	251.9															251.9	7.1%
Conventional Gilts	105.0	7.5														112.5	3.2%
Corporate Bonds	19.8									287.1						306.9	8.7%
Overseas Bonds	106.9															106.9	3.0%
Total Bonds	**483.6**	**7.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**287.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**778.1**	**22.0%**
Hedge Funds											163.6					**163.6**	**4.6%**
Property													156.1	140.2		**296.2**	**8.4%**
Cash	5.2	1.2	15.3	10.7			6.0						10.6		54.2	**103.2**	**2.9%**
TOTAL	**1288.3**	**14.9**	**183.9**	**163.7**	**154.4**	**185.3**	**222.9**	**254.8**	**110.1**	**287.1**	**163.6**	**118.8**	**166.7**	**140.2**	**85.8**	**3540.3**	**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

Review for period to 30 September 2014

Contents

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1 Executive Summary

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the “Fund”), and of the Fund as a whole.

Funding level

- There is expected to have been a decrease in the funding level by around 4% over the third quarter of 2014.
- The drivers of this were:
  - A negative effect from the liabilities, as the valuation interest rate has decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation expectations.
  - A modest positive asset return, which did not offset the estimated rise in liabilities.

Fund Performance

- The value of the Fund's assets increased by £53m over the third quarter of 2014 to £3,539m. The total Fund returned 1.9% (2.0% excluding Record), which was a result of modest positive returns from most funds. This was behind the benchmark return of 2.4%.

Strategy

- Global equities generally rose over the quarter. The best regions were the US (+6.4%) and Frontier Markets (+7.1%), partly driven by a strengthening of the US Dollar relative to Sterling, but also due to positive economic figures from the US.
- UK and European equities fell over the quarter (by 1% and 2.6% respectively) as there were some indicators of a slower growing economy, particularly in Europe, at the start of the quarter.
- Over the last twelve months, equity returns in each of the major regions were positive, with returns ranging from 1.2% in Japan to 30.4% in Frontier Markets.
- Three year equity returns have been boosted by a very poor Q3 2011 falling out of the figures. The three year developed market equity returns remained ahead of the assumed strategic return. The three-year emerging market equity return was 6.1% p.a., which has improved on the negative return seen in the last report, but is still below the assumed strategic return.
- Gilts produced a positive return, as yields fell. Corporate bonds were also positive, but with a lower return than gilts as the yield gap widened. Three-year gilt and corporate bond returns remained ahead of the assumed strategic return despite a very strong Q3 2011 falling out of the analysis.
- The Overseas Fixed Interest return has fallen further back to -1.8% p.a. over three years, as US yields rose.
- Hedge funds remain below the assumed strategic returns although the three year return showed further improvement this quarter. The Property return has moved further ahead of the assumed strategic return to stand at 9.6% p.a., driven by the economic recovery in the US and the UK.
- The strengthening of the US dollar against Sterling meant that the overall impact of currency hedging has had a detrimental impact, as the majority of the hedging was in US Dollars, offsetting some of the positive impact of the Dollar movement. Currency hedging was beneficial in Euros and Yen, which both weakened against Sterling.

Managers

- Over the quarter, absolute returns from the managers were mixed. As last quarter, the highest returns came from emerging market equities and property, with Unigestion returning 5.9% and Schroder Property 4.5%. As a result of market movements, SSgA Europe produced the lowest quarterly return (-2.3%) but the fund was ahead of its benchmark.
- Over one-year, the highest return came from Schroder Property (19.1%). In line with markets, all funds (except Partners) produced a positive return over one year, and only Schroder Equity, Signet and Partners underperformed their one-year benchmarks.
- Over three years, similarly all funds produced a positive return and only Schroder Equity, Signet and Partners underperformed their respective benchmarks. Each of the outperforming managers also met their outperformance target, apart from SSgA Europe which was 0.1% below.
- The three year performance of the three hedge funds and Genesis emerging markets were below their strategic assumed returns – again this was mainly market-related as Stenham, Gottex and Genesis all outperformed their targets.

Key points for consideration

- The absolute and relative performance of Partners Property could be misleading and lead to an unfair negative assessment. The net internal rate of return, which has been 9.3% p.a. since inception, is a more meaningful measure as it properly accounts for the timing of cashflows.
  - Near term performance can be distorted as the nature of the portfolio generally results in greater costs up front for each individual investment and performance being realised once the investment is sold.
- The Fund has fully disinvested from the Barings Dynamic Asset Allocation Fund following the departure of the lead fund managers.
  - Since the Fund's disinvestment, the Barings fund has experienced significant cash outflows such that its size has fallen from c. £7bn to £3bn, and the cost of exiting the fund has increased from c. 0.6% to c 0.8%.
  - The proceeds were invested in the BlackRock Multi Asset portfolio in such a way as to broadly replicate the underlying asset allocation of the Barings Fund. However, from the Total Fund asset allocation point of view, these changes mean that there is a significant underweight position to Diversified Growth and overweight positions to equities and bonds.
  - The search for a replacement diversified growth fund manager is currently underway and, once appointed and funded, these over- and underweight positions relative to benchmark will reduce.
- The Fund has confirmed the appointment of IFM as infrastructure manager.
  - This is expected to be funded from the Fund's developed market equity allocation, further reducing the current overweight position to that asset class.
- Unigestion has enjoyed very strong relative performance since inception
  - This is expected given the market environment, where there is a large divergence between the outlook for, and therefore return from, different emerging markets. Unigestion's approach of taking into account macro factors whilst focussing on quality, less risky stocks has benefited relative performance.
  - Relative performance could suffer over periods where riskier stocks rally but, over the medium and long term, this is expected to be offset from Unigestion's focus on fundamental quality.

- The Schroder Global Equity portfolio continues to underperform its benchmark.
  - Performance should be monitored closely to assess the impact of the changes made by lead portfolio manager Simon Webber.
  - The impact of the appointment of Alex Tedder as Head of Global Equity will also be assessed over the coming months.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of September 2014.

Market Statistics

Yields as at 30 September 2014	% p.a.
UK Equities	3.34
UK Gilts (>15 yrs)	2.98
Real Yield (>5 yrs ILG)	-0.37
Corporate Bonds (>15 yrs AA)	3.83
Non-Gilts (>15 yrs)	4.15

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.07	-0.07	-0.32
UK Gilts (>15 yrs)	-0.36	-0.43	-0.47
Index-Linked Gilts (>5 yrs)	-0.25	-0.33	-0.53
Corporate Bonds (>15 yrs AA)	-0.33	-0.48	-1.29
Non-Gilts (>15 yrs)	-0.28	-0.36	-0.88

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	7.2	11.4	6.4
Index-Linked Gilts (>5 yrs)	5.9	9.9	7.2
Corporate Bonds (>15 yrs AA)	5.5	11.1	9.2
Non-Gilts (>15 yrs)	5.1	11.3	9.2

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-1.0	6.1	13.9
Overseas Equities	3.5	12.3	16.0
USA	6.4	19.3	21.5
Europe	-2.6	5.3	14.6
Japan	3.1	1.2	8.0
Asia Pacific (ex Japan)	2.4	6.6	9.8
Emerging Markets	3.2	6.7	6.1
Frontier Markets	7.1	30.4	16.8
Property	4.7	19.7	9.6
Hedge Funds	0.6	8.0	7.5
Commodities	-7.7	-7.9	-1.4
High Yield	2.0	6.1	10.1
Emerging Market Debt	-0.6	9.7	7.9
Senior Secured Loans	0.4	4.6	7.9
Cash	0.1	0.5	0.5

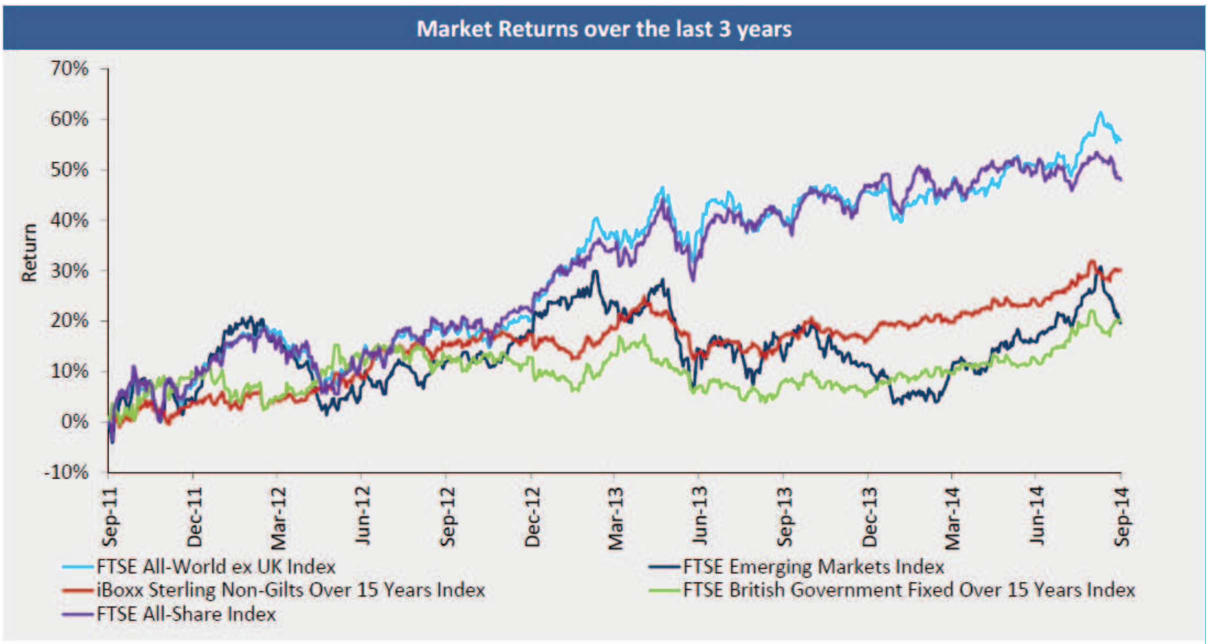
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-5.2	0.1	1.3
Against Euro	2.8	7.3	3.4
Against Yen	2.7	11.9	14.0

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	2.3	2.7
Price Inflation – CPI	0.1	1.2	1.3
Earnings Inflation *	0.3	1.2	1.3

* Subject to 1 month lag

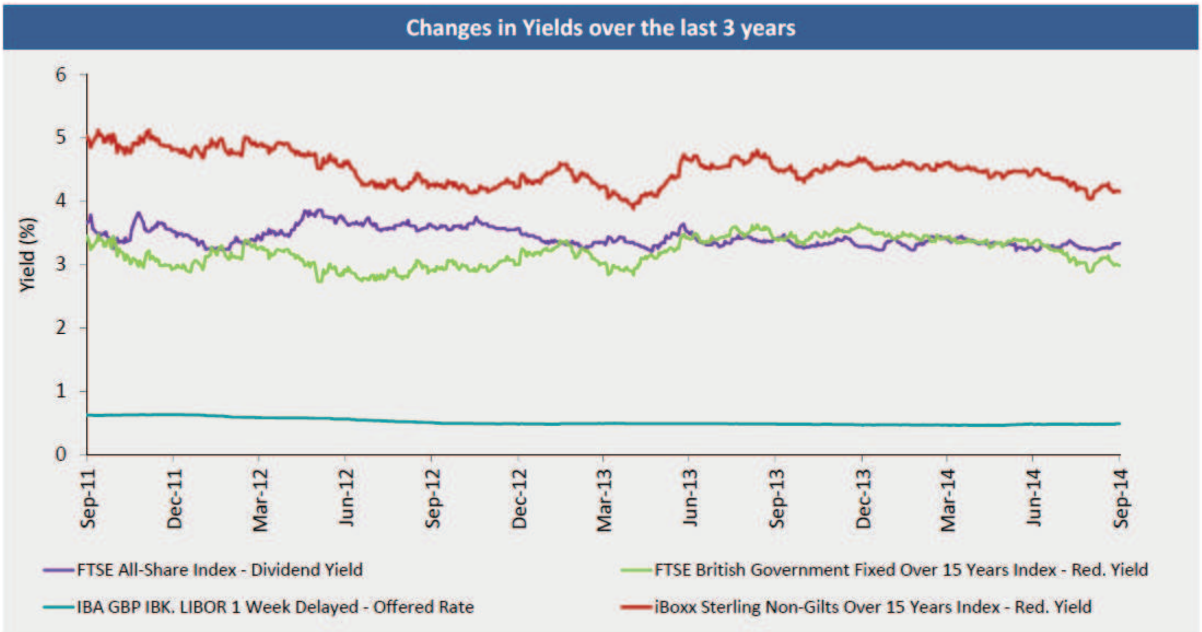
Source: Thomson Reuters and Bloomberg

Market Summary charts



Source: Thomson Reuters.

The graph above shows market returns for the last three years; demonstrating both the medium-term trend and short-term volatility.



Source: Thomson Reuters.

The trend between September 2011 and April 2013 shows falling UK gilt yields, corporate bond yields and the dividend yield on the FTSE All-Share Index. Bond yields rose in the second half of 2013 but declined over the first three quarters of 2014, whilst the dividend yield has remained relatively flat since April 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 September 2014, with assumptions about returns made in the Investment Strategy agreed in 2013.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities	8.25	16.9	Significantly ahead of the assumed strategic return. This has increased from 9.8% p.a. reported last quarter as the large equity falls of Q3 2011 are no longer part of the 3 year return. Equity markets rebounded in the final quarter of 2011 as concerns reduced over a possible EuroZone breakup and US GDP slowed less than expected. Over the last 12 months, the developed equity return was 12.3%.
Emerging Market Equities	8.75	6.1	The 3-year return from emerging market equities has improved and moved into positive territory. Like developed markets, market prices corrected after the panic drops of Q3 2011. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.
Diversified Growth	Libor + 4% / RPI + 5%	4.7 / 7.7	DGFs are expected to produce an equity like return over the long term – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities but deliver a return close to the long term equity assumed strategic return.
UK Gilts	4.5	6.3	Bond returns, despite slight reductions, remain above the long term strategic assumed return as the fragile nature of the global markets has encouraged investors to overweight fixed income.
Index Linked Gilts	4.25	7.2	
UK Corporate Bonds	5.5	7.8	
Overseas Fixed Interest	5.5	-1.8	Well behind the assumed strategic return and has fallen further into negative territory as strong growth and potential inflation acceleration in the US increased yields.
Fund of Hedge Funds	6.0	4.9	Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but returns have improved slightly as hedge funds increase equity exposure..
Property	7.0	9.6	Property returns continue to increase above the expected returns, driven by the economic recovery in the US and the UK.

Source: Statement of Investment Principles, Thomson Reuters.

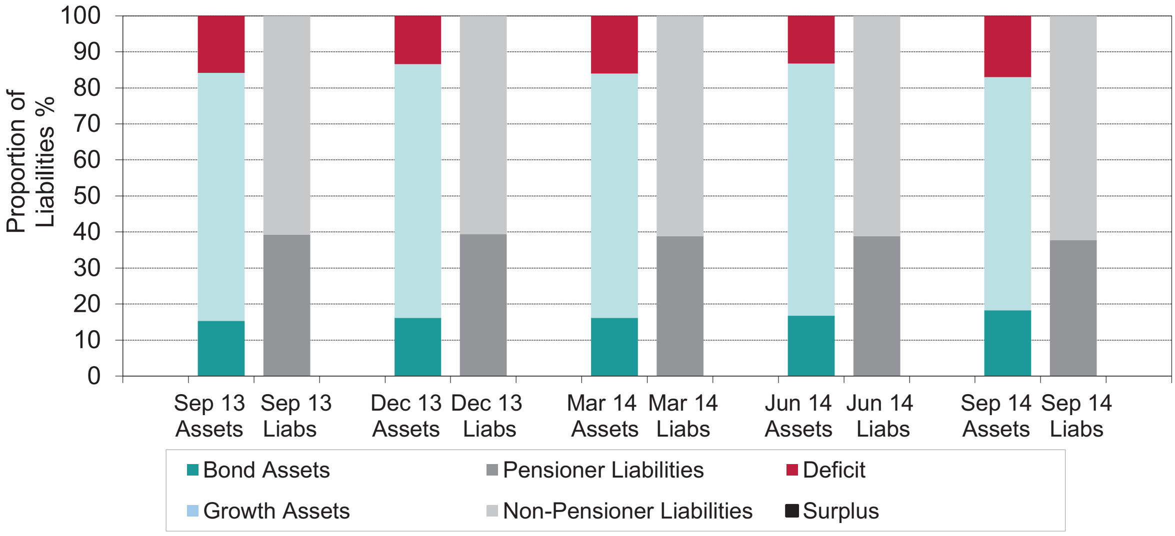
See appendix 1 for economic data and commentary.

3 Consideration of Funding Level

This section of the report considers the estimated funding level of the Fund. Firstly, it looks at the Fund asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Asset allocation and liability split

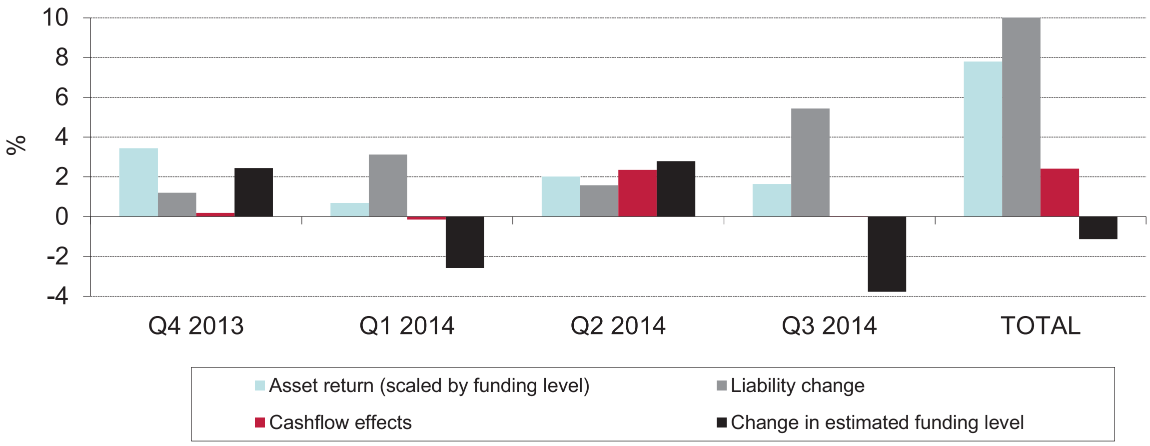
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix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



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level decreased by circa 4% over the third quarter of 2014, all else being equal. This was driven by:
  - » A negative effect from the liabilities, as the valuation interest rate has decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation-linked liabilities.
  - » A modest positive asset return, which did not offset the estimated rise in 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 83%. This improvement has come mainly from positive asset returns over the period.

