Bath & North East Somerset Council

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19 June 2015
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Paul Myers, Christopher Pearce, Cherry Beath and Shaun McGall

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

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 26th June, 2015

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 26th June, 2015** at **2.00 pm** in the **Kaposvar Room - Guildhall, Bath**

The agenda is set out overleaf.

There will be a training session for Members in the Kaposvar Room from 10.30am till 1 pm, after which a buffet lunch will be provided.

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, 26th June, 2015

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

   (b) The nature of their interest.

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

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

4. ELECTION OF VICE-CHAIR

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

7. 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.

8. MINUTES: 27 MARCH 2015 (Pages 7 - 18)

   The Committee is invited to pass the following resolution before discussing the exempt minutes:

   > The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the

provisions of Section 100(A)(4) of the Local Government Act 1972, **RESOLVES** that the public shall be excluded from the meeting for the following item(s) of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

9. ROLES AND RESPONSIBILITIES OF THE COMMITTEE (Pages 19 - 36)

10. APPROVAL OF DRAFT ACCOUNTS 2013/14 PRIOR TO FORMAL APPROVAL BY S151 OFFICER (Pages 37 - 68)

11. TREASURY MANAGEMENT POLICY (Pages 69 - 76)

12. MANAGEMENT OF LIABILITY RISKS (Pages 77 - 84)

13. APPLICATION FOR ADMISSION TO THE FUND (Pages 85 - 94)

14. COMMITTEE'S ANNUAL REPORT TO COUNCIL (Pages 95 - 108)

15. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 109 - 116)

The Committee is invited before discussing exempt appendix 1 to pass the following resolution:

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

16. REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2015 (Pages 117 - 198)

The Committee is invited before discussing exempt appendix 3 to pass the following resolution:

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

17. PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2014/15, PERFORMANCE INDICATORS FOR PERIOD ENDING 30 APRIL 2015 AND RISK REGISTER ACTION PLAN (Pages 199 - 228)

18. WORKPLANS (Pages 229 - 240)

19. DATES OF FUTURE MEETINGS (Pages 241 - 242)

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, 27th March, 2015, 2.00 pm

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), William Liew (HFE Employers), Shirley Marsh (Independent Member), Councillor Steve Pearce (Bristol City Council) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions)

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

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

45 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

46 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Wendy Weston.

47 DECLARATIONS OF INTEREST

Ann Berresford declared an interest in relation to agenda item 49 as a board member of Triodos Renewables plc, a company engaged in the renewable energy sector.

The Chair declared an interest in relation to agenda item 49 as an employee of the National Environment Research Council.

Councillor Charles Gerrish declared an interest in agenda item 49 as an investor in Bath and West Community Energy.

48 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

A statement was read by Mr Richard Lawrence, a member of the Fund and a local resident, and his colleagues from Fossil Free Bristol, urging the Fund to disinvest from fossil fuels.

The Chair thanked them for their statement and said that in his view this was a significant issue, which the new Committee should consider carefully. He believed that the issue of fossil fuels differed from that of tobacco in relation to the Fund's fiduciary duty, because of the long-term (25-30 year) uncertainties about the future of the fossil fuel industry and of the continuing value of investments in it. This was, however, an issue for the new Committee.

The Head of Business, Finance and Pensions said that officers would consider how the issue could be taken forward with the new Committee. He did think, however, that the timescale suggested for disinvestment was rather ambitious, since it was not only an issue about direct investment, but also of indirect investment, since so many industries depended on the use of fossil fuels to produce their products.

A copy of the statement is attached as an appendix.

50 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

51 MINUTES: 12TH DECEMBER 2014

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

<u>Matters arising</u>

<u>Previous minute 9:</u> a Member asked for an update on Curo. The Investments Manager replied that Curo were taking no action at present because low bond yields meant the cost of the liabilities had risen.

<u>Previous minute 43:</u> Richard Orton said that he had made a statement about the Pensions Board to Council, as he had been advised to do, but unfortunately the Council had not taken his advice. He believed that the person specification issued for prospective members of the Board were outside the spirit of the Regulations, if not of their letter. The draft Regulations had required that people had to have capacity and relevant experience to be appointed a member of a Pensions Board. This was not the case in the final Regulations, but was included in the person specification issued by the Council. He suggested this might be taken to indicate an intention to exclude potential key members. He found it disappointing that the Council had not responded when this was pointed out.

The Head of Business Finance and Pensions agreed that the Regulations had changed. However, he suggested that relevant experience would enable the Board to become fully functional sooner than if its members had to go through a long learning curve with a lot of training.

52 **AUDIT PLAN 2015/16**

Mr Morris presented the report. He said that the audit plan set out the significant risks that the External Auditors would be addressing in the audit and their understanding of the challenges, opportunities and further developments facing the Fund. Significant and other risks were set on agenda pages 23-25. The results of interim work were set out on pages 26-27.

[Shirley Marsh arrived at this point.]

RESOLVED to note the audit plan for the accounts for the year ended 31 March 2015.

53 **UPDATE OF REGULATIONS, CODES OF PRACTICE AFFECTING LFPS & GMP RECONCILIATION**

The Technical and Compliance Manager presented the report. He reminded members that the main Regulations for the new LGPS scheme had been issued last year. Subsequent key developments:

- The Pensions Regulator draft code of practice on *Governance and administration of public sector pension schemes* in January 2015. A working group of officers had been set up to consider this.
- The Pensions Act 2014 would come into force on 1st April this year.
- The expected DCLG consultation document on Best Value had not been issued and was unlikely to be until after the election.
- Budget announcement on pensions flexibility implemented by Taxation of Pensions Act 2014 (Royal Assent 17 December 2014) and the Pension Scheme Act 2015 (Royal Assent 3 March 2015). 6 Statutory Instruments had been issued under these Acts the previous week
- The LGA had issued a 104-page guidance document the previous week
- The abolition of contracting out in 2016

He said that training sessions were being held for staff.

He drew attention to his response to the DCLG on the Draft LGPS (Amendment) Regulations 2014 in Appendix 2 to the report.

A member expressed concern about the impact of the new rules on pensions' flexibility. It was suggested that the Fund should not be seen to be giving members guidance or advice whether or not to take their pensions elsewhere. The Chair suggested that all communications about flexibility to members should make it clear that the Fund was not advising them to transfer out.

A Member suggested that those transferring out of the Fund should be required to sign a document stating that they accepted the full responsibility for doing so. Another Member informed the Committee that an industry-standard certificate for this purpose had been proposed at a recent meeting he had attended. Members supported this idea.

The Head of Business Finance and Pensions noted that the average pension from the Fund was £4,000, meaning many pensions were even less, and members might be tempted to take risks with what seemed to be a small amount of money. A Member said that members might not be aware of the transaction costs of transferring out of the Fund.

A Member asked about the impact of flexibility on the Fund's cashflow and liabilities as a whole. The Investments Manager said that officers intended to do some work on this. At this stage she felt the number of members transferring out might not be as great as some feared.

RESOLVED:

1. To note the current position regarding certain matters that have implications for the LGPS.

2. To note that some of the issues in this report do have implications for the administration of the Scheme, which has been reflected in the Service Plan.

3. To note the information regarding the consultation.

54 ADMINISTRATION STRATEGY

The Head of Business, Finance and Pensions presented the report. He said that this was a revision of the Strategy approved by the Committee in 2011. It included a more detailed ICT strategy and revisions to ensure that the requirements of the Pensions Regulator are properly addressed. The Communications Policy Statement had been included, to reflect the fact that more complex issues had to be communicated to members and that there was more electronic communication. Since 2011 the aspiration had been to digitise more and more administrative transactions. There had been a great deal of progress in this, and now the aim was to achieve a step change, so that communication between employers and the Fund took place predominantly by electronic means. A significant sum in the Budget and Service Plan was earmarked for this.

A Member asked whether bespoke or off-the-shelf software would be the best option for the Fund. The Head of Business, Finance and Pensions replied that the Fund had a long-standing relationship with a particular software supplier, who were beginning to focus on developing their products. Officers of the Fund had had discussions with them about their direction of travel. They had at first suggested working with them through a users' forum, but now they were willing to engage in partnership working with one or two Funds. This would give the Fund the opportunity to input and encourage them to deliver what the Fund wanted. This would be better than buying off the shelf; in fact, there were few alternative suppliers.

A Member asked about the role of the Pensions Board. The Head of Business, Finance and Pensions replied that the requirements of the Pensions Regulator had an impact on administration. The Pensions Board is limited to monitoring compliance with the requirements of the Pensions Regulator, and references to the Board in the Administration Strategy should be understood in this light.

RESOLVED:

1. To approve:

    a. The draft Communications Policy Statement;

    b. The draft ICT Strategy;

    c. The draft Performance Standards;

    d. The draft Customer Service Charter;

    e. The draft Schedule of Additional Administration Charges;

    f. The draft Pensions Administration Strategy and annexes for the Avon Pension Fund for consultation with employers.

2. To delegate responsibility for responding to the consultation responses to officers to enable effective implementation of the Strategy from 1st June 2015.