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.

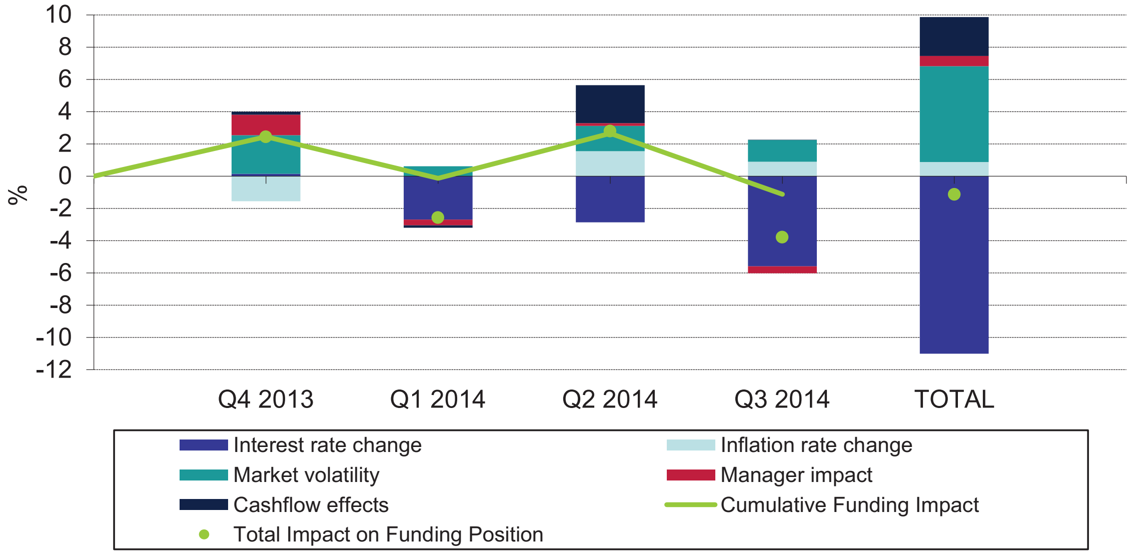


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 1.6%, over the last quarter.
- The value placed on the liabilities increased by 5.4% due to a fall in the discount rate, offset to some extent by a smaller decrease in the inflation assumption used to value inflation-linked liabilities.
- The 'cashflow effect' was negligible this quarter – the 2.3% in Q2 2014 represents several employing bodies paying their deficit payments in advance.
- Overall, the combined effect has led to a decrease in the estimated funding level to 83% (from 87% at 30 June 2014).

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. When yields fall, as in the last three quarters, this has a negative impact, as the liabilities have a longer duration than the assets.
- The Market Implied (RPI) inflation assumption fell by 0.1% p.a. over the quarter. This gives a positive contribution as future inflation-linked payments are projected lower.
- For Growth assets, 'Market volatility' is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has had a positive impact over the quarter as Growth assets posted positive returns.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was negative over the last quarter as the total fund returned 0.5% below the benchmark.
- The 'cashflow effects' reflect factors such as pension payments, contributions and disinvestments.
- Overall the investment factors have had a negative impact on the estimated funding level of the Fund over the last quarter.
- Over the last year, investment factors have had a small negative effect due to a fall in the discount rate assumption, which increases the value placed on the liabilities ('interest rate change'). This was offset by the positive asset returns ('market volatility') and manager outperformance ('manager impact'), all else being equal.

4 Fund Valuations

The table below shows the asset allocation of the Fund as at 30 September 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	30 June 2014 Value £'000	30 June 2014 Proportion of Total %	30 September 2014 Value £'000	30 September 2014 Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,592,727	45.7	1,740,605	49.2	40.0
Emerging Market Equities	327,819	9.4	339,745	9.6	10.0
Diversified Growth Funds	346,321	9.9	118,799	3.4	10.0
Bonds	673,456	19.3	778,076	22.0	20.0
Fund of Hedge Funds	164,589	4.7	163,610	4.6	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	116,595	3.4	103,242	2.9	-
Property	264,693	7.6	295,202	8.3	10.0
TOTAL FUND VALUE	**3,486,200**	**100.0**	**3,539,279**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £53m over the third quarter of 2014 to £3,539m.
- The amount invested in Diversified Growth (DGF) has decreased significantly. This is due to the decision to fully disinvest from the Barings Dynamic Asset Allocation Fund following the departure of the lead fund managers. Almost all proceeds from this sale were invested in the BlackRock Multi Asset portfolio, and the remainder in Cash.
- As a result of this change, the allocation to DGF reduced from 9.9% to 3.4%, with the allocations to Developed Market Equities and Bonds increasing. This takes the exposure further away from the strategic benchmark weight.
- However, when considering the asset allocation within the previously held Barings fund, the allocation to equities and bonds has not changed significantly.
- The search for a replacement DGF manager has commenced.
- Over the quarter the appointment of IFM as infrastructure manager for the Avon Pension Fund was confirmed. IFM's allocation is expected to be met from equities over time, thus reducing the current overweight position.

Manager	Asset Class	30 June 2014 Value £'000	30 June 2014 Proportion of Total %	Net new money £'000	30 September 2014 Value £'000	30 September 2014 Proportion of Total %
Jupiter	UK Equities	163,584	4.7	-	163,669	4.6
TT International	UK Equities	183,391	5.3	-	183,858	5.2
Schroder	Global Equities	219,456	6.3	-	222,855	6.3
Genesis	Emerging Market Equities	152,851	4.4	-	154,408	4.4
Unigestion	Emerging Market Equities	174,969	5.0	-	185,337	5.2
Invesco	Global ex-UK Equities	244,970	7.0	-	254,766	7.2
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	109,464	3.2	-	110,065	3.1
Pyrford	DGF	117,921	3.4	-	118,799	3.4
Barings	DGF	228,400	6.6	-232,730	0	0.0
MAN	Fund of Hedge Funds	890	0.0	-	706	0.0
Signet	Fund of Hedge Funds	67,005	1.9	-206	65,940	1.9
Stenham	Fund of Hedge Funds	38,056	1.1	-	38,038	1.1
Gottex	Fund of Hedge Funds	58,639	1.7	-	58,926	1.7
BlackRock	Passive Multi-asset	1,038,803	29.8	225,106	1,288,341	36.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	44,470	1.3	-30,500	14,913	0.4
RLAM	Bonds	279,336	8.0	-	287,071	8.1
Schroder	UK Property	159,480	4.6	-	166,655	4.7
Partners	Property	108,905	3.1	30,500	139,147	3.9
Record Currency Mgmt	Dynamic Currency Hedging	14,069	0.4	-	1,130	0.0
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	22,858	0.7	-	30,851	0.9
Internal Cash	Cash	58,685	1.7	7,831	53,805	1.5
Rounding		-2	-0.2	-	0	0.0
TOTAL		**3,486,200**	**100.0**	**0**	**3,539,279**	**100.0**

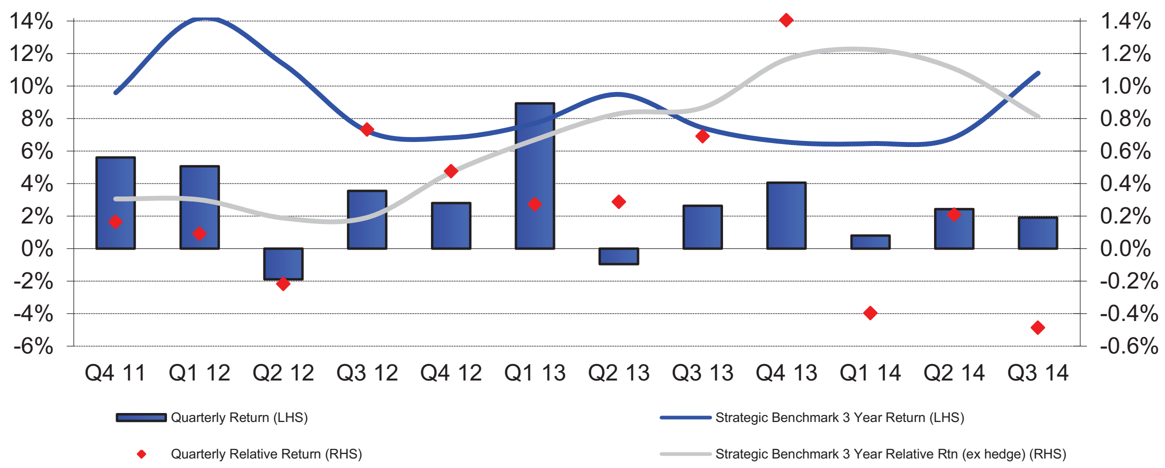
Source: Avon Pension Fund Data provided by WM Performance Services

5 Performance Summary

Total Fund performance

The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance



fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	1.9	9.4	12.0
Total Fund (ex currency hedge)	2.0	8.9	11.7
Strategic Benchmark (no currency hedge)	2.4	8.7	10.8
Relative (inc currency hedge)	-0.5	+0.6	+1.1

Source: Data provided by WM Performance Services

- The largest component of the quarter's underperformance was stock selection in overseas developed equities.

Benchmark allocation

The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and 1 year to 30 September 2014, and thereby analyses what we would expect the strategy to return if all assets had been invested passively and met their benchmark returns.

Asset Class	Weight in Strategic Benchmark		Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
	Sep 13	Sep 14	Q3 2014	(quarter)	1 year	(1 year)
UK Equities	18%	15%	-1.0%	-0.1%	6.1%	0.9%
Overseas Equities	42%	25%	3.6%	0.9%	12.7%	3.2%
Emerging Market Equities	-	10%	1.8%	0.2%	4.2%	0.4%
Diversified Growth Funds	-	10%	1.1%	0.1%	4.5%	0.5%
UK Government Bonds	6%	3%	7.2%	0.2%	11.4%	0.3%
UK Corporate Bonds	5%	8%	2.9%	0.2%	7.5%	0.6%
Index Linked Gilts	6%	6%	5.9%	0.3%	9.9%	0.6%
Overseas Fixed Interest	3%	3%	1.9%	0.1%	-0.2%	-0.0%
Fund of Hedge Funds	10%	10%	1.1%	0.1%	4.5%	0.5%
Property	10%	10%	4.0%	0.4%	16.8%	1.7%
Total Fund	**100%**	**100%**		**2.4%**		**8.7%**

Source: Returns data provided by WM Performance Services

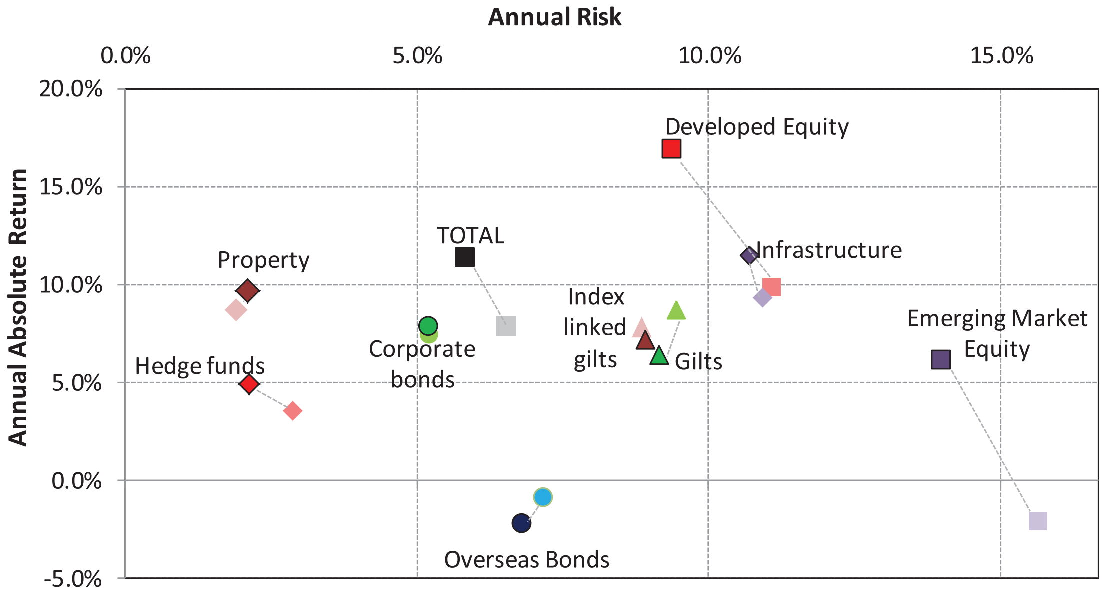
- The benchmark weights above are those held by WM to partly reflect the changes to the investment strategy, agreed in 2013, whilst they are implemented.
- Over the quarter, the benchmark was 2.4%. This was driven by contributions from most asset classes, in particular overseas equities and property.
- Over the last twelve months, the benchmark was 8.7% p.a. All asset classes except Overseas Fixed Interest gave a positive contribution, with equities the main contributor.
- The assumed strategic return for the Fund as a whole, weighted by the strategic benchmark allocation over the last year, is 7.3% p.a. Hence the actual one-year benchmark return was 1.4% p.a. ahead of this.
    - The 1 year benchmark for overseas equities (12.7%) was ahead of its assumed strategic return of 8.25%. The property benchmark of 16.8% was well ahead of its assumed strategic return of 7%, and UK government, corporate and index-linked bonds were also well ahead.
    - UK equities, Emerging market equities, Overseas Fixed Interest and Fund of Hedge Funds were below their assumed strategic returns over the year.

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2014 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.

This chart can be compared to the 3 year risk vs return managers' chart on page 17.

3 Year Risk v 3 Year Return to 30 September 2014

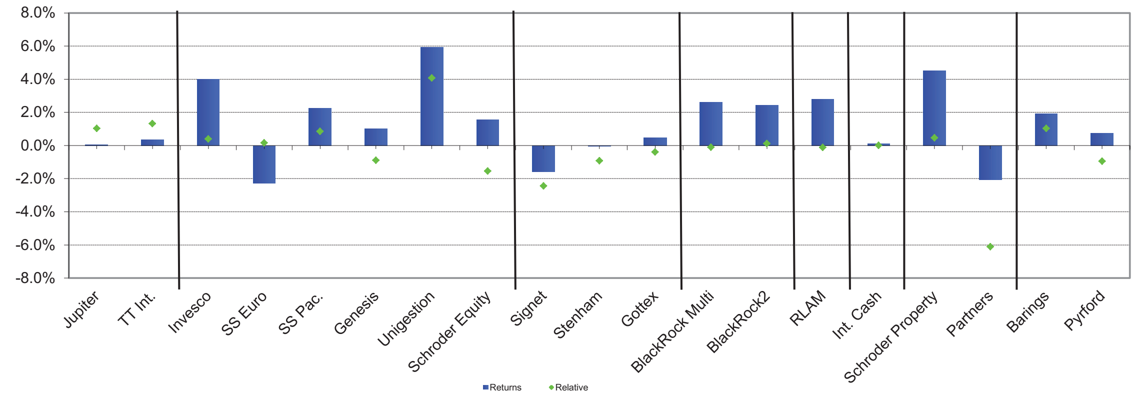


- There has been a large change in the 3 year risk/return characteristics of equities over the quarter, as the equity market slump of Q3 2011 has fallen out of the analysis, which has significantly improved the three year returns of the both developed and emerging market equities.
- Conversely, the 3 year risk/return profile of bonds remained reasonably stable as Q3 2014 returns were positive, akin to Q3 2011.
- Developed equity produced the best 3-year return, of 16.9% p.a. The next highest were Infrastructure (11.5% p.a.) and Property (9.6% p.a.)
- The emerging market equity return improved significantly and is no longer negative, currently standing at 6.1% p.a. The hedge fund index continues to produce steadily improving returns, increasing the three-year return to 4.9% p.a.
- Overseas bonds remains in negative territory and currently is the only negative returning asset class charted.
- In terms of risk, the three-year volatility has fallen for most asset classes in the above chart following the removal of the volatile Q3 2011 period.
- The three-year return on developed equities is significantly above its assumed return; property, gilts, index-linked gilts and corporate bonds remain above their assumed strategic return. Hedge funds and emerging market equities remain below their assumed strategic return, with overseas bonds well below.

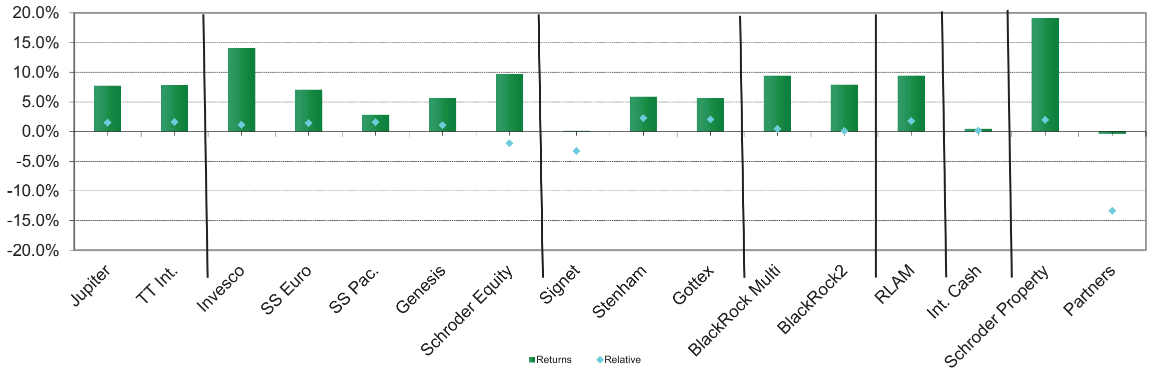
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of September 2014. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

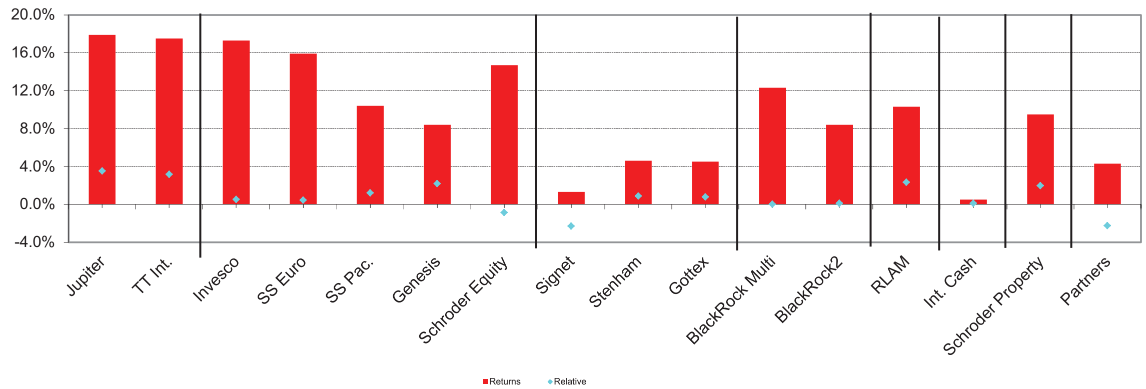
Absolute and relative performance - **Quarter to 30 September 2014**



Absolute and relative performance - **Year to 30 September 2014**



Absolute and relative performance - **3 years to 30 September 2014**



Source: Data provided by WM Performance Services

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of September 2014. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+1.0	+1.5	+3.5	Target met
TT International	+1.3	+1.6	+3.2	Target met
Invesco	+0.4	+1.2	+0.5	Target met
SSgA Europe	+0.2	+1.4	+0.4	Target not met
SsgA Pacific	+0.8	+1.6	+1.2	Target met
Genesis	-0.9	+1.1	+2.2	Target met
Unigestion	+4.0	N/A	N/A	N/A
Schroder Equity	-1.6	-2.0	-0.9	Target not met
Signet	-2.4	-3.3	-2.3	Target not met
Stenham	-0.9	+2.2	+0.9	Target met
Gottex	-0.4	+2.0	+0.8	Target met
BlackRock Multi - Asset	-0.1	+0.5	+0.1	Target met
BlackRock 2	+0.1	+0.1	+0.1	Target met
RLAM	-0.1	+1.8	+2.3	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.5	+2.0	+2.0	Target met
Partners Property	-6.1	-13.4	-2.2	Target not met
Barings	+1.0	NA	NA	N/A
Pyrford	-1.0	NA	NA	N/A

Source: Data provided by WM Performance Services

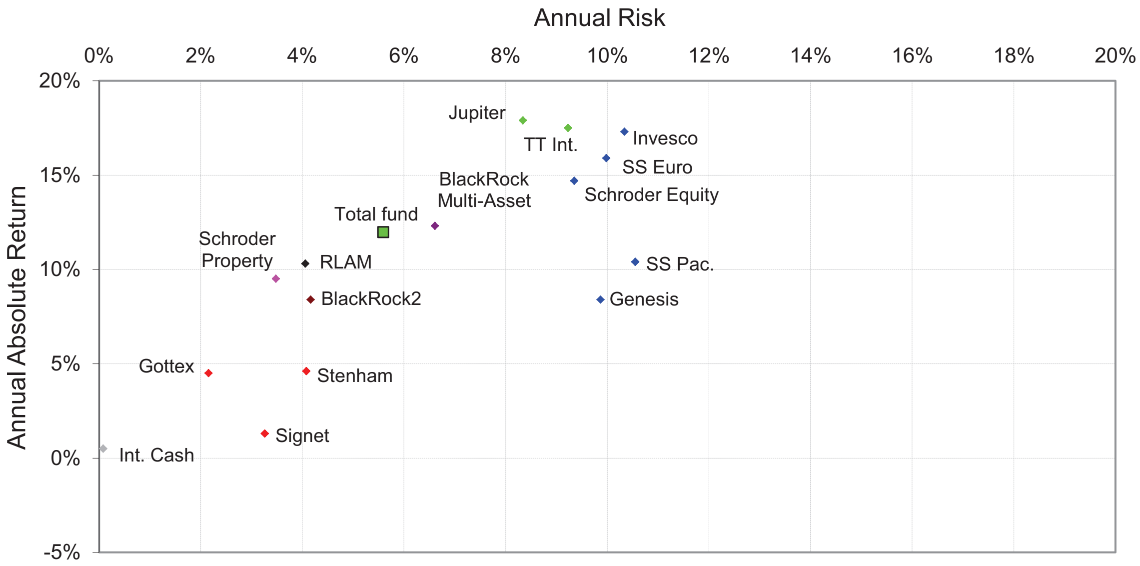
- The absolute and relative performance of Partners Property could be misleading and lead to an unfair negative assessment. The net internal rate of return, which has been 9.3% p.a. since inception, is a more meaningful measure as it properly accounts for the timing of cashflows.

» Near term performance for Partners can be distorted as the nature of the portfolio generally results in greater costs up front for each individual investment and performance being realised once the investment is sold.

Manager and Total Fund risk v return

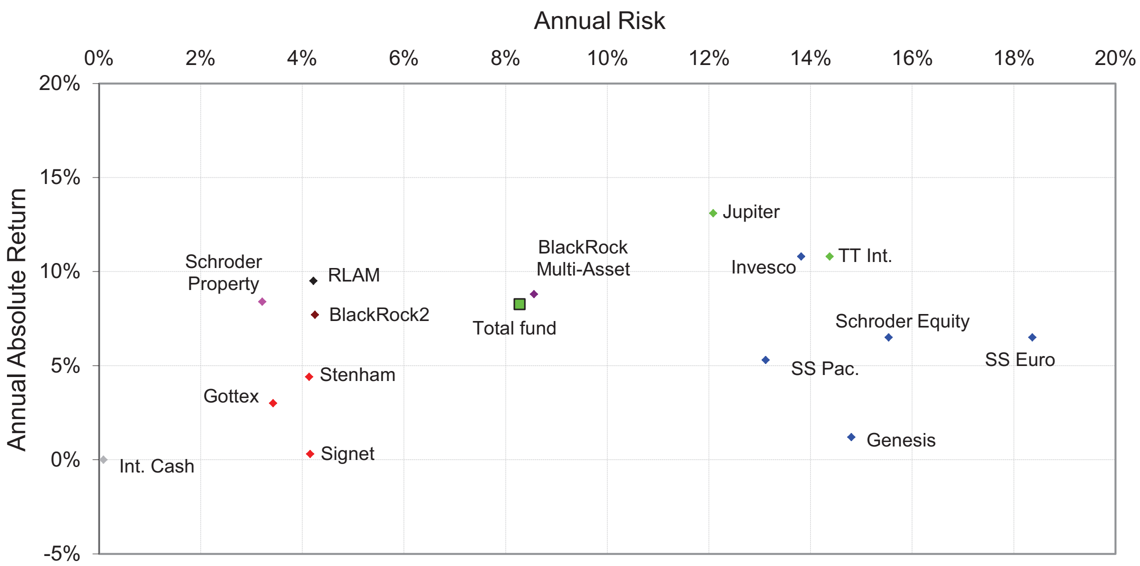
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2014 of each of the funds. We also show the same chart, but with data to 30 June 2014 for comparison.

3 Year Risk v 3 Year Return to 30 September 2014



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 June 2014



Source: Data provided by WM Performance Services

The managers are colour coded by asset class, as follows:

- Green: UK equities — Blue: overseas equities
- Red: fund of hedge funds — Black: bonds
- Maroon: multi-asset — Brown: BlackRock No. 2 portfolio
- Grey: internally managed cash — Pink: Property
- Green Square: total Fund

- The three-year returns have increases markedly for equities, following the removal of the weak Q3 2011 market returns, and remained reasonably stable for all other funds..
- The UK equity managers' returns increased (Jupiter from 13.1% p.a. to 17.9% p.a. and TT from 10.8% p.a. to 17.5% p.a.) and they remain the best performing funds in absolute terms over three years.
- The other main shifts in the equity funds' three year returns were SSgA Europe (up from 6.5% p.a. to 15.9% p.a.) and Schroder Equity (up from 6.5% p.a. to 14.7% p.a.).
- The hedge fund managers' thee-year returns all improved over the quarter, in particular Gottex (up from 3.0% p.a. to 4.5% p.a.) and Signet (up from 0.3% p.a. to 1.3% p.a.).
- The three-year risk figures have fallen significantly over the third quarter for all equity funds, with the largest change being an 8.4% p.a. fall from SSgA Europe. For the non-equity funds, the risk figures have changed by 1.9% p.a. or less since last quarter. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest, in line with the market returns chart on page 8.
- Over the longer three year period, the three fund of hedge fund managers have underperformed the asset class assumed strategic return, although returns have been improving.
- Jupiter, TT, Invesco, the two SSgA funds, RLAM bonds and Schroder Property have all outperformed the assumed strategic return and also outperformed their benchmarks (SSgA Europe slightly behind target).
- Schroder Equity has outperformed the assumed strategic return, but is below its individual benchmark and target.

This report may not be further copied or distributed without the prior permission of JLT Employee Benefits. This analysis has been based on information supplied by our data provider Thomson Reuters and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied.
It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	▪ Towards the end of the quarter, Scotland voted to stay as part of the UK's political union. This cleared months of uncertainty over potential negotiations of sharing the nation's debts and assets that had weighed on investors' confidence. ▪ The Office for National Statistics (ONS) revised the UK's economic growth up to 0.9% for Q2 2014 compared with the previous estimate of 0.8%. As per the ONS' revised estimates, GDP was 2.7% higher than its pre-crisis peak by the end of Q2 2014.	▪ Consumer confidence in the UK edged down as reflected by the GfK Consumer Confidence Index which declined in September to −1 from 1 in August. The gauge, which had recovered sharply early in the year, slipped on concerns that economic growth would not benefit the personal finances of people in Britain. ▪ Despite steady economic growth, the ONS figures indicate that the country's current account deficit widened from 4.7% of GDP in Q1 2014 to 5.2% in Q2 2014.
Overseas Equities:		
North America	▪ Aided by a surge in exports and a rise in business spending, US GDP grew at an annualised rate of 4.6% in Q2 2014, marking the fastest pace of growth in two years. The growth rate has now exceeded 3.5% in three of the past four quarters. ▪ The unemployment rate fell to 5.9% in September, marking the first time that unemployment has been below 6% since July 2008. The US Labour department said that the economy added 248,000 jobs in September while job growth numbers for July and August were also revised upwards.	▪ As the Federal Reserve's quantitative easing program is due to end in Q4 2014, the timing of the first interest rate hike remains a headwind for the equity markets in the near term. While the market expects interest rates to start inching upward towards mid 2015, Janet Yellen has often emphasised that any such move will depend on the strength of economic data. ▪ Labour force participation rate fell to 62.7% in September—the lowest reading since February 1978. A lower participation rate implies that fewer people are looking for work, limiting an economy's ability to grow.

Asset Class	Positive Factors	Negative Factors
Europe	▪ In response to a continued decline in inflation, employment and production readings, the European Central Bank (ECB) cut its benchmark interest rate to 0.05%, and reduced the deposit rate to -0.2% in September 2014. Moreover, they announced a programme to buy asset-backed securities later this year. ▪ Equities were buoyed in the latter half of Q3 2014 as expectations rose that the ECB will announce a full-fledged quantitative easing program in the near term. Policymakers have hinted that the bank stands ready to try any unconventional measures to avert the threat of deflation in the Euro area.	▪ Eurozone equities posted negative returns over Q3 2014 as macro-economic data released during the period further substantiated that the region's fragile economic recovery was slowing. In addition, worries over the volatile situation in Ukraine and the potential impact of sanctions on Russia weighed on the region's equities. ▪ Eurozone GDP recorded zero growth in Q2 2014. Weakness in France and Germany, which together contribute approximately two-thirds of the output in the region, offset gains in some of the other countries such as Portugal and Spain. Moreover, inflation fell to 0.3% in September from 0.4% in August, fuelling fears that deflationary pressures may dampen the region's economic recovery.
Japan	▪ Corporate earnings for Q2 2014 beat analysts' estimates—a trend held for seven consecutive quarters. The Yen, meanwhile, hit a multi-year low of JPY 108 versus the US dollar during the quarter. This weakness in the Yen is expected to further boost the profitability of export-oriented companies. ▪ Japan's public pension funds, including the USD 1.2 trillion Government Pension Investment Fund, sold Japanese government bonds worth USD 10.1 billion during the April to June quarter. This was in line with the recently announced portfolio reallocation to move its assets away from low-yielding bonds into equities.	▪ The sales tax hike in April continued to adversely impact economic data released during the Q3 2014. Q2 2014 GDP contracted sharply by 7.1% on an annualised basis—the largest since 2009. The effect of the hike in levy was widespread with consumption and capital spending falling by 5.1% each during the quarter. ▪ The Bank of Japan (BoJ) kept monetary policy unchanged, maintaining its current annual expansion rate of JPY 60-70 trillion. However, analysts expect that the BoJ would have to undertake further easing to reach its inflation target of 2%.

Asset Class	What happened? Positive Factors	Negative Factors
Asia Pacific	▪ A rally in Indian stocks continued following the election of a new government and the indices gained another 4.8% over Q3 2014. A better-than-expected GDP growth rate of 5.7% for Q2 2014 compared with 4.6% growth witnessed in Q1 2014 indicates that growth may be picking up pace. Also, Standard and Poor's raised the outlook for India's "BBB-minus" rating to "stable" from "negative" towards the end of September 2014. ▪ South Korea recorded its 32nd consecutive month of trade surplus owing to strong exports, which grew by 6.8% year-on-year in September. The Korean government announced a stimulus package of USD 40 billion in July to stimulate the economy and unveiled a new tax plan prodding cash-hoarding companies to spend more in wages and dividends or face extra taxes.	▪ Asia Pacific (excluding Japan) equities ended the quarter marginally lower as strong economic data coming out of the US and resulting expectations of an interest rate hike by the Federal Reserve concerned the markets. ▪ Stocks fell marginally in Hong Kong over the quarter, with most losses arising in September, as the pro-democracy movement in the city gathered momentum and culminated into street protests towards the end of the quarter.
Emerging Markets	▪ Chinese equities performed positively during the quarter amidst mixed economic data. Exports grew by 9.4% in August, while imports fell by 2.4%, further inflating the country's trade surplus. Although the HSBC Purchasing Managers Index (PMI) fell to a three-month low, it managed to remain in the expansionary territory, recording 50.2 in August. ▪ Standard & Poor’s upgraded its debt rating for Greece from 'B-minus' to 'B' in September citing that the fiscal reform efforts are yielding results and the economy remains on track to emerge from a six-year recession next year.	▪ For the first time in history, the Russian Rouble fell below the psychological 40-level mark versus the US dollar under the weight of Western sanctions. Russian firms shut out of capital markets due to these sanctions have been purchasing dollars, pushing the Rouble down by approximately 18% since the start of the year.

Asset Class	What happened? Positive Factors	Negative Factors
Gilts	■ Growth expectations in the UK remain strong. However, of the three major sectors (services, construction and manufacturing), services and manufacturing industries have been a drag over the quarter. The monthly Markit/CIPS PMI for the services sector dropped to 58.7 in September from 60.5 in August. Manufacturing output rose by 0.1% in August, down from growth of 0.3% in July. ■ Modest Inflation and more-than-estimated spare capacity in the labour market have been restricting the Bank of England (BoE) to undertake interest rate hikes.	■ Gilt prices slipped beginning September 2014 on account of the Scottish Independence referendum. It was speculated that a vote in favour of Scottish independence could result in economic uncertainty in the UK.
Index Linked Gilts	■ With limited issuance of new index-linked gilts and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	■ The UK consumer price index grew by a modest 1.6% and 1.5% in July and August 2014 respectively, down from 2.0% in December 2013. ■ In an environment where central banks are able to control inflation within a target range, there is limited upside to the return expectations on these instruments.
Corporate Bonds	■ Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.	■ The reduction in credit spreads over the past few months leaves little room for any further contraction.
Property	■ UK commercial property values rose by 0.9% in August 2014, albeit at a moderated pace as compared with the previous two months. The values have now risen by 12.8% over 16 months of consecutive growth. ■ Construction PMI rose to 64.2 in September 2014 from 64.0 in August 2014, the highest reading since January 2014.	■ Residential real estate in the UK declined by 0.2% in September 2014, following 16 consecutive months characterised by price increases. The new affordability tests (MMR) introduced in April for house buyers are influencing this, leading to a drop in the number of mortgage approvals to 64,212 in August 2014—the weakest reading since May 2014.