55 BUDGET AND SERVICE PLAN 2015/18

The Head of Business, Finance and Pensions presented the report. He said that the Fund had an opportunity for a step change in service delivery. Savings had been made over the past couple of years, which had been reinvested in technology. It was expected that further savings would be generated. Membership had increased by 20% over the last four years and the number of employers in the Fund was 199, compared with 66 in 2006. There had been an increase in the number of employers requiring help and support. The Academies, in particular, were struggling with pensions issues. Logistics required a change in the way the Fund operated. Hopefully technology would allow more resources to be put at the front end.

The Chair expressed concern that big investments in IT might be wasted, should there be a move to merging local government pension funds. He also wondered whether Academies were being charged an appropriate fee for the extra costs they imposed on the Fund. He asked whether they were charged an admission fee when they joined the Fund. The Head of Business, Finance and Pensions responded that Academies were being charged where possible for the costs they imposed and were already charged a fee when they joined the Fund. A lot of officers' time was spent talking to Academies and explaining to them what their obligations were. As far as IT investment was concerned, local authority pension funds differed very much in the progress they had made. The Avon Fund was a leader and other funds were trying to catch up. Merged funds would still have to deal with a dominant IT supplier, who would be unwilling to suffer a fall in revenue; they might well raise their prices in response to a reduction in the number of customers. If the Fund chose not to invest in IT, it would be difficult to maintain administration standards and there could a risk of incurring fines by the Pensions Regulator.

[Councillor Lisa Brett arrived at this point.]

RESOLVED to approve the 3-year Service Plan and Budget for 2015-18 for the Avon Pension Fund.

56 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He invited the Committee to approve the new policy and said that the only difference from the existing policy was that the use of banks outside the UK will now be permitted. This change had been made in response to the withdrawal by Barclays of their Platinum Call account. There was no equivalent alternative offered by UK banks without increasing limits on existing UK banks. The current credit ratings and investment limits requirements would apply to any non-UK bank. He said that the bank that would be used was in Bath, but its headquarters was in Sweden (which currently does not use the Euro).

Members suggested that banks in the Eurozone should be removed from the counterparties list. A member asked whether the credit ratings for these banks were reliable. Officers said that they would report back to the Chair and Vice-Chair about this.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1, subject to a report to the Chair and Vice-Chair on the credit ratings of Eurozone banks.

57 DISCRETIONS AND DELEGATIONS

The Technical and Compliance Manager presented the report. Appendix 1 explained the change in procedure required when entering into an admission agreement, and Appendix 2 updated the list of discretions delegated to officers.

A Member asked whether the guarantees for admitted bodies were secure. The Investments Manager explained that the regulations now required that newly-admitted bodies had to have either a guarantee from their parent organisation or a bond. The Fund's previous practice had been to require a guarantee, with the parent organisation being liable for all outstanding costs at the expiry of their contract. This was the best security available. Bonds, on the other hand, would not always cover the full deficit and other pension liabilities arising when an organisation was wound up.

RESOLVED:

1. To approve the change in procedure for setting up admission agreements as set out in Appendix 1

2. To approve the updated list of discretions requiring delegations as set out in Appendix 2.

58 SCHEME EMPLOYERS AND ADMISSION BODIES UPDATE

The Investments Manager presented the report. She said this was an update on action to mitigate employer risk.

Before discussing Exempt Appendices 1 and 2 the Committee passed the following resolution:

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

RESOLVED to note the information in the report.

59 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said there were three matters to note:

1. Standard Life GARS fund had been appointed for the Diversified Growth Mandate.

2. There were no recommendations from the Panel meeting of the 4 March 2015.

3. The Panel had met Schroder (Global Equity Mandate) and Partners (Global Property Mandate) on 4 March 2015.

RESOLVED to note:

1. The draft minutes of the Investment Panel meetings on 4 March 2015.

2. The recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

60 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2014

The Assistant Investments Manager presented the report. The highlights were:

- the funding level over the quarter had declined 6% to 77% (compared with 78% in March 2013) because of a deterioration in bond yields

- the return on the Fund had been 8.4% over the year, 1% under the strategic benchmark

- there had been no change in the ratings of individual managers; two remained on amber

Mr Finch commented on the JLT report. He said that the Fund had performed better than the LGPS as a whole. He drew attention to the figures for bond yields on agenda page 182 and said that a 1% decline in bond yields increased liabilities by 20%. CPI was c. 0%, which was a positive factor. It was expected that US interest rates would start to rise later in the year. 11 of Fund's managers had outperformed in the latest quarter and over the year, and 14 had outperformed over three years. The issue about the measurement of Partners' returns by WM was being investigated by officers.

Members noted that as JLT's contract was not being renewed, this would be the last time Mr Finch would attend a meeting of the Committee. They thanked him and asked him to communicate their thanks to his colleague Mr Sheth for the support they had given them over the past few years.

RESOLVED to note the information set out in the report.

61 LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 4TH QUARTER 2014

The Investment Manager presented the report. She drew attention to the highlights of the LAPFF report given in paragraph 4.5 of the covering report.

RESOLVED to note the LAPFF Quarterly Engagement Report.

62 PENSION FUND ADMINISTRATION - BUDGET MONITORING 2014/15, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2014 AND RISK REGISTER

The Finance & Systems Manager (Pensions) presented the finance report. The headlines were:

- net expenditure forecast to be under budget

- directly controlled administration budget forecast to be £120,000 below budget partly due to temporary partial secondment of the payroll manager and support officer to the Council's payroll section

- savings were forecast on communications budget because of greater use of digital technology

- non-directly controlled budget forecast to be £440,000 under budget

- Filton Town Council was the only late payer; their payroll has been taken over by South Gloucestershire, which should lead to improvements.

The Pensions Benefit Manager presented the performance report. The highlights were:

- a marginal increase in new work cases for the third consecutive quarter

- internal processes being revised enabling workload to be managed more effectively

- a programme of training events has been undertaken to guide Fund and scheme employers through the first year-end process for CARE scheme

- 75% of employees now covered by electronic employer self service

A member asked if checks were made to ascertain that pensioners of the Fund resident overseas were still living. This was important, because it could be difficult to recover money from other jurisdictions. The Pensions Benefit Manager replied that payments overseas were made through Western Union, who carried out such checks on the Fund's behalf.

RESOLVED to note:

1. Administration and management expenditure for 10 months to 31 January 2015;

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 December 2014;

3. Summary Performance Report for period from 1 April 2011 to 31 December 2014;

4. Risk Register.

63 LGPS COST CAP MECHANISM

The Investment Manager presented the report, which she said was intended to make Members aware of what was a very complicated process. There would be two mechanisms in England and Wales to ensure that the reforms to the LGPS would be affordable and sustainable: the employer cost cap process operated by HM Treasury, and the future service cost process operated by the LGPS Scheme Advisory Board. Local funds would have no discretion over these processes. The Fund's actuary, Mercer, would give the Committee a more detailed briefing at a future meeting.

A Member said these proposals provided an even greater incentive for the Fund to reduce costs. The Investments Manager responded that these proposals would only take future costs into account, not existing deficits. The Shadow Board was doing a project on how to manage deficits.

The Chair said that it had been argued in a recent edition of “File on 4” that merging local government funds would allow a significant reduction in costs by reducing payments to investment managers. Whether this was the case had to be looked at very carefully, but he thought it was a stronger argument for mergers than one based on administrative cost savings.

RESOLVED to note the information in the report.

64 INVESTMENT AND ACTUARIAL ADVISORY CONTRACTS

RESOLVED to note:

1. The appointment of Mercer Investment Consulting as the Fund’s Investment Consultant.

2. The appointment of Mercer Limited as the Fund’s actuary.

65 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.13 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 JUNE 2015**	**AGENDA ITEM NUMBER**
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement Appendix 3 – 2015/17 Committee Training Plan		

1 THE ISSUE

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

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference was approved by the Council at its meeting on 21 May 2015.

1.3 The Governance Compliance Statement has been updated to reflect the creation of the Avon Pension Fund Pension Board. The Committee is asked to approve the revised statement.

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

1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.

2 RECOMMENDATION

The Committee:

2.1 Notes the:

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

b) Terms of Reference of the Committee and Investment Panel

c) The requirement to establish a local pension board

2.2 Approves the Governance Compliance Statement

2.3 Agrees the membership of the Investment Panel

2.4 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.

3 FINANCIAL IMPLICATIONS

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

4 ROLES & RESPONSIBLITIES

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

The Committee and Investment Panel:

4.2 The Terms of Reference for the Committee, including the Investment Panel, as agreed by Council can be found in Appendix 1. It has been updated for the establishment of the pension board and changes in the discretions under the regulations as agreed at the Committee meeting on 27 March 2015.

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

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

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

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

4.7 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members will be required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds within the first year they are appointed to the committee.

4.8 The Committee Training plan for 2015-17 is set out in Appendix 3. This includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

Fund Advisors:

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

4.10 All advisory appointments are appointed under a separate procurement process which will follow the Council's procurement policy.

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

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

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

Fund Officers:

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

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

5 GOVERNANCE COMPLIANCE STATEMENT

5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. There have been no amendments to the statement since June 2014.

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

5.3 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 require all LGPS funds to establish a Pension Board. As a result this statement has been updated to reflect the creation of the Avon Pension Fund Pension Board (the "Board"). *(Note: The guidance for the Governenance Compliance Statement has not yet been revised to incorporate Pension Boards; the statement may need to be revised once this guidance is issued in the future).*

5.4 The Board has now been established and will hold its first meeting by 31 July 2015.

5.5 The Committee are asked to approve the Statement in Appendix 2.

6 NOMINATIONS TO INVESTMENT PANEL

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

6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 21 May 2015.