Economic statistics

	Quarter to 30 September 2014			Year to 30 September 2014		
	UK	**Europe[1]**	**US**	**UK**	**Europe[1]**	**US**
Real GDP growth	0.7%	n/a	0.9%	3.0%	n/a	2.3%
Unemployment rate	6.3%	11.5%	5.9%	6.3%	11.5%	5.9%
Previous	*6.5%*	*11.6%*	*6.1%*	*7.7%*	*11.1%*	*7.3%*
Inflation change[2]	0.1%	-0.1%	-0.1%	1.2%	0.3%	1.7%
Manufacturing Purchasing Managers' Index	51.6	50.3	56.6	51.6	50.3	56.6
Previous	*57.5*	*51.8*	*55.3*	*56.7*	*51.1*	*56.2*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. "Previous" relates to data as at the previous quarter or year end.

(1) EU changing composition area; (2) CPI inflation measure

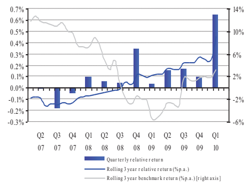
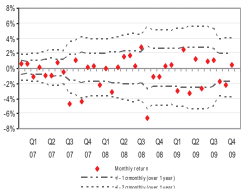
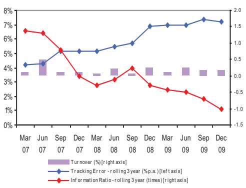
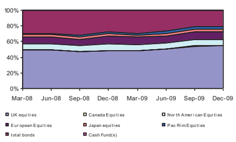
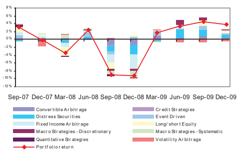
Appendix 2: Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE AW All-World ex UK UK Gilts (>15 yrs or >20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index Corporate Bonds(>15 yrs AA): iBoxx £ Corp 15+ Years AA Index Non-Gilts (>15 yrs): iBoxx £ Non-Gilts 15+ Years Index Index Linked Gilts (>5yrs): FTSE Brit Govt Index Link Over 5 Years Index Hedge Funds: CS/Tremont Hedge Fund Index Commodities: S&P GSCI Commodity GBP Total Return Index High Yield: Bank Of America Merrill Lynch Global High Yield Index Property: IPD Property Index (Monthly) Infrastructure: FTSE MACQ Global Infrastructure Index Cash: 7 day London Interbank Middle Rate Price Inflation: All Items Retail Price Index Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

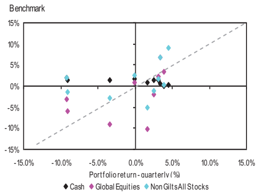
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Appendix 3: Glossary of Charts

The following provides a description of the charts used in Section 6 and a brief description of their interpretation.

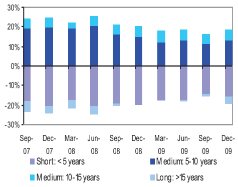
Reference	Description
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlaid to provide a context for relative performance, e.g. consistent underperformance in a falling market.
#2 	This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).
#4 	This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.
#5 	This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.
#6 	These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



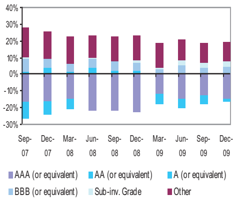
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8



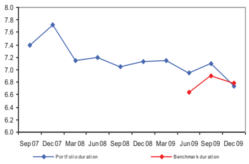
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10



This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

Appendix 4: 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	+2-4%
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-2078-14

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 12 December 2014

Author: Matt Betts
Report Title: Item 10 – Review of Investment Performance Report Exempt Appendix 3 - Changes in RAG status of Managers

The Exempt appendix 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 appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

Weighed against this is the fact that the exempt appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also 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 is in favour of not holding this matter in open session at this time.

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

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**12 DECEMBER 2014**
TITLE:	**LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 3Q14**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 The Chair has requested that the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report is reported separately rather than as part of the Investment Performance Report.

1.2 The quarterly engagement report from LAPFF for the period ending 30 September 2014 can be found in Appendix 1.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note LAPFF Quarterly Engagement Report at Appendix 1**

3 FINANCIAL IMPLICATIONS

3.1 The subscription for LAPFF is provided for in the annual budget.

4 LAPFF QUARTERLY ENGAGEMENT REPORT

4.1 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.

4.2 The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour, both in terms of corporate governance and to ensure non-traditional investment risks are brought to the attention of company boards so they can be addressed and managed more effectively by the company.

4.3 Fund members and/or officers regularly attend LAPPF meetings and conferences. The work of LAPFF supports the officers and Investment Panel members in their discussions with the investment managers.

4.4 LAPFF's activity in the quarter is summarised in their Quarterly Engagement Report at Appendix 4.

5 RISK MANAGEMENT

5.1 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.

6 EQUALITIES

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

7 CONSULTATION

7.1 This report is 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 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

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Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2014

Voting machines at National Grid AGM

Local Authority Pension Fund Forum (LAPFF)

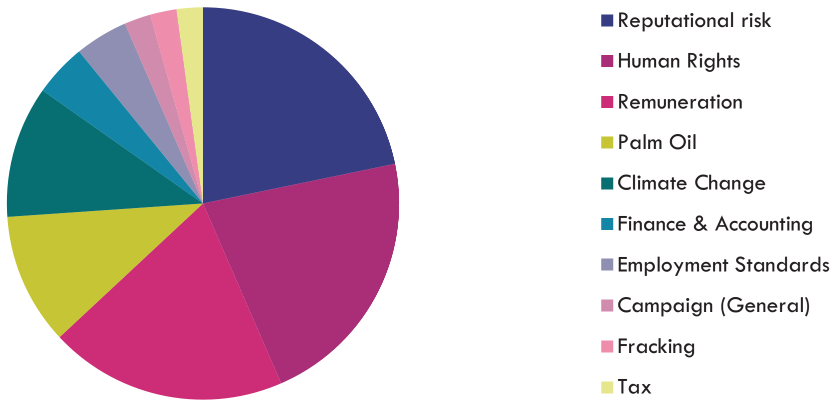
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £150 billion, www.lapfforum.org.

ENGAGEMENT SUMMARY

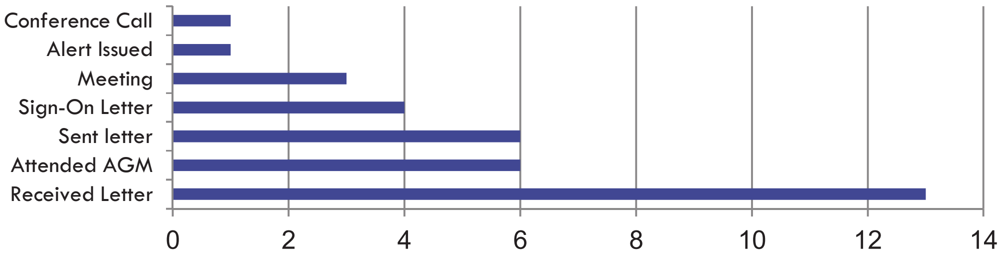
JULY TO SEPTEMBER 2014

The Forum engaged with **30 companies** over the period

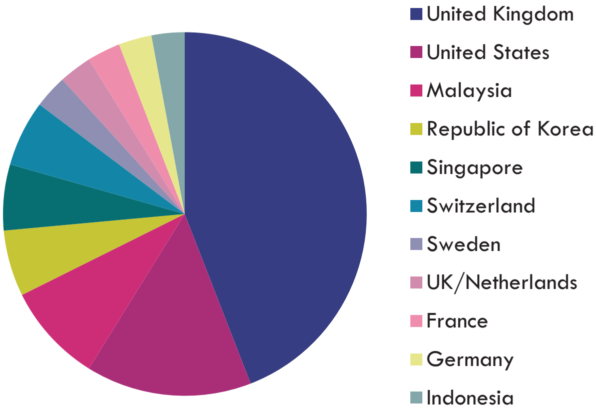
Topics



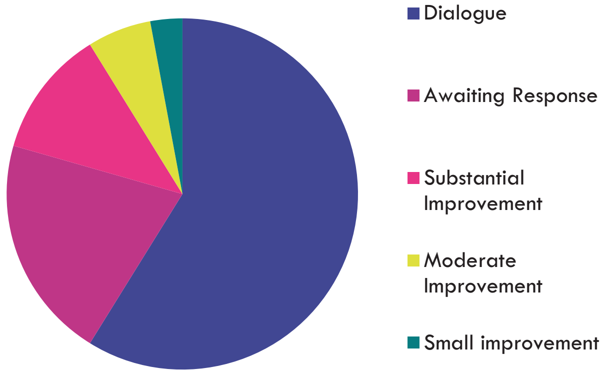
Activities



Company Domicile



Outcome



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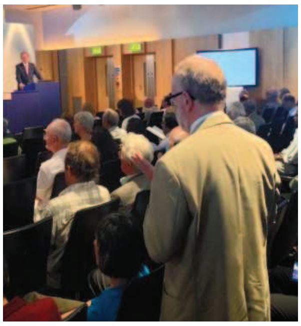
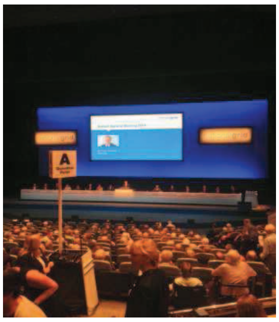
ACHIEVEMENTS

During the Quarter, LAPFF has maintained a consistent profile, engaging on governance and corporate responsibility concerns and publicly raising significant shareholder issues by direct questioning at company AGMs as part of the engagement process.



British Land AGM

- Cllr Greening questioned the board on the links between executive pay and longer term climate risks and mitigation strategies at the **British Land** AGM.
- Asked the chair of **Vodafone** at the AGM about excessive executive pay, given the Company's performance has not been very strong over the past year. Received response to Cllr Greening's question that bonuses rarely result in a 100% payout and that the long term incentive metric outperformed the market.
- Cllr Greening also questioned **Betfair** at its AGM over illegal dividends and share buybacks after LAPFF issued a voting alert on this topic.
- Cllr Cameron Rose attended the **BT Group** AGM to ask how the Company ensures that its customer service performance is adequately reflected in pay incentives when the importance of this area has been downgraded in the performance metrics.



National Grid AGM

- Raised concerns over remuneration at the **Burberry** AGM in light of the increase in salary and other arrangements for the newly appointed CEO Christopher Bailey.
- Attended the **National Grid** AGM to continue engagement around progress towards achieving a top level within the Carbon Disclosure Project's Climate Performance Leadership Index. Were told that LAPFF was the first investor group to raise the issue of progress on reporting Scope 3 emissions.
- After collaborative engagement on sustainable palm oil practices, **Sime Darby, Kuala Lumpur Berhad, Asian Agri Resources** and **IOI Group** have announced an immediate moratorium on clearance of high carbon stock forests.
- Met with **G4S**'s senior independent director to discuss changes at the head of the company and the effect on operational and reputational risk management including challenges from complex, international contracts, diversity and succession planning.
- Met with **Glencore** for a second time on carbon management within the Aiming for A investor initiative, as well as raising other social and governance risk management concerns.
- Pursued previous engagement with **BAE** by meeting with the chair, Sir Roger Carr. Topics covered anti-corruption processes, executive pay and gender diversity at board level as well as throughout the company.

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THE FORUM IN THE NEWS

Director Remuneration
Lexology

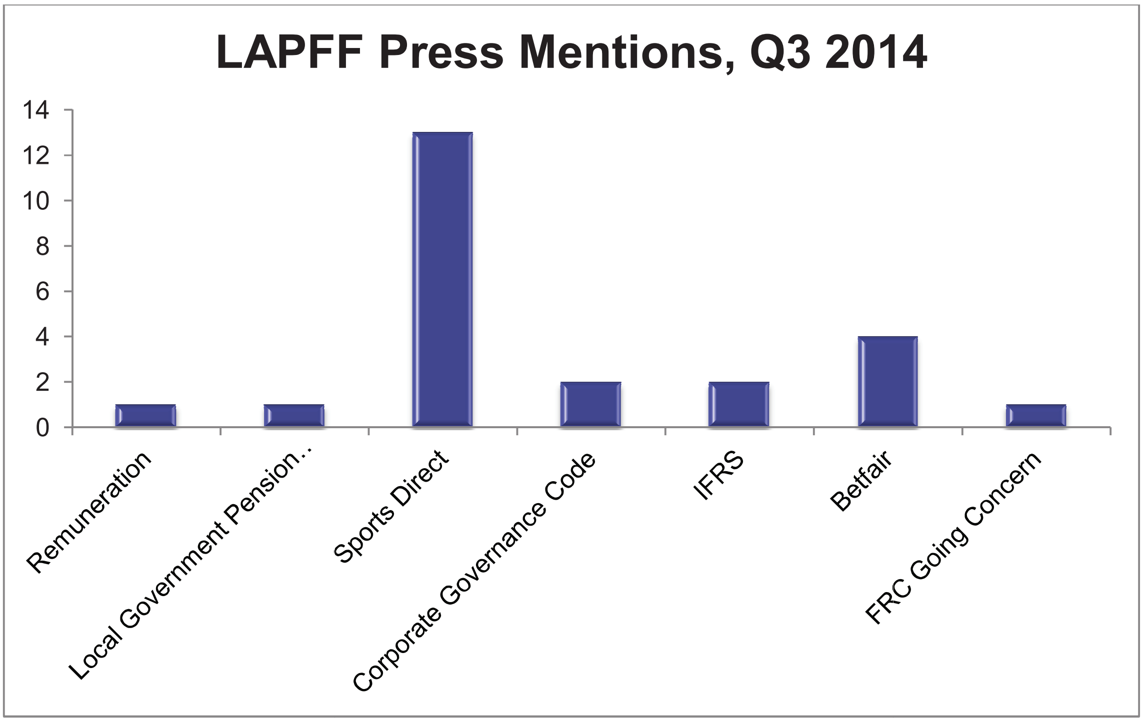
Local Government Pension Schemes
Local Government Chronicle, Investment and Pensions Europe

LAPFF targets SportsDirect over Mike Ashley's pay package
City A.M., Reuters, Investment & Pensions Europe, The Guardian, BBC, Evening Standard, The Journal, Express and Star

Corporate Governance Code
Financial Times, Accountancy Age

IFRS Failings
Professional Pensions, Investment and Pensions Europe, Financial Director

Betfair
Sunday Telegraph, SBC News, economia, Financial News, Shares Magazine Chinese press.



COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The issue of the production and sale of cluster munitions was raised at the June executive meetings and LAPFF agreed to engage with nine aerospace and defence companies over the production and sale of cluster munitions. The concern is that these weapons kill people indiscriminately and that they continue to be dangerous after conflicts have ended. Of the companies contacted – **Textron**, **ATK**, **L-3**, **General Dynamics**, **Lockheed Martin**, **Doosan**, **Hanwha** and **Singapore Technologies** – four have responded to letters requesting confirmation that these companies do not produce or sell cluster munitions.

By and large, the responses received so far state that the companies do not produce or sell cluster munitions within the definition of the Oslo Convention. However, neither the U.S. nor South Korea – both of which are major clients of these firms – have ratified or acceded to the Oslo Convention. This lack of state commitment to the law makes it more difficult to discern the extent of companies' involvement.

A meeting was held with the chair of **BAE**, Sir Roger Carr, to discuss cluster munitions and to follow up from previous meetings with the company. Sir Roger provided assurances that BAE is completely compliant with the terms of the Oslo Convention, which is the international law that bans cluster munitions. The meeting gave the opportunity to assess progress on anti-corruption processes, looked at simplification of pay arrangements and assessed the measures BAE was putting in place to ensure not only board diversity, but gender diversity throughout the company.

PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF continues to push companies on their executive pay arrangements, especially in relation to rewards for sub-par performance and on complexity. At the **Vodafone** AGM, Cllr Greening asked Chairman Gerard Kleisterlee how the Company could have rewarded its executives with variable pay when the financials for the year were not good. Mr Kleisterlee responded that bonus payments rarely reach a 100% payout and that metrics informing the long term incentive plan outperformed the market. However, he did not address the lack of a link between pay and performance.

A second meeting with the senior independent director of **G4S**, aimed to ascertain whether changes at the head of the Company have led to better operational management on the ground and have lessened reputational risk. The new chief executive, Mr Almanza, appears to be making significant changes, and post-Olympics, the company believes there is improved contract assurance and greater scrutiny of contracts with newly established risk committees at the executive and board levels to deal with complex contracts. LAPFF again raised the issue of pay complexity. The company has engaged extensively with its major shareholders, but has come up against opposing investor opinion on metrics. A follow-up phone call established that some elements of the EPS adjustments were confusing and would be removed.

Complex pay arrangements are also of concern at **Hays.** Hays' scheme is problematic in that it has too many components, six in total, thus making it difficult for investors to track payments and whether the payments were deserved. LAPFF has written to the company seeking a meeting. At the **BT** AGM, Cllr Rose asked how pay incentives helped improve customer service given that the relative importance of customer service has dropped in the Company's performance metrics for executives.

Reliable Accounts

Betfair has stated in its Annual Report that it paid illegal dividends and share buyback distributions for the years 2011, 2012 and 2013. LAPFF issued a voting alert ahead of the September AGM aiming to hold relevant Board members responsible for the distribution payments. The alert includes a recommendation to abstain on the resolution approving the payment of dividends for the year under review as it is not clear that the accounting problems have been remedied. It appears that the illegal dividends were paid in part because the Company's accounts were not audited in line with the 'true and fair view' standard set at law.

MANAGING ENVIRONMENTAL RISK

Palm oil

LAPFF's engagement with companies to encourage sustainable palm oil production and supplies has met some success. A group of palm oil growers, including **Sime Darby, Kuala Lumpur Berhad, Asian Agri Resources** and **IOI Group**, released a 'Sustainable Palm Oil Manifesto' directed at ensuring future palm oil developments are subject to high standards of environmental protection and limit deforestation. While the Manifesto might be regarded as a step forward, LAPFF shared concerns that it does not set the same strong standards as those followed by major industry leaders whom the Forum has supported such as Wilmar and Golden-Agri.