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

6.4 Members are invited to nominate themselves to the Panel.

7 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEEETINGS

7.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises it members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.

7.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Councillor Mike Drew has represented the fund at these meetings. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund).

8 RISK MANAGEMENT

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

9 EQUALITIES

9.1 For information only.

10 CONSULTATION

10.1 No relevant.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The relevant information is set out in the report.

12 ADVICE SOUGHT

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

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

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Appendix 1

TERMS OF REFERENCE

1 Avon Pension Fund Committee

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

Function and Duties

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

The key duties in discharging this role are:

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

Delegations

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

Membership of the Committee

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

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

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

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

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

The Investment Panel will:

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

and have delegated authority to:

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

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

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Appointment of specialist advisors to support the Committee in discharging it functions.
3. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to

performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).

4. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
5. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
6. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

May 2015

Appendix 2

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

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

	of Investment Panel meetings form part of the main committee agenda.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Every member of the Investment Panel is a member of the main committee.
e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established	The Board's remit is to assist the administering authority to (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and (ii) ensure the effective and efficient governance and administration of the Scheme. The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights. The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the Strategic Director of Resources. Board minutes will be circulated to the administering authority (the pension committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator. Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pensions Committee) the Board shall: 1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board 2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach

	3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.
B – Representation	**Partial Compliance**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:	
i) employing authorities (including non-scheme employers , e.g. admission bodies);	There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders. There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.
ii) scheme members (including deferred and pensioner scheme members);	There are 4 trades union representatives (1 with voting rights and 3 non-voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.
iii) where appropriate, independent professional observers;	The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process. The Fund has an external Independent Investment Advisor who attends all committee and panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, two members are appointed to the committee independent of the administering authority and other

iv) expert advisors. b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit. The Fund's independent investment advisor attends all meetings. The Fund's investment consultant attends all committee and panel meetings and other expert advisors attend on an adhoc basis when appropriate. All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.
C – Selection and role of lay members	**Compliant**
a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee. Declarations of interest is a standing item on every committee agenda.
D – Voting	**Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.

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

G – Access	Compliant
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
H - Scope	**Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
I – Publicity	**Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

To be Approved by Avon Pension Fund Committee on 26 June 2015

Appendix 3

Committee training 2015-17

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure Overview of Fund LGPS Scheme Advisory Board The Pensions Regulator Codes Agenda for June Committee meeting	Committee Workshop	Morning of June 2015 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Investment Strategy Funding Strategy	Committee Workshop	½ day in September 2015
3	Actuarial Valuations	Valuation methodology Recap on 2013 valuation 2015 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	½ day October 2015
4	Covenants, admission and exit policies	Covenant assessment process Admission and exit policies and funding basis used	Committee Workshop	½ day in February 2016
5	Investment strategy	Asset allocation & Statement of Investment Principles Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Investment Panel Workshop	½ day September 2015
6	Managing liabilities	Understanding objective Potential solutions Impact on bond portfolio Impact on funding level Proposed framework Recommendation: Objective and proposed framework	Investment Panel meetings Committee Meeting/workshop	4Q15 & February 2016 June 2016
7	Responsible Investing	Objective and rationale Current policy	Committee Workshop	Morning of June 2016 committee meeting

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 JUNE 2015**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2014 / 2015**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2015**		

1. THE ISSUE

1.1 The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2015 is attached as **Appendix 1.**

1.2 The Draft Statement of Accounts for the year to 31 March 2015 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.3 In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2015 must be signed off by the Council's Section 151 Officer by the 30 June. The Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting in September 2015 as the Audit Committee is charged with the governance of the pension fund. The Pension Fund Committee will be asked to approve The Final Statement of Accounts at its meeting on 25 September 2015.

2. RECOMMENDATION

That the Committee notes

2.1 The Draft Statement of Accounts for the year to 31 March 2015 for audit.

3. FINANCIAL IMPLICATIONS

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

4. COMMENT ON THE DRAFT STATEMENT OF ACCOUNTS

4.1. The accounts show an increase in the total net assets of the Fund from just over £3.3bn to just over £3.8bn. This increase was almost entirely due to the rise in market value of investments and to a lesser extent to receipts of investment income.

4.2. The highlights of the Draft Final accounts are:

a) Total net assets of the fund are valued at £3,839m made up of investment assets of £3,839m less net Current Assets of (£0.5m).

b) The £10.6m of debtors included in the Current Assets at 31 March 2015 is mainly made up of contributions that relate to the year to 31 March 2015 but were not due for payment until April 2015. The debtors total is more than offset by £11m creditors mainly made up of fees due to Investment Managers, PAYE that was due to be paid in April, and Lump Sums due to members who retired at the end of March.

c) The fees due to Investment managers included as Current Liabilities are largely made up of a provision for Performance Fees that have been accrued but are subject to phased payments or are not payable until the related assets are realised. These performance fees remain subject to possible variation as a result of future performance.

d) Investment Management Base Fees have increased by £4m as a result of the increase in the value of assets under management and because of the move of assets from passive to active management as agreed changes to the Investment Strategy were implemented during the year.

e) Following the 2010 valuation Employer's contributions have been split between normal contributions in regard to current service and deficit contributions in regard to past service. Following the 2013 valuation Employers had the opportunity to make deficit recovery payments in advance. Several major employers took this opportunity to pay all three years payments in advance. Consequently the contributions in 2014/15 are abnormally high. This will be offset by the level of contributions in the next two years being lower than they otherwise would have been.

f) The level of Transfers In in 2013/14 was abnormally high as a result of two large group Transfers In.

g) The increase in benefits paid reflects inflation and the increased number of retired members. The level of payments to and on account of leavers in 2013/14 was abnormally high due to one group Transfer Out.

h) Investment Income has remained close to the 2013/14 level. The Investment Income figures do not include the income from pooled funds that accumulate income within the fund rather than distribute to investors.

6. RISK MANAGEMENT

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

7. EQUALITIES

7.1 An equalities impact assessment is not necessary.

8. CONSULTATION

8.1 N/a

9. ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are contained in the report.

10. ADVICE SOUGHT

10.1 The Council's Monitoring Officer (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	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

PENSION FUND ACCOUNTS 2014/15

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2014 to 31 March 2015.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2014/15 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

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

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

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

1.6 At the 2013 valuation the deficit recovery period for the Fund overall was set at 20 years.

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

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

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

1.9 The Actuary has estimated that the funding level as at 31 March 2015 has fallen to 78% from 84% at 31 March 2014. This fall in the funding level is due to the fall in real yields during the period. Investment returns contributed positively to the funding position but was not sufficient to offset the increase in the liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields fall, the value of these liabilities rises.

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

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

Statement of Investment Principles

1.12 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk (search Statement of Investment Principles).

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2015 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund

Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.

ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2015.
iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2015.
v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

2.7 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

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

Investment Management & Administration

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

2.10 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2014/15 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

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

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2015

	Notes	2014/15	2013/14
Contributions and Benefits		**£'000**	**£'000**
Contributions Receivable	4	**206,624**	**143,276**
Transfers In	18	**4,794**	**18,776**
Other Income	5	**496**	**442**
		211,914	**162,494**
Benefits Payable	6	**157,156**	**149,791**
Payments to and on account of Leavers	7	**5,001**	**6,868**
Administrative Expenses	8	**2,804**	**2,883**
		164,961	**159,542**
Net Additions from dealings with members		**46,953**	**2,952**
Returns on Investments			
Investment Income	10	**28,104**	**29,092**
Profits and losses on disposal of investments and change in value of investments.	11	**435,645**	**185,124**
Investment Management Expenses	9	**(15,795)**	**(11,682)**
Fund Manager Performance Fees	9	**(1,802)**	**(4,931)**
Net Returns on Investments		**446,152**	**197,603**
Net Increase in the net assets available for benefits during the year		**493,105**	**200,555**
Net Assets of the Fund			
At 1 April		**3,346,211**	**3,145,656**
At 31 March		**3,839,316**	**3,346,211**

Net Assets Statement at 31 March 2015

	Note	31 March 2015	%	31 March 2014 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		111,675	2.9	92,694	2.8
Equities		603,222	15.7	542,777	16.2
Diversified Growth Funds		368,177	9.6	314,340	9.4
Index Linked securities : Public Sector		238,962	6.2	189,176	5.7
Pooled investment vehicles :-					
- Property : Unit Trusts		111,753	2.9	102,865	3.1
: Unitised Insurance		57,075	1.5	46,063	1.4
: Other Managed Funds		146,839	3.8	112,058	3.3
Property Pooled Investment Vehicles		315,667		260,986	
- Non Property : Unitised Insurance		903,760	23.5	778,501	23.2
: Other Managed Funds		1,202,443	31.3	1,051,084	31.4
Non Property Pooled Investment Vehicles		2,106,203		1,829,585	
Cash deposits		94,416	2.4	85,023	2.5
Other Investment balances		4,805	0.1	9,361	0.3
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		1,874	0.1	12,199	0.4
Derivative Contracts: FTSE Futures		152	0.0	162	0.0
Other Investment balances		(5,281)	(0.1)	(5,097)	(0.2)
TOTAL INVESTMENT ASSETS	12	3,839,872		3,331,206	
Net Current Assets					
Current Assets	14	10,592	0.3	24,980	0.7
Current Liabilities	14	(11,148)	(0.2)	(9,975)	(0.2)
Net assets of the scheme available to fund benefits at the period end		3,839,316	100	3,346,211	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2015.

Notes to the Accounts - Year Ended 31 March 2015

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

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

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

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

	31 March 2015	31 March 2014
Employed Members	**34,765**	**34,846**
Pensioners	**26,006**	**25,985**
Members entitled to Deferred Benefits	**35,714**	**35,321**
TOTAL	**96,485**	**96,152**

A further estimated 900 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

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

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

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

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2014/15		2013/14
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**60,842**		**55,066**	
Administering Authority	**7,704**		**6,902**	
Admission Bodies	**7,784**	**76,330**	**6,876**	**68,844**
Employers' deficit Funding				
Scheduled Bodies	69,241		27,384	
Administering Authority	**14,042**		**4,146**	
Admission Bodies	**3,496**	**86,779**	**1,571**	**33,101**
Total Employer's normal & deficit funding		**163,109**		**101,945**
Employers' contributions- Augmentation				
Scheduled Bodies	**5,446**		**4,312**	
Administering Authority	**489**		**537**	
Admission Bodies	**138**	**6,073**	**147**	**4,996**
Members' normal contributions				
Scheduled Bodies	**29,491**		**28,868**	
Administering Authority	**3,798**		**3,530**	
Admission Bodies	**3,313**	**36,602**	**3,300**	**35,698**
Members' contributions towards additional benefits				
Scheduled Bodies	**685**		**474**	
Administering Authority	**123**		**127**	
Admission Bodies	**32**	**840**	**36**	**637**
Total		**206,624**		**143,276**

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. The deficit funding contributions in 2014/15 include £73,947,000 of discounted contributions that the actuary has calculated to cover the required deficit contributions for the three years commencing 2014/15.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5, OTHER INCOME

	2014/15	2013/14
	£'000	£'000
Recoveries for services provided	**484**	426
Cost recoveries	**12**	16
	496	442

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2014/15	2013/14
	£'000	£'000
Retirement Pensions	**121,095**	**112,720**
Commutation of pensions and		
Lump Sum Retirement Benefits	**32,246**	**34,148**
Lump Sum Death Benefits	**3,815**	**2,923**
	157,156	**149,791**

Analysis of Benefits Payable by Employing Body:-

	2014/15	2013/14
	£'000	£'000
Scheduled & Designating Bodies	**132,416**	124,288
Administering Authority	**14,342**	14,133
Admission Bodies	**10,398**	11,370
	157,156	149,791

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2014/15	2013/14
Leavers	**£'000**	£'000
Refunds to members leaving service	**543**	116
Individual Cash Transfer Values to other schemes	**4,458**	4,352
Group Transfers	**-**	2,400
	5,001	6,868

8, ADMINISTRATION EXPENSES

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

	2014/15 **£'000**	2013/14 £'000
Administration and processing	**2,035**	**1,957**
Actuarial fees	**372**	**486**
Audit fees	**29**	**27**
Legal and professional fees	**-**	**-**
Central recharges from Administering Authority	**407**	**413**
	2,843	**2,883**

9, INVESTMENT EXPENSES

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

	2014/15 **£'000**	2013/14 £'000
Fund Manager Base Fees	15,378	11,366
Fund Manager Performance Fees	1,802	4,931
Global Custody	66	94
Investment Advisors	259	123
Performance Measurement	39	37
Investment Accounting	1	4
Investment Administration	52	58
	17,597	16,613

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

10, INVESTMENT INCOME

	2014/15 £'000	2013/14 £'000
Interest from fixed interest securities	**3,482**	3,557
Dividends from equities	**16,628**	16,651
Income from Index Linked securities	**3,019**	5,091
Income from pooled investment vehicles	**4,521**	3,480
Interest on cash deposits	**405**	282
Other - Stock lending	**49**	31
	28,104	29,092

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

The value of the stock on loan as at 31 March 2015 was £14.57 million (31 March 2014 £17.27m), comprising of equities and sovereign debt. This was secured by collateral worth £15.45 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/14 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/15 £'000**
Fixed Interest Securities	92,694	10,951	(13,868)	21,898	**111,675**
Equities	542,777	379,470	(368,729)	49,704	**603,222**
Index linked Securities	189,176	73,272	(65,761)	42,274	**238,961**
Pooled Investments -					
- Property	260,986	96,802	(66,363)	24,243	**315,668**
- Non Property	2,143,925	327,298	(262,842)	265,999	**2,474,380**
Derivatives	12,361	89,107	(109,820)	10,378	**2,026**
	3,241,919	976,900	(887,383)	414,496	**3,745,932**
Cash Deposits	85,023	691,405	(683,328)	1,316	**94,416**
Net Purchases & Sales		1,668,305	1,570,711)	97,594	
Investment Debtors & Creditors	4,264			(4,740)	**(476)**
Total Investment Assets	3,331,206				**3,839,872**
Current Assets	15,005			(15,561)	**(556)**
Less Net Revenue of Fund				(57,460)	
Total Net Assets	3,346,211			**435,645**	**3,839,316**

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

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

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

Change in Total Net Assets 2013/14

Change in Market Value of Investments	Value at 31/03/13 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/14 £'000
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	92,694
Equities	495,980	305,283	(302,104)	43,618	542,777
Index linked Securities	209,876	24,385	(30,469)	(14,616)	189,176
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	260,986
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	2,143,925
Derivatives	(3,138)	190,891	(199,962)	24,570	12,361
	3,050,119	1,702,184	(1,686,859)	176,475	3,241,919
Cash Deposits	85,895	558,772	(558,751)	(893)	85,023
Net Purchases & Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	4,264
Total Investment Assets	3,135,376			-	3,331,206
Current Assets	10,280			4,725	15,005
Less Net Revenue of Fund				(15,431)	
Total Net Assets	3,145,656			**185,124**	**3,346,211**

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

	2014/15				2013/14			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**1,069**	**4**	**-**	**1,073**	608	13	-	621
Commission	**408**	**416**	**8**	**832**	321	323	4	648
TOTAL	**1,477**	**420**	**8**	**1,905**	929	336	4	1,269

12, INVESTMENT ASSETS

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

		31 March 2015		31 March 2014
UK Equities		**£'000**		£'000
Quoted	**320,758**		301,719	
Pooled Investments	**232,321**		225,298	
FTSE Futures	**152**	**553,231**	162	527,179
Diversified Growth Funds				
Pooled Investments	**368,177**	**368,177**	314,340	314,340
Overseas Equities				
Quoted	**282,464**		241,057	
Pooled Investments	**1,265,573**	**1,548,037**	1,083,136	1,324,193
UK Fixed Interest Gilts				
Quoted	**111,675**		92,694	
Pooled Investments	**-**	**111,675**	14,226	106,920
UK Index Linked Gilts				
Quoted	**238,961**	**238,961**	189,176	189,176
Sterling Bonds (excluding Gilts)				
Pooled Investments	**332,615**	**332,615**	269,350	269,350
Non-Sterling Bonds				
Pooled Investments	**113,325**	**113,325**	74,588	74,588
Hedge Funds				
Pooled Investments	**162,368**	**162,368**	162,986	162,986
Property				
Pooled Investments	**315,668**	**315,668**	260,987	260,987
Cash Deposits				
Sterling	**81,503**		78,163	
Foreign Currencies	**12,913**	**94,416**	6,860	85,023
Investment Debtors/Creditors				
Investment Income	**3,807**		3,414	
Sales of Investments	**998**		5,948	
Foreign Exchange Hedge	**1,874**		12,199	
Purchases of Investments	**(5,280)**	**1,399**	(5,097)	16,464
TOTAL INVESTMENT ASSETS		**3,839,872**		3,331,206

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	EUR	16,168	GBP	(19,900)	1,763	
Up to one month	JPY	22,508	GBP	(3,998,000)	94	
Up to one month	GBP	1,994,000	JPY	(11,522)		(315)
Up to one month	GBP	215,600	USD	(128,974)		16,280
Up to one month	USD	128,164	GBP	(215,600)	(17,091)	
One to six months	EUR	257,130	GBP	(327,070)	19,916	
One to six months	GBP	212,800	EUR	(169,528)		(15,184)
One to six months	GBP	28,314,000	JPY	(163,268)		(3,921)
One to six months	GBP	455,700	USD	(285,799)		21,466
One to six months	JPY	207,461	GBP	(36,290,000)	3,199	
One to six months	NOK	2,354	GBP	(27,594)	49	
One to six months	USD	283,691	GBP	(455,700)	(23,573)	
Six to twelve months	EUR	118,080	GBP	(153,800)	6,148	
Six to twelve months	GBP	46,800	EUR	(36,307)		(2,255)
Six to twelve months	GBP	18,780,000	JPY	(104,287)		1,818
Six to twelve months	GBP	680,500	USD	(445,465)		13,473
Six to twelve months	JPY	103,157	GBP	(18780,000)	(2,948)	
Six to twelve months	USD	441,893	GBP	(680,500)	(17,045)	
Total					**(29,488)**	**31,362**
					Net forward currency contracts at 31 March 2015	**1,874**

Open forward currency contracts at 31 March 2014	37,052	(24,853)
Net forward currency contracts at 31 March 2014		**12,199**