The Manifesto does not adequately extend to the companies' third party suppliers or protect peatlands and allowed the companies to continue deforestation while definitional issues are resolved. LAPFF again co-signed letters with Green Century Capital Management to raise these concerns with these companies, seeking an immediate moratorium on deforestation and requested the companies adopt a time-bound plan for fully traceable palm oil. By mid-September members of the Palm Oil Manifesto Group announced that they would be adopting an immediate moratorium on clearance of high carbon stock forests.

LAPFF is continuing to work with the **PRI Investor Group** and is participating in collective engagement with the largest buyer of palm oil from an Indonesian supplier on working to find a way to engage with that supplier over concerns with its practices for palm oil production.

Energy and Environmental Risk

LAPFF has continued to engage on climate risks at AGMs during the 2014 season. At the **British Land** AGM, Cllr Greening focussed on the extent to which the Company has considered future climate impacts in land purchase and developments, particularly flood and inundation risk. The board was also asked about the Company's influence with local authorities to improve sustainability and resilience factors in housing and commercial developments. The concern is that if climate impacts have not been considered adequately, both in location and design, British Land developments could face longer term risks from extreme weather or other environmental impacts. If these risks materialise, they could affect shareholder value.

This extended notion of climate risks was reflected in the question asked to Sir Peter Gershon, the **National Grid** chairman, at the company's AGM regarding measurement and reporting of Scope 3 emissions. To date, most companies have focused reporting on Scope 1 and 2 emissions. However, it is important to recognise that company emission profiles encompass their supply chains and major contractors, or Scope 3 emissions. This AGM attendance continues LAPFF's participation in the 'Aiming for A' engagement which encourages company progress within the Carbon Disclosure Project's Climate Performance Leadership Index. The Chair, Sir Peter Gershon, noted that LAPFF was the first investor group to raise the issue of progress on monitoring Scope 3 emissions. Identifying the emissions profiles generated throughout complex supply chains also helps to begin to address the deeper issues of climate risk management and the development of adaptation and resilience measures critical to energy supply companies operating vital infrastructure networks.

LAPFF continued its engagement with **Glencore** on carbon management within a discussion on the overall environmental, social and governance risk management processes. Questions were posed both at a sustainability presentation and a separate meeting with the head of the board environment and safety committee. On its carbon management, the company was encouraged to establish emissions reduction initiatives and set associated targets in order to

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and to clearly identify links between the initiatives and reductions made. Closer questioning on performance against health and safety metrics indicated a more effective monitoring system being implemented. On board governance, succession planning and gender and other aspects of diversity were addressed.

TARGETING SOCIAL ISSUES

Employment Standards

The issue of modern day slavery is beginning to rise on companies' radars. Recent reports on Asian slave labour helping to produce prawns destined for US and UK supermarkets and the UK Government's Modern Slavery Bill, introduced in June has given a greater focus on transparency in supply chains. For extractive companies such as Glencore, concerns include child labour, artisinal mining and exposure to social risks particularly in countries such as Mauritania.

"It is difficult to accept that modern Britain is home to slavery, but this appalling crime is taking place here - often out of sight - in shops, fields, building sites and behind the curtains of houses on ordinary streets" (Home Secretary Theresa May, BBC, 31 July 2014)

Social and Reputational Risks

LAPFF continues to engage with a range of stakeholders in order to inform better campaign and engagement approaches. Western Sahara Resource Watch (WSRW) requested a meeting to explain its position on company engagement in Western Sahara. Citing a UN legal decision on Western Sahara's right to exploit its natural resources as a Non-Self-Governing Territory, the organisation takes the stance that Morocco is illegally occupying Western Sahara and that therefore foreign companies, particularly phosphate and oil companies, should not be signing contracts with Morocco in relation to projects in Western Sahara. WSRW would like to see the political situation between Morocco and Western Sahara resolved before foreign companies undertake projects in Western Sahara. It believes this resolution would allow companies to engage with Saharawis to ensure that projects are mutually beneficial.

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CONSULTATIONS & PUBLIC POLICY

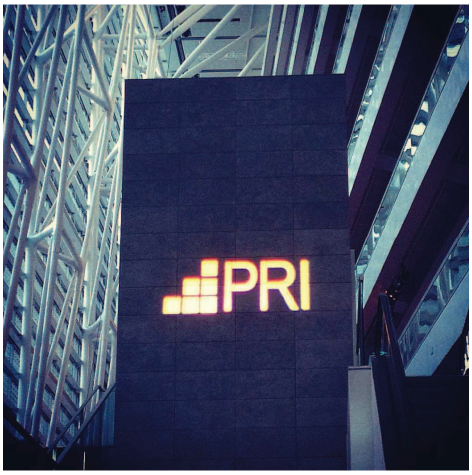
ENGAGING WITH POLICY-MAKERS

LAPFF has co-signed a letter to the International Organisation of Securities Commissions (**IOSCO**) to support working more closely with regulators, stock exchanges and other related parties to improve the disclosure of material and high-quality corporate Environmental, Social and Governance information in the global marketplace.

LAPFF hosted fringe meetings at the **Labour Party Conference** and the **Conservative Party Conference** on 'The Future of the Local Government Pension Scheme.' Speakers included the LAPFF chair, Cllr Kieran Quinn, Henry Boucher of Sarasin and Partners and Cllr Denise Le Gal, Chair, Surrey Pension Fund.

NETWORKS & EVENTS

- **30% Club Investor Group** – 'Next steps for accelerating change' with CEO of Women on Boards
- **Glencore Sustainability Presentation** by Tony Hayward (Chairman), Ivan Glasenberg (CEO) and Peter Coates (Chair of HSEC Committee)
- **CCLA** – event highlighting the importance of collective action on climate change, hosted by St Paul's/CCLA.
- **Threadneedle/UKSIF** event on UK preparations for fracking
- **Clifford Chance** – seminar on whether an arbitration tribunal similar to investment tribunals would be feasible for human rights
- **PRI in Person, Montreal** –included debates on fossil fuel divestment, investor tax responsibility, green bonds, fracking, human rights in extractives and executive remuneration



COMPANY PROGRESS REPORT

Company	Topics	Outcome
Glencore	Carbon management, board diversity	Small Improvement
Textron	Reputational risk, human rights	Dialogue
Alliant Techsystems	Reputational risk, human rights	Awaiting Response
L-3 Communications	Reputational risk, human rights	Dialogue
General Dynamics	Reputational risk, human rights	Awaiting Response
Lockheed Martin	Reputational risk, human rights	Dialogue
Doosan	Reputational risk, human rights	Awaiting Response
Hanwha Corporation	Reputational risk, human rights	Awaiting Response
Singapore Technologies	Reputational risk, human rights	Dialogue
Hays	Remuneration	Dialogue
Astrazeneca	Mergers and acquisitions	Dialogue
BAE Systems	Remuneration, board composition	Moderate Improvement
Burberry Group	Remuneration	Dialogue
BT Group	Remuneration	Dialogue
British Land	Remuneration, climate change	Dialogue
G4S	Remuneration, human rights	Moderate Improvement
National Grid	Carbon management	Dialogue
Svenska Handelsbanken	Remuneration	Dialogue
National Express	Employment standards	Dialogue
Vodafone	Remuneration, tax	Dialogue
Betfair	Finance & accounting	Dialogue
Sime Darby	Sustainable palm oil	Substantial Improvement
Kuala Lumpur Berhad	Sustainable palm oil	Substantial Improvement
Asian Agri Resources	Sustainable palm oil	Substantial Improvement
IOI Group	Sustainable palm oil	Substantial Improvement
Novartis	Holdings Based Engagement	Dialogue
Total	Carbon management, fracking	Dialogue
Deutsche Telekom	Employment Standards	Dialogue
Severn Trent	Remuneration	Dialogue
Olam	Sustainable palm oil	Dialogue

Companies LAPFF has not previously engaged with individually are indicated in bold.

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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 LB
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund RB
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
Sheffield City Region Combined Authority
Shropshire Council
Somerset CC
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
Wandsworth LB
Warwickshire Pension Fund
West Midlands PTA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**12 December 2014**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2014;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 30 September 2014;** **(3) SUMMARY PERFORMANCE REPORT TO 30 September 2014)** **(4) CIPFA – BENCHMARKING - PENSIONS ADMINISTRATION COMPARITOR REPORTS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1	Summary Financial Accounts: Seven months to 31 October 2014
Appendix 1A	Summary Budget Variances: Seven months to 31 October 2014
Appendix 2	Cash flow forecast to 31 March 2015
Appendix 3A	Balanced Scorecard : 3 months to 30 September 2014 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 30 September 2014 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5	Active membership statistics over 42 months to 30 September 2014
Appendix 6	Joiners & Leavers statistics over 14 months to 30 September2014
Appendix 7	Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 30 September 2014 (including late payers). Annex 1current quarter, Annex 2 timeline
Appendix 8	CIPFA 2014 Comparators report
Appendix 8A	CIPFA 5 Year Comparator report
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 4 months to 31 October 2014. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 30 September 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 30 September 2014 as well as the Risk Register and 2014 CIPFA Benchmarking Comparators report and five year comparators report for noting.

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure for 7 months to 31 October 2014

2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 September 2014

2.3 Summary Performance Report for period from 1 April 2011 to 30 September 2014,

2.4 Risk Register.

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 7 months to 31 October 2014 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2015 is for net expenditure to be under budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £61,000. This is partly due to savings on salaries resulting from the temporary partial secondment of the payroll manager to the Council's payroll section to provide support while they undertake a major project. Those parts of the Payroll Manager's role that they no longer cover are being temporarily covered by other members of the management team. Further forecast savings on salaries are due to the temporary secondment of the Projects Officer to Bristol City Council to assist their payroll team on pension matters. There are also forecast savings in communication costs. In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £385,000 largely because it is unlikely that any fees will be payable on the infrastructure mandate during 2014/15.

4.3 Explanations of the most significant variances are contained in **Appendix 1A** to this Report.

5 CASH FLOW FORECAST

5.1 Since September the Pension Fund Administration report has included a cash flow forecast for the year. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows will be managed by taking more income from the investment portfolio and possibly divestments. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The original cash flow forecast included in the 2014-2017 Service Plan was prepared before all the advance payments of deficit contributions (for 2014/15 to 2016/17 of c. £80m) were confirmed. The forecast assumed a lower level of advance payments for 2014/15 to be paid in April. The receipt of a greater level of advance payments, some covering the 3 years, has resulted in a net cash in-flow to 31 October of £60.5m above the forecast. The net in-flow above forecast for the full year to 31 March 2015 falls to £40.9m as the advance payments unwind during the year.

5.3 In addition to the increased receipts of deficit contributions (following the 2013 valuation) there has also been a small increase in future service contributions but this has been more than offset by an increase in retirement lump sums and regular pensions paid. These were partly a result of the high level of redundancy retirements at the end of March.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 30 September 2014

6.1 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.**

7 ADMINISTRATION PERFORMANCE

7.1 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 7585 new cases were received and 7224 were cleared representing 95.24% clearance of cases during the period and an increase in overall outstanding cases at period end. As a snapshot, at 30th September 2014 there were 3150 cases outstanding of which 32% represents actual workable cases and 68% represents cases that are part complete, pending a third party response.

7.2 Transfer Outs – the number of cases processed within agreed timescales has fallen since the previous quarter. This is due to the Fund reviewing its internal procedure for issuing transfer out quotes as a result of recent HMRC initiative on preventing Pensions Liberation (Scams). In cases where the transfer request is from an IFA or an unrecognised alternative provider the Fund is seeking confirmation of scheme registration from HMRC prior to issuing an initial transfer quotation.

7.3 Other areas shown in selected **Graphs** the Fund:

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

7.5 **CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30 September 2014 - Retirements**

Appendix 4 reports on the customer satisfaction based on 134 questionnaires returned from members retiring from both active and deferred status (out of a total of 295 questionnaires issued in respect of the reporting period). 98% reported that the information provided by the Fund was both clear and concise with 94% rating the service as good or excellent.

8 LEVEL OF OPT OUTS FROM THE SCHEME

8.1 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.

8.2 Reports indicate that 0.15% of active membership with more than 3 months service opted out over the period to 30th September 2014.

8.3 The additional introduction of an alternative 50/50 scheme will also give members an alternative 'cheaper' option for '*when times are tough*'. This bodes well for retention of members in the Scheme.

8.4 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. Early indications are that the 50/50 option has had little take up to date.

9 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (monitoring Opt Out trends) – EFFECT ON MEMBERSHIP OF THE START OF AUTO ENROLMENT

9.1 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.

9.2 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 period from 1 August 2011 to 30 September 2014 are shown in a graph format in **Appendix 5**.

9.3 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.

10 SUMMARY AVON PENSION FUND & EMPLOYER PERFORMANCE

10.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is 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.

10.2 A summary report to the Committee is now a requirement of the Pensions Administration Strategy. The Report for the period to 30th September 2014 is included as **Appendix 7.**

10.3 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

10.4 **Appendix 7** contains:

10.5 Bar charts for APF and each of the largest employers *(viz. 4 unitaries) reporting performance against retirements and early leavers measured against agreed SLA targets. **Annex 1** shows achievement within target over the current quartile. **Annexes 2 and 3** are comparator reports over the previous 5 year period.

- Report on any late pension contributions by employers to the Fund due for the 4 months to 31st October 2014.

11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

11.1 The Fund is continuing to progress towards electronic receipt of all member data change information:

11.2 **Employer Self Service: Update**

As at 30th September 2014 60% of employers had received full training on ESS data submission – representing 81% of total scheme membership.

11.3 ***i-Connect***

11.4 Considerable work has been undertaken by APF to ensure that thei-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. All four unitary authorities has signed agreements to use i-Connect

11.5 Both **Bristol City Council** and **North Somerset Council** send monthly data extracts.

11.6 **South Gloucestershire Council**: has requested deferment on going live on i-Connect pending extract specification requirements. The Payroll software provider is currently in the process of signing a legal agreement to enable work on providing relevant data extract to be undertaken.

11.7 **Bath & North East Somerset Council** is in the process of revising it's HR & Payroll service. Due to staff expertise required to support this project an agreement has been reached to discontinue i-Connect for the period 1st April 2014 to 31st March 2015. Key data will continue to be supplied via an alternative EDI process during the interim period.

11.8 **CIPFA BENCHMARKING CLUB REPORT 2014**

Each year, the Avon Pension Fund participates in the CIPFA Benchmarking Club exercise for Pension Administration. Following completion of an in-depth questionnaire on its administration processes, it receives a report detailing performance and costs comparisons against the other members of the Benchmarking Club.

The Fund then selects *Comparators* who are similar in structure and size to obtain a reasonable comparison. An extract of the report from the Comparators Report 2014 is included in **Appendix 8.**

11.9 The Funds cost per member remains competitive at £18.27 against the average fund (£20.75) and also the smaller comparator group (£20.37). In 2013/14 the Funds costs increased by 5.09% reflecting investment in Data Quality compliance. The Fund continues to have higher costs than average in areas where resources and investment have been prioritised. Particular factors to note are:

(i) The Fund still spends more on than the comparator group on IT. However, the gap is closing as other funds continue to step up investment in this area.

(ii) The Fund continues to reduce its communication costs per member as it makes greater use of electronic delivery of communication material – the costs remain higher than the comparator funds.

(iii) Staff costs remain competitive demonstrating that the Fund benefits from economies of scale as membership growth has exceed capacity growth – the benefits administration team handle c.15 % more scheme members per staff member than the comparator group average.

11.1.1 **Appendix 8A** reports Fund performance against the comparator group over the previous five year period.

(i) The Funds employer portfolio has continued to grow in excess of the comparator funds *(fig3)* and is managing the fragmentation of the employer base effectively within budget.

(ii) The report demonstrates a year on year increase in APF staff workload over the reporting period *(fig4)* reflecting both the growth in the employer portfolio over the same period and also an increase in transactional processing.

(iii) Number of members per FTE staff *(fig5)* have remained relatively constant during the period and remain above the group average.

(iv) The Fund has mixed performance in dealing with tasks *(fig6-9)* which reflects (a) the greater fragmentation of the employer base (b) lack of awareness from employers and (c) the use of internal measurement standards that have tighter deadlines than industry standards. The Fund is in the process of reviewing its Administration model with a view to direct employer engagement. The Fund currently has agreed a short term administration secondment to Bristol City Council to aid employer processes and review internal procedures.

12 RISK REGISTER

12.1 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.

12.2 The Risk Register is reviewed regularly by the pension management team. 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

12.3 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.

12.4 There are no new risks added to the register this quarter. The register is being updated to reflect The Pension Regulator's compliance requirements and this will be reported to Committee in March. The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 9.**

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

13 RISK MANAGEMENT

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

14 EQUALITIES

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

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

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

17 ADVICE SOUGHT

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

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259. Geoff Cleak, Acting Pensions Manager (*All except budgets*) Tel: 01225 395277
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2015

	SEVEN MONTHS TO OCTOBER 2014			FULL YEAR 2014/15		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	40,498	25,847	(14,651)	69,425	69,425	0
Administration Costs	45,812	32,689	(13,123)	78,535	78,535	0
Communication Costs	52,578	28,827	(23,750)	90,133	78,630	(11,000)
Payroll Communication Costs	27,372	44,540	17,168	46,923	46,923	0
Information Systems	169,100	243,208	74,108	289,886	289,886	0
Salaries	889,782	851,879	(37,903)	1,525,341	1,475,341	(50,000)
Central Allocated Costs	248,413	248,413	0	425,851	425,851	0
Miscellaneous Recoveries/Income	(83,146)	(83,631)	(485)	(142,536)	(142,536)	0
Total Administration	**1,390,408**	**1,391,772**	**1,363**	**2,383,557**	**2,322,054**	**(61,000)**
Governance & Compliance						
Investment Governance & Member Training	147,368	170,452	23,085	252,630	277,630	25,000
Members' Allowances	22,811	(10,737)	(33,548)	39,105	39,105	0
Independent Members' Costs	11,017	10,333	(684)	18,886	18,886	0
Compliance Costs	193,157	171,004	(22,154)	331,127	331,127	0
Compliance Costs recharged	(111,417)	(126,394)	(14,977)	(191,000)	(191,000)	0
Total Governance & Compliance	**262,936**	**214,658**	**(48,279)**	**450,748**	**475,748**	**25,000**
Investment Fees						
Global Custodian Fees	48,125	11,950	(36,175)	82,500	82,500	0
Investment Manager Fees	9,320,932	9,143,093	(177,838)	15,978,740	15,564,035	(410,000)
Total Investment Fees	**9,369,057**	**9,155,043**	**- 214,013**	**16,061,240**	**15,646,535**	**(410,000)**
NET TOTAL COSTS	**11,022,401**	**10,761,472**	**(260,929)**	**18,895,545**	**18,444,337**	**(446,000)**

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APPENDIX 1A

Summary of main budget variances: Forecast for full year at 31 October 2014

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(50,000)	Reduced salaries expenditure due to:- - the partial and temporary secondment of the Payroll Manager to the Council's Payroll section to provide support during a major project. (Those parts of the Payroll Manager's role that they no longer cover are being temporarily covered by members of the management team). - the secondment of Project Officer to Bristol City Council to assist with pension matters.
Communications	(11,000)	Savings were achieved by including the Change in Scheme Booklet within the Avon Pension News Summer edition, sending out At Ease with pensioner's payslips, producing the Annual Report in electronic format and reducing costs on the Employer's Conference.
Administration	**(61,000)**	
Investment Governance	25,000	The forecast spend on investment advisory fees has increased by £25,000 to reflect the costs of retendering the DGF mandate.
Investment Manager Fees	(410,000)	Investment Manager fees are forecast to be below budget. This is largely because the budget provided for the full year fees on the infrastructure mandate although the appointment was not made until after the start of the year. The termination of the mandate with Barings will also lead to a reduction in fees until a new manager is appointed. The forecast of performance related fees has been revised to update for the performance of managers which offsets part of the savings on the infrastructure mandate.
Expenditure Outside Direct Control	**(385,000)**	
Total Forecast Underspend	**(446,000)**	

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

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AVON PENSION FUND

Cash Flow Forecast

	SEVEN MONTHS TO OCTOBER 2014			FULL YEAR 2014/15		
	Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Outflows						
Benefits Pensions	(68,511)	(72,529)	(4,018)	(117,447)	(124,335)	(6,888)
Lump sums	(19,382)	(20,118)	(736)	(33,226)	(34,488)	(1,262)
Administration costs	(3,230)	(4,883)	(1,653)	(5,537)	(5,537)	0
Total Outflows	(91,122)	(97,530)	(6,408)	(156,210)	(164,359)	(8,150)
Inflows						
Deficit recovery (allowing for a lump sum in 2014/15)	28,082	86,576	58,493	48,141	88,370	40,229
Future service Employers	42,944	46,570	3,626	73,618	79,835	6,217
Future service Employees	21,769	21,464	(305)	37,318	36,795	(522)
Total Contributions	92,795	154,610	61,815	159,077	205,001	45,924
Net Cash Flow (excluding Investment Income)	1,673	57,080	55,408	2,867	40,641	37,774
Investment income received as cash	5,924	11,078	5,154	10,156	13,320	3,164
Net Cash In-Flow (Out-Flow)	**7,597**	**68,158**	**60,561**	**13,023**	**53,961**	**40,938**

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 30 September 2014

A Customer Perspective

	INDICATOR	Green Red Amber	2013/14 Actual	Target for 2014/15	Actual 3 months to 30/09/2014	Comments	
1	General Satisfaction with Service - retirees feedback	G	96%	97%	94.00%	126 out of 134 responses received from retirees in reporting period	**Appendix 4**
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	G	91%	92%	91.30%	21 of 23 Tasks were completed within target	
	Retirements [15 days]	G	89%	90%	86.24%	633 of 734 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	81%	75%	86.80%	993 of 1144 Tasks were completed within target	
	Refunds [5 days]	G	82%	80%	64.91%	296 of 456 Tasks were completed within target	
	Transfer Ins [20 days]	G	74%	75%	77.50%	93 of 120 Tasks were completed within target	
	Transfer Outs [15 days]	A	77%	75%	53.13%	85 of 160 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	89.33%	720 of 806 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				None due this quarter	
6	Number of hits per period on APF website	G	55572 (4631 p/m)	4000pcm	13,413	4471 per calendar month for reporting period	**Appendix 3B Graph 1**
7	Advising members of Reg Changes within 3 months of implementation				n/a	None this quarter	
8	Issue of Newsletter (Active & Pensioners)				n/a	None this quarter	
9	Annual Benefit Statements distributed by year end	G			100%	Issued on time	

B People Perspective

	INDICATOR			Green Red Amber	2013/14 Actual	Target for 2014/15	Actual 3 months to 30/09/2014	Comments	
1	% of new staff leaving within 3 months of joining			G			0%		
2	% Sickness Absence	a) Short Term	b) Long Term	G			a) 1.95% b) 0.00%	Ahead of APF target and well ahead of corporate target of 5%	**Appendix 3B Graph 2**

C Process Perspective

	INDICATOR		Green Red Amber	2013/14 Actual	Target for 2014/15	Actual 3 months to 30/09/2014	Comments	
1	a) Services actually delivered electronically	b) Services *capable* of delivery to members	A			a) 7.1% b) 100%	a) 7.1% represents eligible users who have signed up to Member Self Service. Internet Access means that over 5,700 members now have electronic access b) Section able to deliver all targeted services electronically	
2	a) Active membership covered by employer EDI	b) % of employers submitting data electronically	G	a) 72% b) 58%		a) 81% b) 60%		
3	% Telephone calls answered within 20 seconds		G	97%		97.8%	8694 calls, 8469 answered within 20 seconds	**Appendix 3B Graph 3**
4	Maintain work in progress/outstanding at **below 10%**		G	20658 created, 20892 cleared		95.24%	7585 Created, 7224 cleared	**Appendix 3B Graphs (4&5)**
5	Year End data receipt		G			100%	All year end data received and reconciled	
5	No. of errors (due to incomplete member data from employers)		G			2%	Acceptable error level	

D Resource Perspective

	INDICATOR	Green Red Amber	2013/14 Actual	Target for 2014/15	Actual 3 months to 30/09/2014	Comments
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%		6.38%	Within target

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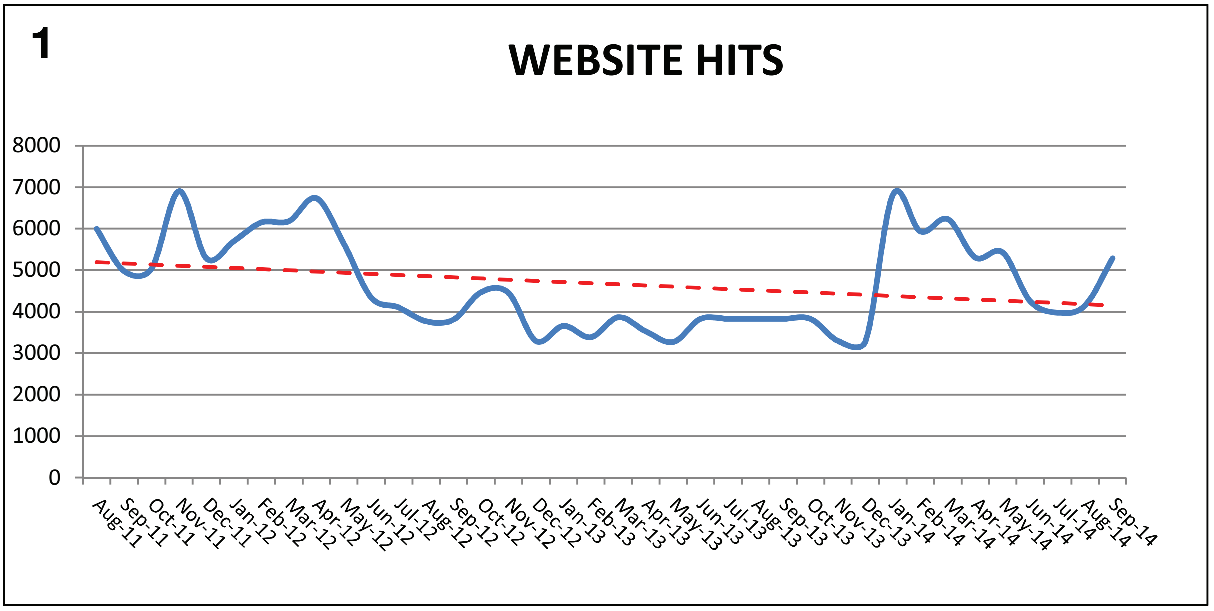
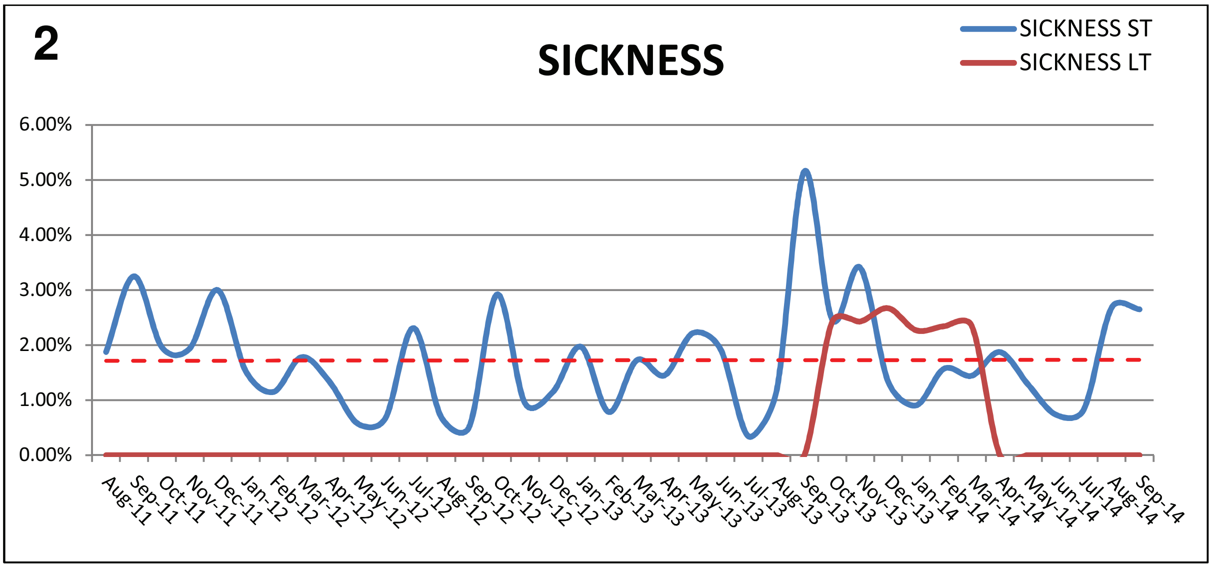
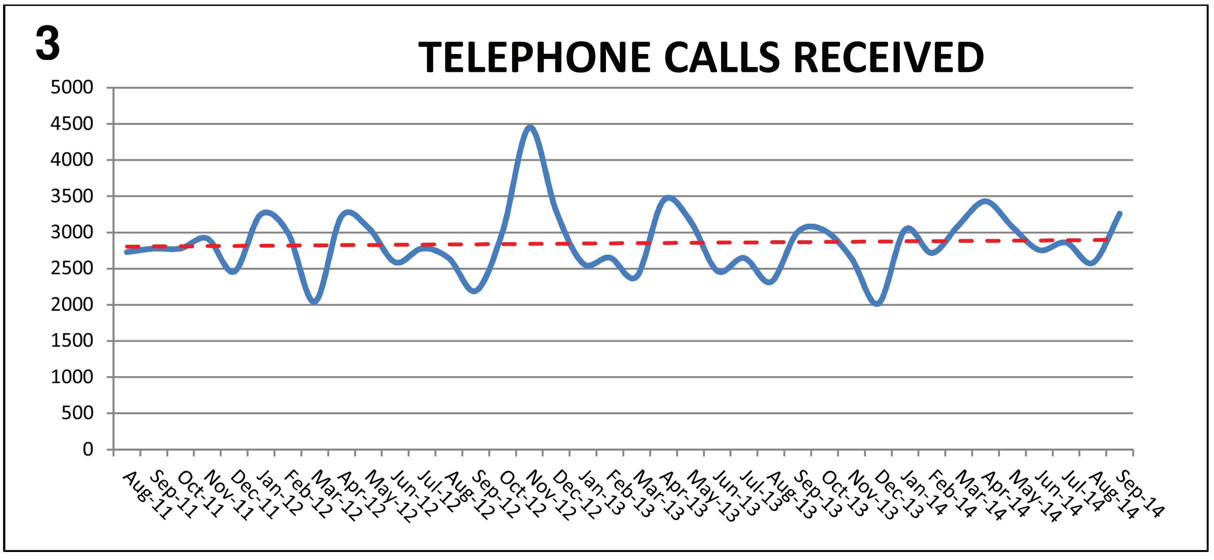
Admin report: Appendix 3b







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Admin report: Appendix 3b

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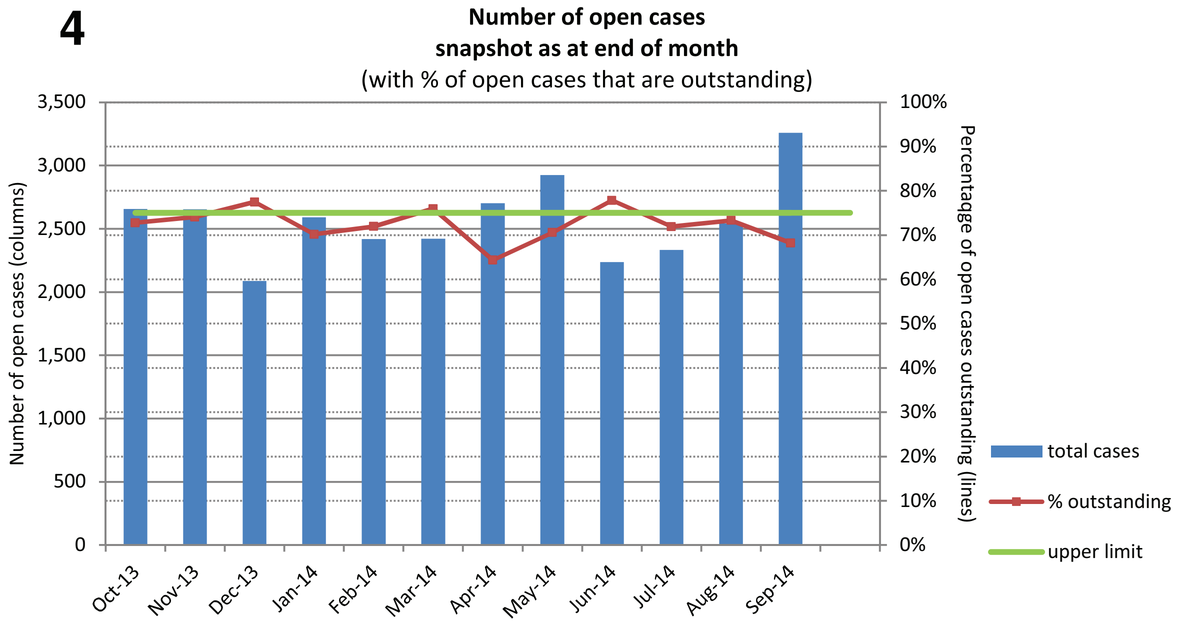

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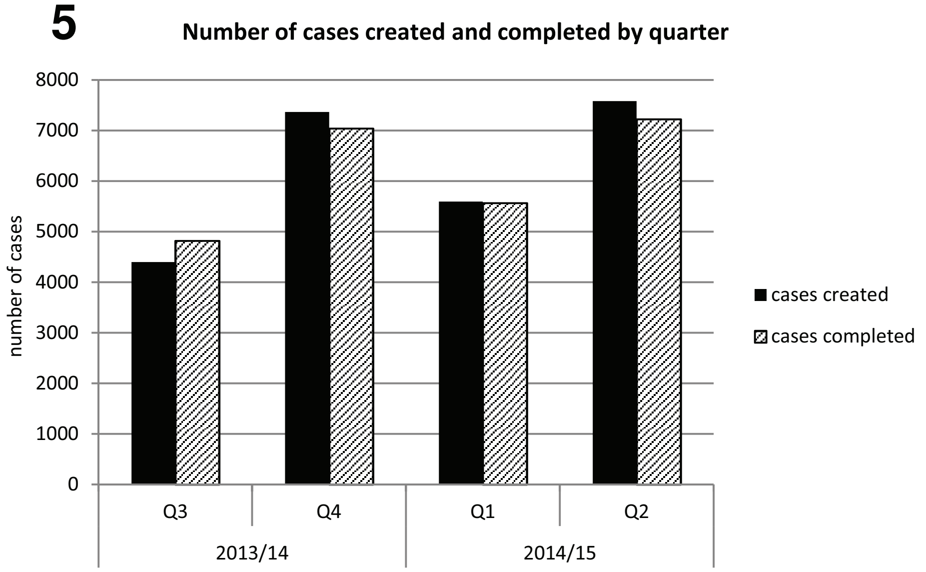

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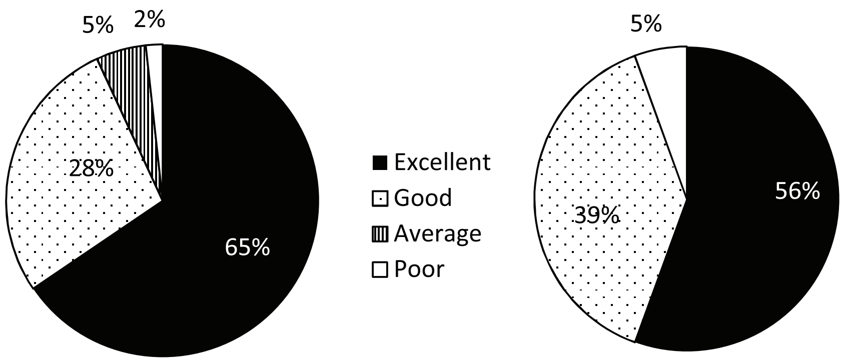
Admin report: Appendix 4

Customer satisfaction (Aug - Oct 2014)

Responses to the question "Overall, how would you rate the service you received from Avon Pension Fund?"