Exchange Traded Derivatives held at 31 March 2015:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2015**	**18,836**	**152**

Exchange Traded Derivatives held at 31 March 2014:-

FTSE equity futures	**June 2014**	**28,433**	**162**

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.
The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.
Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

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

	31 March 2015 £'000	%	31 March 2014 £'000	%
Blackrock	**1,216,272**	**31.7**	**1,071,963**	**32.2**
Standard Life	**243,477**	**6.4**	**0**	**0**
Record	**20,651**	**0.5**	**28,129**	**0.8**
Jupiter Asset Management	**175,662**	**4.6**	**160,956**	**4.8**
Genesis Investment Management	**160,247**	**4.2**	**145,092**	**4.4**
Invesco Perpetual	**291,423**	**7.6**	**239,795**	**7.2**
State Street Global Advisors	**124,517**	**3.2**	**107,147**	**3.2**
Partners Group	**154,212**	**4.0**	**113,446**	**3.4**
Royal London Asset Management	**310,439**	**8.1**	**251,101**	**7.6**
TT International	**195,021**	**5.1**	**185,717**	**5.6**
Man Investments	**-**	**0.0**	**1,115**	**0.0**
Gottex Asset Management	**59,188**	**1.5**	**58,062**	**1.8**
Stenham Asset Management	**39,645**	**1.0**	**37,654**	**1.1**
Signet Capital Management	**63,535**	**1.7**	**66,155**	**2.0**
Barings Asset Management	**0**	**0**	**209,798**	**6.3**
Pyrford International	**124,700**	**3.2**	**104,542**	**3.1**
Unigestion UK Ltd	**191,725**	**5.0**	**166,687**	**5.0**
Schroder Investment Management	**434,251**	**11.3**	**365,163**	**11.0**
Bank of New York Mellon	**23,362**	**0.6**	**7,964**	**0.2**
Treasury Management	**11,545**	**0.3**	**10,720**	**0.3**
TOTAL INVESTMENT ASSETS	3,839,872	100.0	3,331,206	100.0

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2015 £'000	% of Net Assets	Value at 31st March 2014 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	**310,439**	**8.11%**	**251,101**	**7.54%**
Invesco Perpetual Global ex UK Enhanced Index Fund	**291,423**	**7.61%**	**239,795**	**7.20%**
Standard Life Global Absolute	**243,477**	**6.36%**	**-**	**-**
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	**227,789**	**5.95%**	**220,957**	**6.63%**
MSCI Equity Index Fund B-US (BlackRock)	**219,389**	**5.73%**	**173,125**	**5.20%**
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	**191,275**	**5.01%**	**166,687**	**5.00%**
Baring Dynamic Asset Allocation Fund	**-**	**-**	**209,798**	**6.30%**

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2015. Debtors and creditors included in the accounts are analysed below:-

		31 March 2015 £'000		31 March 2014 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**6,431**		**8,490**	
- Members	**2,968**		**2,919**	
Transfer Values Receivable	**-**		**10,600**	
Discretionary Early Retirement Costs	**351**		**1,952**	
Other Debtors	**842**	**10,592**	**1,019**	**24,980**
CURRENT LIABILITIES				
Management Fees	**(1,639)**		**(950)**	
Provision for Performance Fees	**(5,510)**		**(4,373)**	
Transfer Values Payable	**(1)**		**(2,400)**	
Lump Sum Retirement Benefits	**(1,447)**		**(645)**	
Other Creditors	**(2,551)**	**(11,148)**	**(1,607)**	**(9,975)**
NET CURRENT ASSETS		**(556)**		**15,005**

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2015		31 March 2014
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**6,920**		**11,028**	
NHS Bodies	**11**		**-**	
Other Public Bodies	**2,794**		**13,211**	
Non Public Sector	**867**	**10,592**	**741**	**24,980**
CURRENT LIABILITIES				
Local Authorities	**(789)**		**(11)**	
Other Public Bodies	**(1,512)**		**(3,789)**	
Non Public Sector	**(8,847)**	**(11,148)**	**(6,175)**	**(9,975)**
NET CURRENT ASSETS		**556**		**15,005**

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2015. (March 2014 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE
There have been no events after 31 March 2015 that require any adjustment to these accounts.

17, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	**31 March 2015**
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% per annum versus 4.5% per annum). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £4,396 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by *c*£718 million. Adding interest over the year increases the liabilities by a further *c*£198 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c*£3 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £5,315 million.

18, TRANSFERS IN

During the year ending 31 March 2015 group transfers in to the fund from Strode College to Weston College and from Stroud College to South Gloucestershire and Stroud College were completed. The estimated values of these transfers were included in the 2012/13 and 2013/14 Statements of Accounts. The actual values did not vary materially from the estimated values.

19, BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2014/15	**2013/14**
	£'000	£'000
Benefits Paid and Recharged	**6,312**	6,240

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2014/15 were £274 (2013/14 - £498). Additional Voluntary Contributions received from employees and paid to Friends Life during 2014/15 were £371,799 (2013/14 - £407,897).

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

	31 March 2015	31 March 2014
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**417**	**501**
Unit Linked Retirement Benefits	**271**	**286**
Building Society Benefits	**195**	**235**
	883	**1,022**
Death in Service Benefit	**82**	**150**
Friends Life		
With Profits Retirement Benefits	**123**	**157**
Unit Linked Retirement Benefits	**3,762**	**3,625**
Cash Fund	**315**	**447**
	4,200	**4,229**

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

21, RELATED PARTIES

Committee Member Related:-

In 2014/15 £37,516 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,238 in 2013/14)*. Eight voting members and no non- voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2014/2015*. (Six voting members and one non-voting member in 2013/2014, including five B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £7,532 and £13,237 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2014/15 the Fund paid B&NES Council £309,649 for administrative services *(£295,990 in 2013/14*) and B&NES Council paid the Fund £25,341 for administrative services (*£31,715 in 2013/14*). Various Employers paid the fund a total of £166,848 for pension related services including pension's payroll and compiling data for submission to the actuary *(£141,397 in 2013/14)*.

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

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

22, OUTSTANDING COMMITMENTS
As at the 31 March 2015 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £151,284,981 (31st March 2014 £61,724,899).

A further outstanding commitment of $US300,000,000 (31st March 2014 nil) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

23, KEY MANAGEMENT REMUNERATION
Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Divisional Director Business Support's salary, fees and allowances £16,948 (2013/14 £17,360) and their employer's pension contributions £3,552 (2013/14 £3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances £33,523 (2013/14 £31,540) and their employer's pension contributions £7,017 (2013/14 £5,460).

24, FINANCIAL INSTRUMENTS

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

	31/03/2015	31/03/2014
Financial Assets	**£'000**	£'000
Receivables	**10,592**	24,980
Financial assets at fair value through profit or loss	**3,839,872**	3,336,303
Total Financial Assets	**3,850,464**	3,361,283
Financial Liabilities		
Payables	**(11,148)**	(15,072)
Financial liabilities at fair value through profit or loss	**-**	-
Total Financial Liabilities	**(11,148)**	(15,072)
Total Net Assets	**3,839,316**	3,346,211

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

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2014/15	2013/14
	£'000	£'000
Losses on derecognition	**3,805**	4,918
Reductions in fair value	**24,311**	239,774
Total expense in Fund Account	**28,116**	244,692
Gains on derecognition	**92,566**	323,622
Increases in fair value	**350,046**	97,545
Total income in Fund Account	**442,612**	421,167
Net gain/(loss) for the year	**414,496**	176,475

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

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

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

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

(a) Market Risk

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

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

Market Price Risk

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

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

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2015. These movements in market prices have been judged as possible for the 2014/15 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

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

The analysis for the year ending 31 March 2015:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
Total Assets	**3,838,473**	**6.1%**	**4,071,069**	**3,605,847**

The analysis for the year ending 31 March 2014 is shown below:

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

Interest Rate Risk

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

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

	31 March 2015 £'000	31 March 2014 £'000
Cash and Cash Equivalents	94,416	85,023
Fixed Interest Assets	796,576	640,034
Total	**890,992**	**725,057**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2015 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

	Value	Change in net assets	
As at 31 March 2015	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	94,416	-	-
Fixed Interest	796,576	(110,405)	110,405
Total	**890,992**	**(110,405)**	**110,405**

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

The same analysis for the year ending 31 March 2014 is shown below:

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

Currency Risk

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

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2015 £'000	Asset value as at 31 March 2014 £'000
Overseas Equities	1,548,037	1,324,193
Overseas Fixed Income	113,325	74,588
Overseas Property	154,212	112,058

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2015 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

The same analysis for the year ending 31 March 2014 is shown below:

Currency Risk by Asset Type:

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

(b) Credit Risk

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

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

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

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

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

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2015 was £34.8m. This was held with the following institutions:

	31 March 2015		31 March 2014	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	23,361	AAA	7,962
Bank Call Accounts				
Barclays Platinum Account		-	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,950	A	2,500
Goldman Sachs Global Treasury Fund (previously RBS Global Treasury Fund)	AAA	8,230	AAA	6,090
NatWest Special Interest Bearing Account	BBB+	300	BBB+	-1,104
Bank Current Accounts				
NatWest	BBB+	6	BBB+	7

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

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

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2015 the value of the illiquid assets was £722m, which represented 18.8% of the total Fund assets (31 March 2014: £634m which represented 19% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	603,222			603,222
Bonds - Quoted	350,636			350,636
Pooled Investment Vehicles		1,943,834		1,943,834
Fund of Hedge Funds			162,368	162,368
Diversified Growth Funds		124,700	243,477	368,177
Property			315,668	315,668
Cash	94,416			94,416
Derivatives: Forward FX	1,874			1,874
Derivatives: Futures	152			152
Investment Debtors /Creditors	-475			-475
	1,049,825	2,068,534	721,513	3,839,872

The fair value hierarchy as at 31 March 2014 was:

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

26, EMPLOYING BODIES

As at 31 March 2015 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire Brigade
Bath & North East Somerset Council
Bristol City Council
North Somerset Council
South Gloucestershire Council

Further & Higher Education Establishments

Bath Spa University College
City of Bath College
City of Bristol College
Norton Radstock College
South Gloucestershire & Stroud College
St. Brendan's College
University of the West of England
Weston College

Education Establishments

Abbeywood Community School Academy
Academy of Trinity
Ann Harris Academy Trust
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School Academy
Beechen Cliff Academy
Begbrook Primary Academy
Birdwell Primary School Academy
Bradley Stoke Community School
Bridge Learning Campus Foundation
Bristol Cathedral Choir School
Bristol Free School Trust
Bristol Technology & Engineering Academy
Broadlands Academy
Broadoak Mathematics & Computing College
Cabot Learning Federation
Castle School Education Trust
Cathedral Primary School
Charborough Road Primary School
Charfield Primary School
Chew Stoke Church School
Christ Church C of E Primary School
Churchill Academy
Clevedon Learning Trust
Clevedon School Academy
Clutton Primary School Academy
Colston Girl's School Trust
Colston's Primary School Academy
Cotham School Academy
Diocese of Bristol Academies Trust
Inspirational Futures Trust
Kingshill Academy
Kings Oak Academy
Little Mead Primary School
Marlwood School
Meadow Brook Primary School
Merchant's Academy
Midsomer Norton School Partnership
Minerva Primary Academy
Nailsea School Academy
North Somerset Learning and Technology College
Oasis Academy Bank Leaze
Oasis Academy Brightstowe
Oasis Academy Connaught
Oasis Academy John Williams
Oasis Academy Long Cross
Oasis Academy New Oak
Oasis Academy Brislington Enterprise College
One World Learning Trust
Oldfield School Academy Trust
Orchard Academy
Parson Street Primary School
Patchway Community College
Priory Community School
Ralph Allen Academy
Redland Green School Academy
Redfield Educate Together Primary Academy
Severn Beach Primary School
Sir Bernard Lovell School
Steiner Academy
St Bedes School Academy
St. Nicholas of Tolentine Catholic Primary School
St. Patrick's Academy
St. Teresa's Catholic Primary School

Downend School
Easton C of E Academy
Elmlea Junior School Academy
Fairfield School
Filton Avenue Infants Academy
Fishponds Church of England Academy
Four Acres Primary School
Fosseway School
Frome Vale Academy
Gordano School Academy
Greenfield Primary School Academy
Hanham High School
Hans Price Academy
Hareclive Academy
Hayesfield Girls School Academy
Henbury Court School
Henbury School Academy
Henleaze Junior School
Heron's Moor Community School
High Littleton C of E Primary
Hotwells Primary School
Ilminster Avenue E-ACT Academy
St. Ursula's E-ACT Academy
Stoke Bishop C of E Primary School
Stoke Lodge Academy
Summerhill Academy
The Bath Studio Academy
The Dolphin Academy
The Kingfisher School
The Ridings Federation Winterbourne
The Ridings Federation Yate
Threeways School
Tickenham Primary School
Trust in Learning
Wallscourt Farm Academy
Waycroft School Academy
Wellsway School Academy
West Town Lane Primary School
Westbury Park Primary School Academy
Westbury-on-Trym C of E Academy
Wicklea Academy
Writhlington School Academy
Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council
Backwell Parish Council
Bath Tourism Plus
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Destination Bristol
Dodington Parish Council
Downend and Bromley Heath Parish Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Abbots Parish Council
Hanham Parish Council
Keynsham Town Council
Emersons Green Town Council
Midsomer Norton Town Council
Nailsea Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Peasedown St John Parish Council
Pill & Easton in Gordano Parish Council
Portishead & North Weston Town Council
Radstock Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Vista SWP Ltd
Westerleigh Parish Council
Westfield Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yate Town Council
Yatton Parish Council

Community Admission Bodies

Alliance Homes
Ashley House Hostel
Bristol Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
CURO Places Ltd
CURO Group (Albion) Ltd
CURO Choice
Merlin Housing Society (SG)
Merlin Housing Society Ltd
Sirona Care & Health CIC
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust
University of Bath

Holburne Museum of Art
Learning Partnership West Limited
Vision North Somerset
West of England Sport Trust

Transferees Admitted Bodies

Active Community Engagement Ltd
Agilisys
Aquaterra Leisure Ltd.
ARAMARK
BAM Construct UK Ltd
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)
Circadian Trust (formerly South Glos Leisure)
Circadian Trust No 2 (formerly South Glos Leisure No 2)
Creative Youth Networks (Lot 4)
Direct Cleaning (SW) Ltd
Eden Food Services
Fit For Sport
Fit For Sport NSC (St Peters Primary)
HCT Group
ISS Mediclean
ISS Mediclean (Bristol)
Keeping Kids Company
Kier Facilities Services
Learning Partnership West (Lot 1)
Learning Partnership West (Lot 2)
Learning Partnership West (Lot 3)
Learning Partnership West (Lot 7)
Liberata UK Ltd
Prestige Cleaning & Maintenance Ltd
Ridge Crest Cleaning Limited
Shaw Healthcare (North Somerset) Ltd (Petersfield)
Shaw Healthcare (North Somerset) Ltd (The Granary)
SITA Holdings UK Ltd
Skanska (Cabot Learning Federation)
Skanska Rashleigh Westerfoil
SLM Community Leisure
SLM Fitness & Health
Sodexo
The Brandon Trust
Tone Leisure (Trust) Limited

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**26 JUNE 2015**		
TITLE:	**TREASURY MANAGEMENT POLICY**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy			

THE ISSUE

1.1 The Fund's Treasury Management policy was approved in March 2014. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.

1.2 The policy for 2015/16 proposed at the March 2015 Committee differed from the policy approved in March 2014 in that it removed the restriction of approved counterparties to only those based in the UK. All the required credit ratings and investment limits were to remain unchanged. In March the Committee withheld approval of the proposed policy due to concerns around the use of counterparties based in the Eurozone. The policy now proposed for 2015/16 restricts the use of counterparties to those based outside the Eurozone and meeting the necessary credit ratings. The revised proposed policy is set out in Appendix 1.

2. RECOMMENDATION

2.1 That the Committee approves the Treasury Management Policy as set out in Appendix 1

3 FINANCIAL IMPLICATIONS

3.1 The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short term investment of up to £25m earns interest and incurs transfer costs. However the significance of an efficient means of short term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4 THE REPORT

4.1 The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Annual Investment Strategy. The Pension Fund's Treasury Management is managed by the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it is a reflection of the different cash flow requirements and the amounts of cash that need to be invested.

4.2 The Fund has previously made extensive use of Barclays Platinum Call account. The rules of access to this account particularly suited the Fund's cash flow requirements. Barclays have withdrawn this account. In order to use an equivalent alternative without increasing the limits on existing accounts, it is necessary to use a bank outside the UK. It is therefore proposed that the Fund's restriction to UK banks be lifted. It is further proposed that a restriction is imposed to only use counterparties that are based outside the Eurozone. The required credit ratings and investment limits remain unchanged and all potential counterparties are continuously monitored using the advice of external consultants.

4.3 The Pension Fund's Treasury Management Policy was originally restricted to UK banks because it was not expected that the Fund would require many counterparties. Extending the Policy to non UK banks would have brought the Fund in to line with the Council's Treasury Management Policy but the Council do not exclude use of Eurozone counterparties. The credit ratings of non UK banks reflect any issues around the regulations and jurisdiction governing those banks. Consequently there is no difference in the level of risk between UK banks and non UK banks with equal credit ratings.

5. RISK MANAGEMENT

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

6. EQUALITIES

6.1 This report provides recommendations about the Fund's Treasury Management Policy and no specific equalities impact assessment was carried out.

7. CONSULTATION

7.1 None appropriate.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues are detailed in the report.

9. ADVICE SOUGHT

1.1 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	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259.
Background papers	Various Accounting and Statistical Records

Appendix 1

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2015

1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	**Time limit**
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent and a Fitch Support Rating (where given) no lower than 3. (see note 1)	£10m each	2 months
Money market funds (see note 2) based outside the Eurozone holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

1, Banks within the same group ownership are treated as one bank for limit purposes.
2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
3, as defined in the Local Government Act 2003

8 The cash retained as a working balance will target £10 million.

9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

Fitch	**Moody's**	**S&P**
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

Rating		Details
AAA		Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA		Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A		High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB		Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB		Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B		Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC		Substantial credit risk - default is a real possibility.
CC		Very high levels of credit risk - default of some kind appears probable.
C		Exceptionally high levels of credit risk - default is imminent or inevitable.
RD		Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D		Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given below.