Active members		**Deferred members**	
Number retiring	198	Number retiring	97
Questionnaires received	116	Questionnaires received	18
Response rate	*59%*	*Response rate*	*19%*



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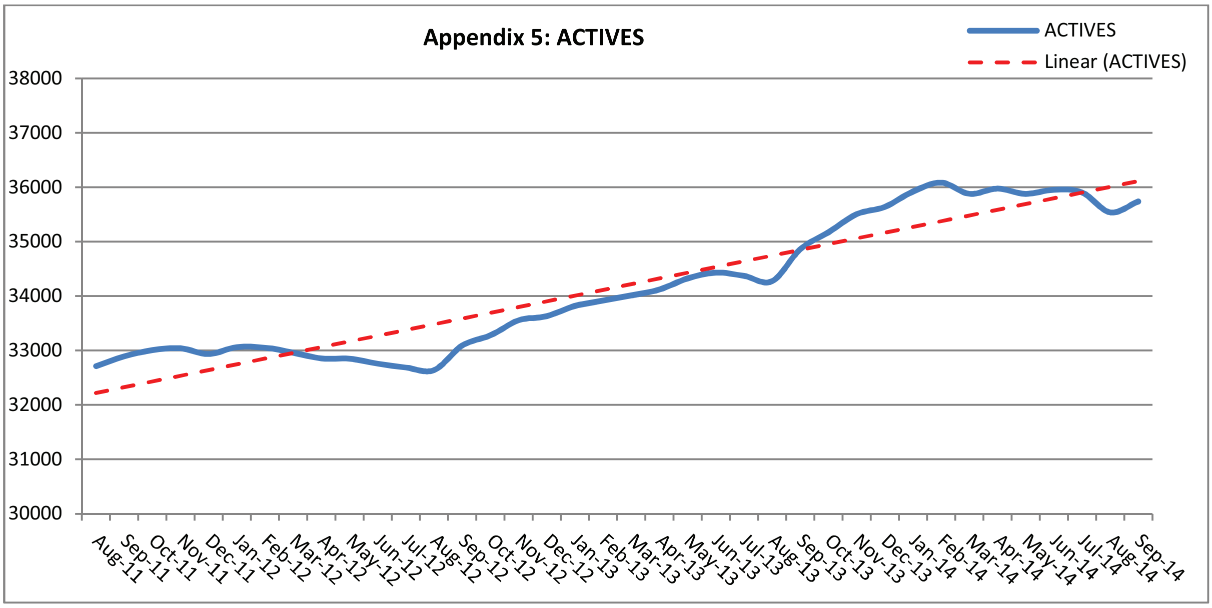
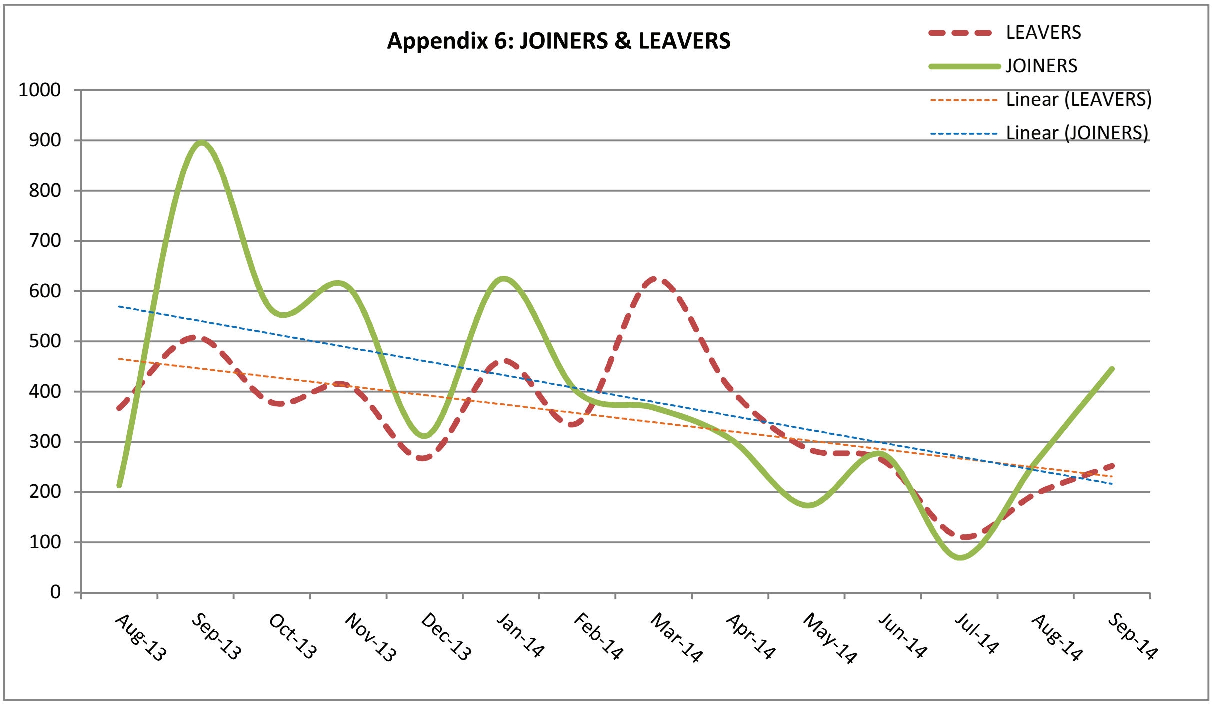
Admin report: Appendices 5 and 6





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APPENDIX 7 (to Pension Fund Administration Report Agenda Item 11)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the twelfth 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). **Annex 1** details current reporting quartile, Annexes 2 & 3 display the trend expressed annually from 1st April 2011 to 3th September 2014.

2. Report of late payers of pension contributions (employers) in the period to 31st October 2014

*** Smaller Employers:** Performance of the remaining employers is not included in this report at this time. 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 7 months to 31st October 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
Filton Town Council	September	18	£4,622

This late payment follows a change in staff at the Town Council. They have been reminded of their obligation to pay by the legal deadline.

Total number of employers = 208
Total contributions received in period = £29,454,000
Total late contributions including those below reporting threshold = £5,820 (0.02% 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**

Annual Benefit Statements were issued ahead of the statutory deadline of 30th September 2014.

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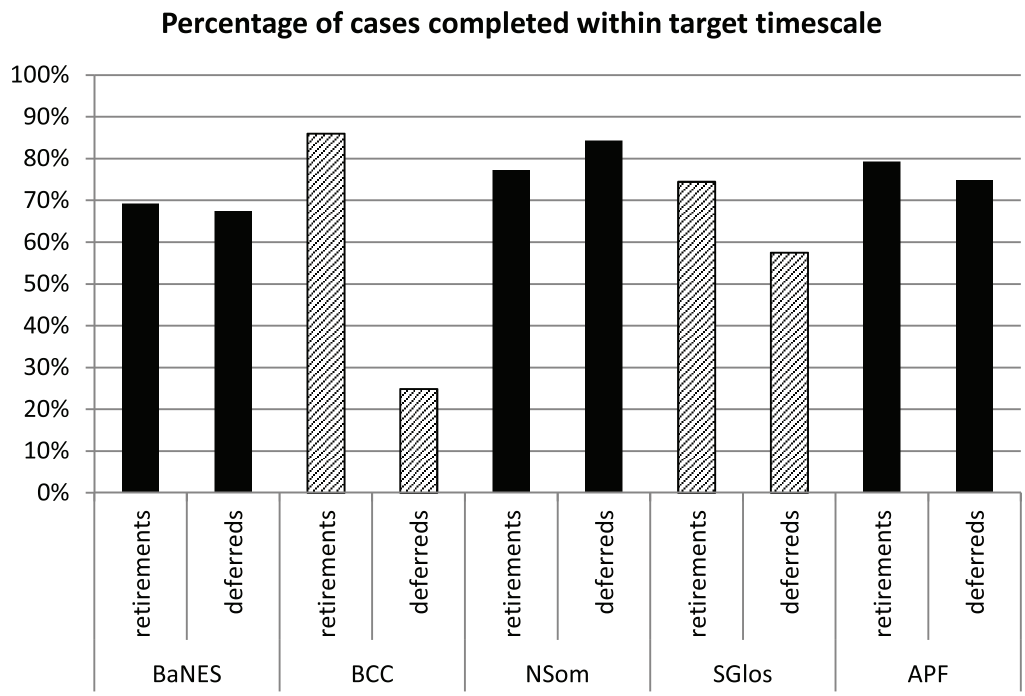
------------END--------------


Percentage of cases completed within target timescale
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
retirements
deferreds
BaNES
BCC
NSom
SGlos
APF

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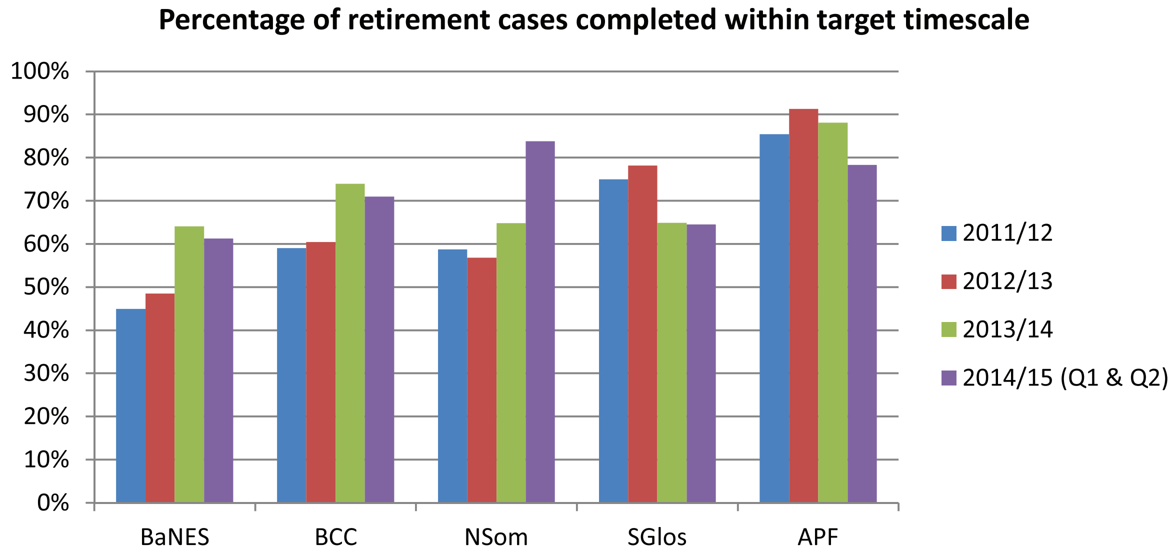
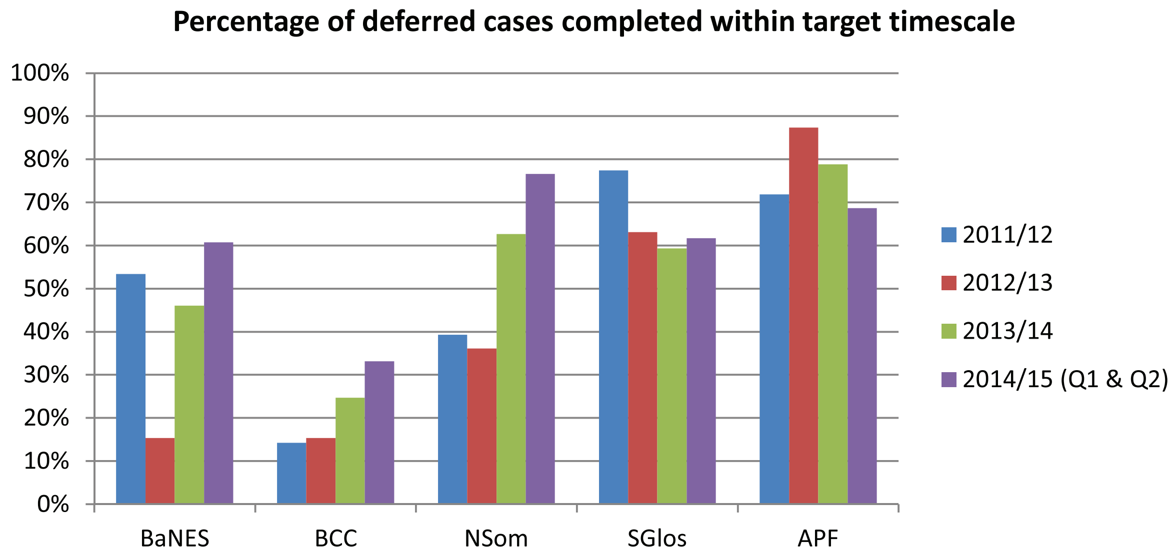
Annex 2



Annex 3



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APPENDIX 8

CIPFA performance in public services

Pensions Administration Benchmarking Club 2014

Bath & North East Somerset Council

COMPARATOR REPORT

Bath
Cheshire West and Chester
Devon
Edinburgh
Gloucestershire
Norfolk
Oxfordshire
Surrey
Warwickshire
Wolverhampton
Cambridgeshire
Cornwall
Dorset
Environment Agency
Kent
Northamptonshire
Staffordshire
Wandsworth
Wiltshire

Computed and printed by:
CIPFA Business Limited
3 Robert Street, London, WC2N 6RL
Tel: 0203 117 1840

PREFACE

This report compares your data with the group of authorities specified on the title page.

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages: Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

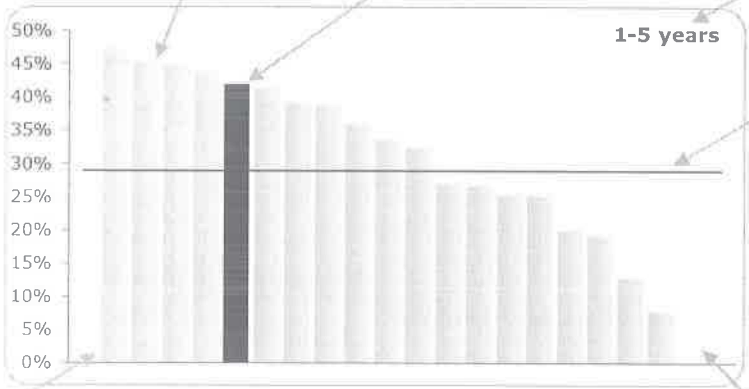
Charts: We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc.). Below we have annotated an example chart to help explain what they are showing.

Bar Charts: These are our standard method of displaying a full set of data

Each bar represents an authority's value

Your authority's bar highlights in black

Title



The group average is shown by a horizontal line

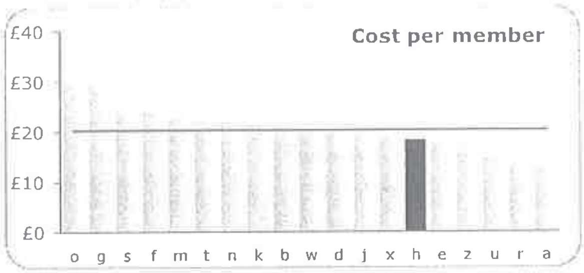
'Missing bars' on the left represent missing data or excluded data and are not included in calculating the average

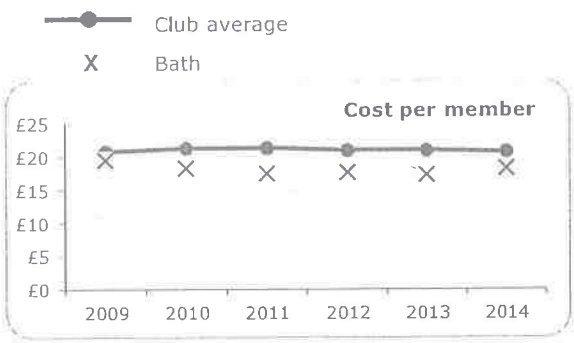
'Missing bars' on the right represent zero values and are included in the average

Staff experience	FTE	%	*Avg*
< 1 year	1.5	10%	*9%*
1-5 years	6.5	42%	*29%*
5-10 years	3.5	23%	*21%*
> 10 yrs	4.0	26%	*41%*
Total	**15.5**		