Bath & NE Somerset Credit List	30/04/2015						
Name	Moody's Long-Term Ratings	Moody's Short Term Rating	Fitch Long-Term Rating	Fitch Short Term Rating	Fitch Support Rating	S&P Long-Term Rating	S&P Short-term
UNITED KINGDOM	Aa1		AA+	F1+		AAAu	A-1+u
BANK OF SCOTLAND PLC	A1 *+	P-1	A	F1	1	A *-	A-1 *-
LLOYDS BANK PLC	A1 *+	P-1	A	F1	1	A *-	A-1 *-
BARCLAYS BK PLC-ADR C	A2	P-1	A	F1	1	A *-	A-1 *-
CLOSE BROTHERS LTD	A3 *+	P-2 *+	A	F1	5		
GOLDMAN SACHS INTERNATIONAL	A2 *+	P-1	A	F1		A	A-1
HSBC BANK PLC	Aa3 *+	P-1	AA-	F1+	1	AA- *-	A-1+ *-
NATIONAL WESTMINSTER BANK	Baa1 *+	P-2	A	F1	1	A- *-	A-2
ROYAL BANK OF SCOTLAND PLC/T	Baa1 *+	P-2	A	F1	1	A- *-	A-2
SANTANDER UK PLC	A2	P-1	A	F1	1	A *-	A-1 *-
STANDARD CHARTERED BANK	A1 *+	P-1	AA-	F1+	1	A+ *-	A-1
UK BUILDING SOCIETIES							
NATIONWIDE BUILDING SOCIETY	A2 *+	P-1	A	F1	1	A *-	A-1 *-
YORKSHIRE BUILDING SOCIETY	Baa1	P-2	A-	F1	5	NR	NR
COVENTRY BUILDING SOCIETY	A3 *+	P-2 *+	A	F1	5		
LEEDS BUILDING SOCIETY	A3	P-2 *+	A-	F1	5		
COMMONWEALTH OF AUSTRALIA	Aaa		AAA	F1+		AAAu	A-1+u
AUST AND NZ BANKING GROUP	Aa2	P-1	AA-	F1+	1	AA-	A-1+
COMMONWEALTH BANK OF AUSTRAL	Aa2	P-1	AA-	F1+	1	AA-	A-1+
NATIONAL AUSTRALIA BANK LTD	Aa2	P-1	AA-	F1+	1	AA-	A-1+
WESTPAC BANKING CORP	Aa2	P-1	AA-	F1+	1	AA-	A-1+
GOVERNMENT OF CANADA	Aaa		AAA	F1+		AAA	A-1+
BANK OF MONTREAL	Aa3	P-1	AA-	F1+	1	A+	A-1
BANK OF NOVA SCOTIA	Aa2	P-1	AA-	F1+	1	A+	A-1
CAN IMPERIAL BK OF COMMERCE	Aa3	P-1	AA-	F1+	1	A+	A-1
ROYAL BANK OF CANADA	Aa3	P-1	AA	F1+	1	AA-	A-1+
TORONTO-DOMINION BANK	Aa1	P-1	AA-	F1+	1	AA-	A-1+
REPUBLIC OF SINGAPORE	Aaa		AAA	F1+		AAAu	A-1+u
DBS BANK LTD	Aa1	P-1	AA-	F1+	1	AA-	A-1+
OVERSEA-CHINESE BANKING CORP	Aa1	P-1	AA-	F1+	1	AA-	A-1+
UNITED OVERSEAS BANK LTD	Aa1	P-1	AA-	F1+	1	AA-	A-1+
KINGDOM OF SWEDEN	Aaa	P-1	AAA	F1+		AAAu	A-1+u
SVENSKA HANDELSBANKEN-A SHS	Aa3 *+	P-1	AA-	F1+	1	AA-	A-1+
NORDEA BANK AB	Aa3 *-	P-1	AA-	F1+	1	AA-	A-1+
SWISS CONFEDERATION	Aaa		AAA	F1+		AAAu	A-1+u
CREDIT SUISSE AG	A1 *-	P-1 *-	A	F1	1	A	A-1
UNITED STATES (GOVT OF)	Aaa		AAA	F1+		AA+u	A-1+u
JPMORGAN CHASE BANK NA	Aa3	P-1	A+	F1	1	A+	A-1
UNITED KINGDOM - OTHER INSTITUTIONS							
DEBT MANAGEMENT OFFICE	Aa1		AA+	F1+		AAAu	A-1+u
GOVERNMENT AGENCIES, MULTI-LATERAL AND SUPRANATIONAL BANKS							
NORDIC INVESTMENT BANK	Aaa	P-1				AAA	A-1+
INTER-AMERICAN DEV BANK	Aaa	(P)P-1	AAA	F1+		AAA	A-1+
INTERNATIONAL BANK FOR RECON	Aaa	(P)P-1	AAA	F1+		AAA	A-1+

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2015**
TITLE:	**LIABILITY RISK MANAGEMENT**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Mercer Report – Management of Liability Risks: Developing a Risk Management Framework	

1 THE ISSUE

1.1 The Strategic Investment review undertaken in 2013 concluded that the management of liability risk should be considered in detail to ascertain whether it could be managed more effectively within the investment portfolio.

1.2 The value placed on the Fund's liabilities can change significantly over time due to changes in the assumptions used to value the liabilities. Some of these assumptions are derived from financial markets so they vary as market conditions change. This causes volatility in the funding level and contribution rates.

1.3 The liabilities can only be funded over time through contributions and the investment portfolio. Given the funding environment facing scheme employers, affordability of contribution levels is a critical consideration when agreeing the funding strategy. As a result, the investment portfolio will become ever more important in managing the liability risk in the future.

1.4 The Fund manages liability risk by investing in Stabilising Assets (currently bonds) within the investment portfolio. These assets help moderate the volatility in the funding level as their value changes in a similar way over time to the value of the liabilities. This paper explains the rationale for reviewing the way in which the risks arising from the liabilities are managed within the asset portfolio, and recommends delegation to the Investment Panel to carry out the review.

1.5 Mercer's report at Appendix 1 provides explanation supporting the information in sections 4 and 5 of this report.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Agree the scope and timing of the review set out in 5.1 and 5.2**

2.2 **Agree the delegation to Panel set out in 5.3**

3 FINANCIAL IMPLICATIONS

3.1 The triennial valuation of the Fund's liabilities and assets determines the contribution levels. The extent to which changes in the value of the Fund's liabilities can be managed and the cost of doing so will affect the next triennial valuation in 2016.

3.2 The costs of a review have been provided for in the 2015/16 budget.

4 LIABILITY RISK MANAGEMENT

4.1 Pension liabilities are the accrued benefits that will be paid out in the future. The monetary values of these cashflows are known. The funding strategy calculates how much must be paid into the Fund to fully fund these cashflows as they fall due. However, the "net present value" of these liabilities changes over time and the investment strategy only partially matches these cashflows, i.e. there is a "mismatch".

4.2 **Why manage these risks?** By managing the mismatch between the change in value of assets and liabilities over time, the Fund can minimise funding level volatility and stabilise employer contribution rates more effectively.

4.3 **What are the causes of such risks?** The largest factors affecting changes in the value of liabilities are as follows:

(1) Changes in interest rate – higher interest rates increase the discount rate used to value liabilities, thereby reducing the current value put on future liabilities (and vice versa)

(2) Changes in inflation rate – higher rates of inflation lead to larger benefits payments to members

(3) Changes in longevity – a rise in life expectation increases the future liabilities as it is assumed on average they have to be paid for longer (and vice versa).

4.4 **How can we manage these risks?** The impact of these risks on the funding level and contributions can be reduced by investing in assets whose value responds to changes in interest rates, inflation rates or longevity, in a similar way as the value of liabilities responds to such changes (i.e. by improving the 'matching characteristics' within the stabilising portfolio to the liabilities).

4.5 The stabilising portfolio seeks to reduce volatility in the valuation outcome; the majority of the investment portfolio remains invested in growth assets that generate higher returns. These "excess" returns help reduce the deficit contributions and employer contribution rates within the funding strategy.

4.6 Mercer's report (see Appendix 1) provides further explanation of the issue, and the scope and timeframe of the review.

5 REVIEW SCOPE AND PROCESS

5.1 Scope - Following an analysis of the investment portfolio's matching properties, the review will consider the range of investment options available to more effectively manage these liability risks, how they may be implemented and the cost.

5.2 As the impact of any decisions will need to be considered as part of the 2016 triennial valuation process, it is anticipated the recommendations will be considered by the Committee in early 2016.

5.3 It is proposed that the Investment Panel undertake the review, as the focus will be on detailed investment strategies, and make recommendations to Committee. The Committee Terms of Reference delegates the review of strategic opportunities outside the strategic asset allocation or review of investment issues in detail to the Panel.