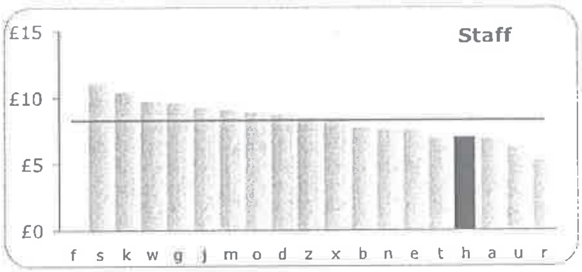
SECTION 1 - SUMMARY 2013/14

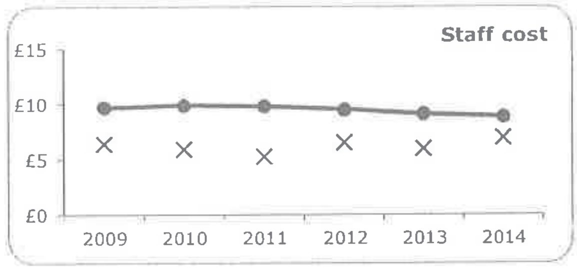
NET COST / MEMBER 2013/14



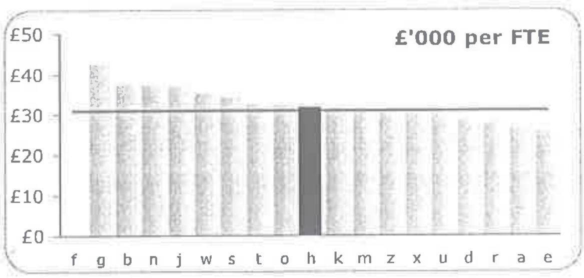


STAFF COST / MEMBER 2013/14

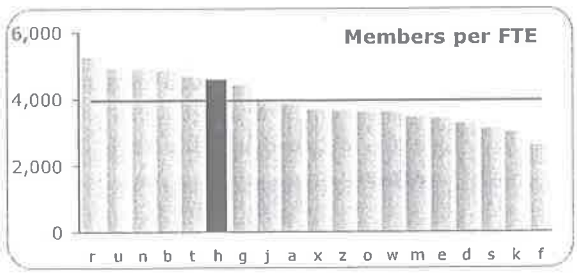




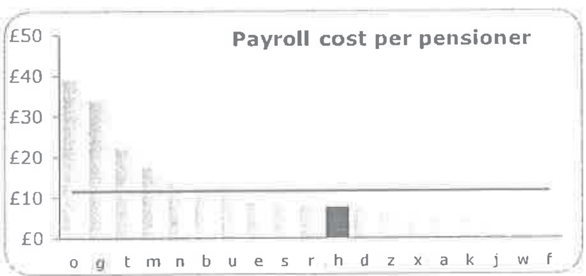
COST £'000 / FTE



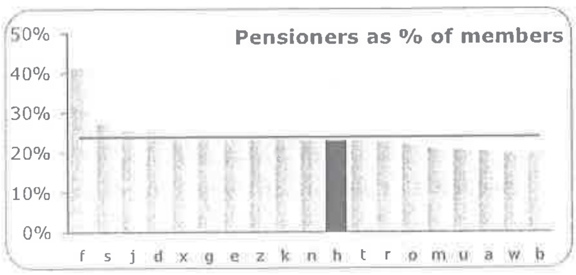
MEMBERS LGPS / ADMIN FTE



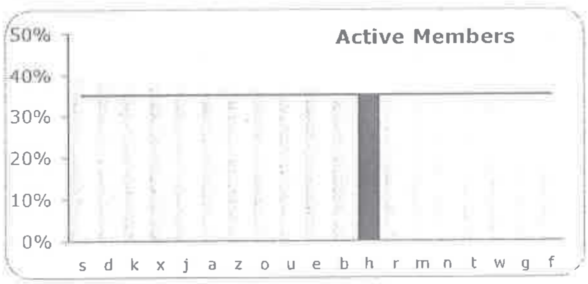
PAYROLL COST / PENSIONER



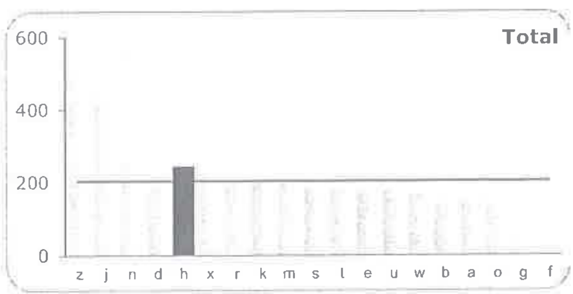
PENSIONERS AS A % MEMBERS



ACTIVES AS A % MEMBERS



NUMBER OF LGPS EMPLOYERS



SECTION 2 - COST MEASURES

COST/MEMBER TREE 2013/14

This tree diagram analyses the cost per member. For each benchmark two figures are given the first being the authority's cost and the second (in italics) is the group average.

- Total cost per member £18.27 *£20.37*
  - Direct costs £12.90 *£14.66*
    - Staff (exc payroll) £6.97 *£8.29*
      - Cost per FTE staff £31,843 *£30,966*
      - Members per FTE 4,572 *3,943*
    - Payroll (inc staff) £1.74 *£2.62*
      - Payroll cost per pensioner £7.64 *£11.52*
      - % Pensioners 22.8% *23.9%*
    - External audit £0.07 *£0.37*
    - Communications £1.27 *£1.12*
      - Employers £0.56 *£0.39*
      - Members £0.71 *£0.73*
    - Actuaries £1.94 *£1.78*
    - Other running costs £0.92 *£0.86*
  - Outsourcing contract costs na *£18.04*
  - Indirect costs £5.63 *£5.15*
    - IT - Pensions admin £2.44 *£2.53*
    - IT - all other £0.76 *£0.47*
    - Accommodation £0.89 *£0.75*
    - Other central charges £1.55 *£1.40*
  - Income (Total) (£0.26) *(£0.39)*

FTE staff	
Pension Section total	43.7
less	
IT staff	3.0
Payroll staff	4.5
Communications staff	2.0
Employing authority work	-
Work for other schemes	1.5
Other work	11.0
Admin of LGPS	**21.7**

Net Costs £'000	£'000
Pension Section total	18,964
less	
Work for other schemes	9
Employing authority work	-
Other work	17,142
Admin of LGPS	**1,813**

Admin of LGPS costs	£'000	£ per member	Avg
Staff - administration	691	6.97	*8.29*
Staff - payroll	89	0.90	*0.39*
Payroll	84	0.85	*2.24*
Communications (Total)	126	1.27	*1.12*
Actuaries	192	1.94	*1.78*
External audit	7	0.07	*0.37*
Other running costs	91	0.92	*0.86*
Total Direct Costs	**1,280**	**12.90**	***14.66***
Outsourcing costs	**-**	**na**	***18.04***
IT - Pensions admin	242	2.44	*2.53*
IT - All other	75	0.76	*0.47*
Accommodation	88	0.89	*0.75*
Other central charges	154	1.55	*1.40*
Total Indirect Costs	**559**	**5.63**	***5.15***
Gross Cost	**1,839**	**18.54**	***20.76***
Income - Members	(16)	(0.16)	*(0.05)*
Income - Employers	(10)	(0.10)	*(0.30)*
Income - Other	-	-	*(0.04)*
Total Income	**(26)**	**(0.26)**	***(0.39)***
Net Cost	**1,813**	**18.27**	***20.37***

Total Scheme Membership	**99,209**

*Outsourcing Contract Costs average only includes those members who have outsourcing costs.

Appendix 8A: Admin Performance Summary – 5 YR Comparator

Background

This page summarises Avon Pension Fund's performance from the administrative perspective over the past five years.

Comparisons are drawn with other funds based on information gathered by CIPFA.

Cost per member

Average cost per member (% = APF/average)

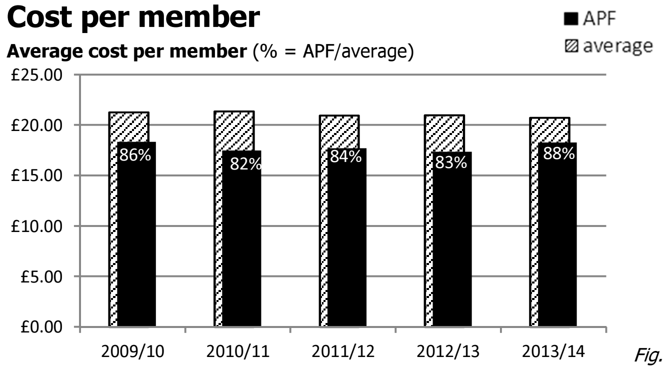


Fig. 1

Membership

(snapshot at 31 March each year)

Number of members
(comparison data only available for 2014)

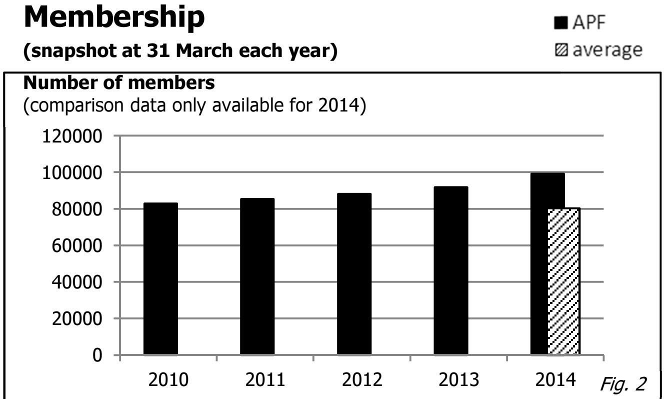


Fig. 2

Number of employers

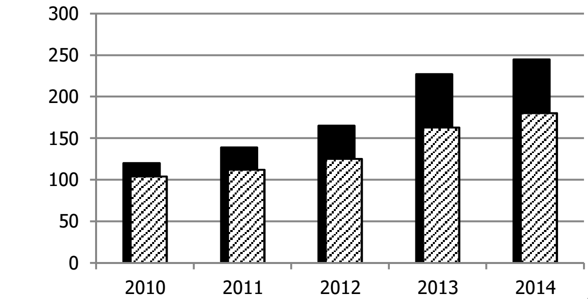
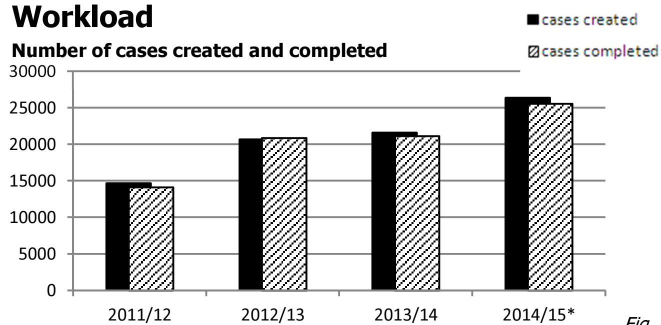


Fig. 3

Workload

Number of cases created and completed



*projection based on Q1 and Q2

Fig. 4

Number of members per FTE staff

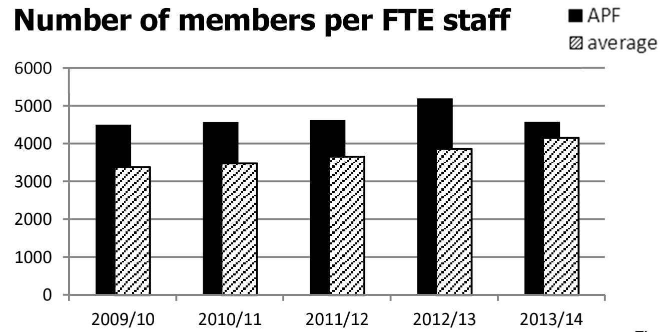


Fig. 5

Performance indicators

APF's performance compared with average performance against four key indicators as reported by CIPFA.

APF
average

Refunds processed and paid within five days

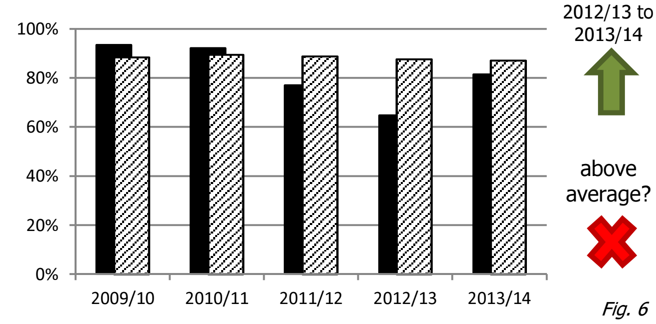


Fig. 6

Transfer in quotes sent within 10 days

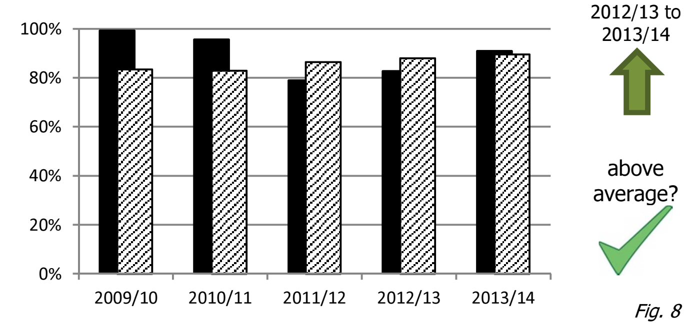


Fig. 8

Actual retirement benefits notified within five days

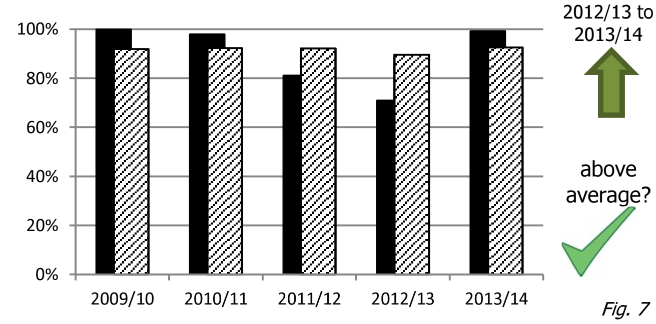


Fig. 7

Transfer out quotes sent within 10 days

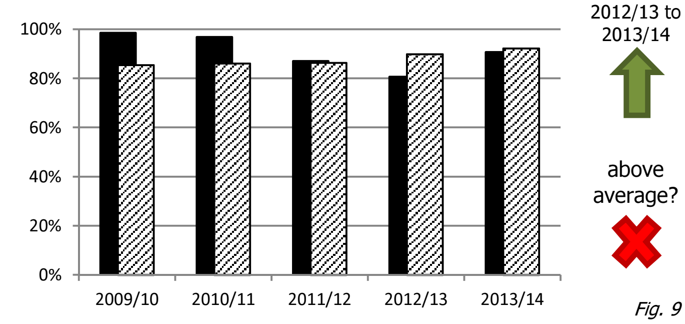


Fig. 9

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			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:	**26 SEPTEMBER 2014**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 December 2015** **Appendix 2 – Pensions Benefits Workplan to 31 March 2015** **Appendix 3 – Committee Workplan to 31 December 2015** **Appendix 4 – Investments Panel Workplan to 30 September 2015** **Appendix 5 – Training Programme 2014 - 2016**	

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 through 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 to December 2015 is included as Appendix 5. This will be reviewed once the new committee is formed post 2015 elections.

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 and training plan for the relevant periods 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 when these are agreed.

4.3 The provisional training plan for 2014/15 and 2015/16 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly and will be reviewed for general training when the new committee is formed after May 2015.

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 DECEMBER 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 Set out training programme for new members post May 2015	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects delegated to Panel for implementation or further investigation further. • Review of hedge funds – ongoing • Review of FX hedging programme – start 2Q15 • Liability hedging – preliminary work to start in late 2014/2015	Ongoing
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	1Q15
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 4Q15
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers – delay until after actuary contract tendered	Commence 2Q15
Establish Pensions Board	Agree structure (Council) Appointment process Training plan	November 2014 December – March From April 2015
Employer Database	Create structure for document management system ready for using Council solution or Altair	Commence March 2015 (dependent on

		corporate solution)
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 online forms from 1/4/15.	Project commenced; roll out during year
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 2Q15	Commence 2Q15

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.	Compl-eted 2Q 14/15
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 3Q 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	Compl-eted 2Q 14/15
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 December 2015

MARCH 2015
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: None

JUNE 2015
Roles & Responsibilities of the Committee
Review of Investment Performance for Quarter Ending 31 March 2015
Pension Fund Administration – Budget Outturn 2014/15, Performance Indicators for Quarter Ending 31 march 2015 and Risk Register Action Plan
Annual Review of Investment Strategy
Report on Investment Panel Activity
Annual Responsible Investing Report
Approval of draft Accounts 2014/15 and noting of audit plan
Approval of Committee's Annual Report to council
Workplans
Planned Workshops:

SEPTEMBER 2015
Review of Investment Performance for Quarter Ending 30 June 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 30 June 2015 and Risk Register Action Plan
Report on Investment Panel Activity
Approval of Final Accounts 2014/15
Review of AVC arrangements

Appendix 3

Committee Workplan to 31 December 2015

Workplans
Planned Workshops:

DECEMBER 2015
Review of Investment Performance for Quarter Ending 30 September 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 30 September 2015 and Risk Register Action Plan
Report on Investment Panel Activity
Interim Actuarial Valuation 2015
Review options for Ill health insurance for smaller employing bodies
Workplans
Planned Workshops: Interim Valuation

Appendix 4

INVESTMENT PANEL WORKPLAN to 30 Sept 2015

Panel meeting / workshop	Proposed reports
Clarification Meeting 5 December 2014	• Diversified Growth Fund Mandate
Formal Panel Meeting 4 March 2015	• Review managers performance to December 2014 • Meet the managers workshop (Partners, Schroders Global Equity)
Clarification Meeting w/b 23 March	• Fund of Hedge Fund mandate
Formal Panel Meeting 7 July 2015	• AVC Review • Review managers performance to March 2015 • Meet the managers workshop (RLAM, Genesis, SSgA)
Formal Panel Meeting 8 September 2015	• Bond portfolio / LDI training • Review managers performance to March 2015 • Meet the managers workshop (Invesco, Pyrford)

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Avon Pension Fund Committee Training Programme 2014 - 2016

General Topics

Topic	Content	Timing
Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority - How AA exercises its powers (delegation, role of statutory 151 Officer) - Governance Policy Statement • Members duties and responsibilities - LGPS specific – duties under regulatory framework o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - Freedom of Information Officer/Data Protection - Internal Audit - External Audit - Risk Register	June 2015 (through committee paper on responsibilities and new committee training)
Manager selection and monitoring *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management)*	• What look for in a manager – people, philosophy and process • How to select the right manager – roles of officers & members, procurement, selection criteria, evaluation • Monitoring performance & de-selection • Fees	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June 2015)

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