6 RISK MANAGEMENT

6.1 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. 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.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal 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 (Tel: 01225 395306)
Background papers	JLT Strategy Review 2013
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND COMMITTEE – JUNE 2015 COMMITTEE MEETING

MANAGEMENT OF LIABILITY RISKS: DEVELOPING A RISK MANAGEMENT FRAMEWORK

1. INTRODUCTION

The Committee reviewed the Fund's strategic asset allocation (the mix of assets which the Fund invests in) in 2013. The Fund currently has a 20% allocation to Stabilising Assets (comprising UK and overseas government bonds and UK corporate bonds). The broad purpose of the Stabilising Assets is to help control investment risk relative to the Fund's liabilities and thereby help to "stabilise" the funding level and the Fund's contribution requirements. The purpose of this note is to outline a proposal for reviewing the investment risk that the Fund is exposed to relative to the Fund's liabilities, and how this is mitigated by the Stabilising Assets. This proposal involves the Committee delegating power to the Panel to undertake the review with the Officers and the Fund's Advisor, Mercer Ltd and report back its findings in 2016.

2. RECOMMENDATION

That the Committee agrees to delegate power to the Panel to undertake this review and notes:

- **The key issues behind the review (Section 3)**
- **The scope of the review of the Fund's asset allocation in the context of liability risk management (Section 4)**
- **The provisional timetable for the review (Section 5).**

3. THE ISSUE: BETTER RISK MANAGEMENT

Risk can ultimately be defined as the possibility of being unable to pay benefits as and when they fall due. However, these benefit payments are due over many decades in the future. Given this, measuring the current funding position is a way of assessing the risk of this happening now.

The value of the asset portfolio varies but the present value of the Fund's liabilities also varies over time, just as much if not more. To illustrate, over the fourth quarter of 2014 alone, the value of the Fund's liabilities increased by c. £370m as a result of market implied changes to the discount rate and inflation assumptions (which are used to value the liabilities), while the Fund's total assets increased only increased by c. £100m over the same period.

Such changes clearly lead to volatility in the funding level and therefore volatility in contribution requirements. There has been a lot of work in recent years to better structure the Growth assets within the Fund's asset portfolio and diversify away risk. As such, the purpose of this exercise will be to focus solely on the Stabilising Assets and to make these assets "work harder" to better mitigate against the liability risks whilst ensuring the arrangements in place remain affordable.

In order to illustrate the liability risks, taking a step back, when carrying out an Actuarial Valuation or indeed any funding update, the Actuary determines a present value of the Fund's liabilities by using a discount rate to calculate the value of the liabilities in today's terms. However, this discount rate varies over time, as conditions change in financial markets. In particular, since the discount rate is based on gilt prices (which can be very volatile) it can change markedly over time, which leads to material changes in the present value of the liabilities and therefore changes to the funding level and potentially, contribution rates. This risk is often called "interest rate" risk. Volatility in the funding level and contribution requirements have been clearly evident in recent years and interest rate risk is one key reason why this has been the case.

HOW CAN THESE RISKS BE MITIGATED?

The aim of the portfolio of Stabilising Assets is to invest in bonds and bond-like assets to mitigate liability risks like interest rate risk as described above in an affordable manner. Whilst the Fund's Stabilising Assets are currently invested in a diversified range of "generic" bond funds and will broadly move in line with the value of the liabilities, considerable volatility remains as these funds are not a close match to the actual Fund-specific liabilities. **By improving the matching characteristics of the Fund's assets** (implemented through the Stabilising Asset portfolio), the assets could be used more effectively to reduce the "mismatch" with the liabilities and help to better stabilise the funding level. In addition, improving the design of the Stabilising Assets will ensure that there are sufficient assets available over the long term to invest in the Growth portfolio and target the excess returns needed to close the funding deficit and therefore help to manage the cost of future contributions.

Aside from interest rate risk, the other main liability risk to consider is "inflation risk". The amount the Fund pays out in benefit payments each year is directly impacted by inflation given the uncapped CPI linked nature of the benefit payments (i.e. higher inflation leads to larger pension payments out of the Fund's assets to members). There are ways to improve the effectiveness of the Fund's assets to better hedge against these inflation risks (by investing in assets whose values have a better linkage to CPI inflation).

It is proposed that the Panel review the Fund's asset allocation and make pragmatic recommendations to the Committee as to how this can be enhanced (through the Stabilising Assets portfolio) to better focus on reducing liability risks and the volatility of contributions.

It should be noted that this can be a complex area of investment which will require training over the coming months. In particular, changes to the Stabilising Assets may involve some use of leveraged funds for the purposes of reducing risk and ensuring the Fund's assets better cover the liabilities. A key part of this exercise will be the Panel investigating these approaches (which are already commonplace with private sector defined benefit pension schemes and are increasingly being used within LGPS) before deciding on a suitable recommendation to Committee.

This report sets out the scope of the review and the provisional timetable for completion.

4. SCOPE OF REVIEW

It is proposed that the Committee delegate to the Panel the undertaking of this exercise to review the liability matching characteristics of the Fund's assets and develop a risk management framework to cover:

1. The current level of liability matching provided by the Stabilising Assets and all other bond assets, both at a total level and also split into the level of interest rate and inflation matching
2. Potential impact on risk and return of improving this level of liability matching and increasing contribution stability whilst ensuring the arrangements remain affordable

3. The range of funds and techniques available to better control these liability risks
4. Current "costs" of improving matching characteristics, relative to long-run interest rate and inflation expectations, and tools / asset classes for gaining this improved matching
5. The potential to use market-based triggers to improve matching characteristics of Stabilising Assets when affordable and attractively priced (i.e. when bond yields are high enough to justify locking in to them).
6. The suitability of the corporate bond assets held in respect of those employers and former employers where the liabilities are valued with a discount rate based on corporate bonds yields

The 2016 triennial actuarial valuation will commence in earnest after 31 March 2016, and the Actuary will provide input into this review as required. Panel will report their recommendations to Committee alongside the discussions on the 2016 valuation.

5. PROVISIONAL TIMETABLE

Following suitable training of Officers and Panel members, and the analysis detailed above, the Panel will report their recommendations to Committee in 2016 alongside the availability of results from the Actuarial Valuation.

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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**26 JUNE 2015**	**AGENDA ITEM NUMBER**
TITLE:	**Application for Writhlington Trust to be admitted as a Community Admission Body**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1: LGPS Regulations 2013 regarding admission bodies Appendix 2: Background information about Writhlington Trust		

1 THE ISSUE

1.1 Under the Local Government Pension Scheme Regulations 2013, an administering authority may make an admission agreement with a community admission body.

1.2 An application to become a community admission body ("CAB") of the Avon Pension Fund has been received from Writhlington Trust ("the Trust"). The Trust will not be guaranteed by a scheme employer so the Committee is asked to approve the admission in line with the Fund's policy on admissions.

2 RECOMMENDATION

The Pension Committee agrees that:

2.1 Writhlington Trust is allowed entry into the Avon Pension Fund as a Community Admission Body subject to a bond being in place to protect the Fund and subject to completion of the Admission Agreement.

3 FINANCIAL IMPLICATIONS

3.1 In allowing any community admission body to join the fund there is always a need to consider the financial risk which such a body may present. This is because it may at some point either become insolvent or, if it ceases to operate, may have insufficient resources to meet any outstanding pension liability.

3.2 This risk is mitigated in the regulations which permit funds to require that either the CAB's pension liabilities are guaranteed by a scheme employer or the CAB puts a bond in place to protect the Fund in the event the CAB is unable to meet its liabilities.

3.3 In the case of Writhlington Trust there is no guarantee from a scheme employer. Therefore the Trust is required to provide a bond to cover the potential pension liabilities in the event of insolvency.

4 THE REPORT

4.1 A Community Admission Body without a guarantee from a scheme employer can only join the Fund with the Committee's approval.

4.2 Writhlington Trust is a company limited by guarantee that was established by Writhlington School in 2003 to manage the school's sports facilities.

4.3 Bath & North East Somerset Council ("the Council") is proposing to transfer the assets of South Wansdyke Sports Centre (SWSC) to the Trust on 1 July 2015 with the intention that the Trust provides sports facilities for the community. There is no service contract (i.e. an outsourcing of the service) accompanying the transfer of the assets. In the event that the Trust no longer manages the sports centre, the assets will transfer back to the Council.

4.4 There will be 8 staff transferring and the scheme will be "closed" to new members. The liabilities will transfer from the Council, fully funded on the on-going basis.

4.5 The Trust is required to provide a bond to cover the potential loss to the Fund if the Trust is unable to meet its liabilities. The value of the bond will be assessed at least every three years in line with the actuarial valuation. As the Fund is at risk, the liabilities will be calculated using the corporate bond funding basis. As this is a more prudent assessment of the liabilities, it will result in a higher contribution rate for future service. Also at the date of admission, a deficit will arise given the liabilities will be assessed using the more prudent basis. This deficit will initially be recovered over the average working life of the members.

4.6 Appendix 2 contains background information about the Trust (provided by B&NES Council and the Trust) and the extract from the Trust's Board minutes agreeing to the bond. The Trust's financial status is sound and their bank has confirmed financial support for the refurbishment of SWSC.

4.7 Writhlington Trust is eligible to join the Fund as a Community Admission Body under the 2013 Regulations Schedule 2 Part 3 (1) (a), viz. "(it) operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise)”.

5 RISK MANAGEMENT

5.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body’s covenant is a crucial component in managing the potential risk of default to the Fund. The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a bond and a more prudent assessment of the liabilities. In recognition of the risk posed by the liabilities to the Fund, the on-going dialogue with all employers about the risk posed to their operations by the pension deficit has increased.

5.2 In line with the Avon Pension Fund policy, officers have ensured that this application is supported by a bond in the absence of a guarantee from a scheme employer.

6 EQUALITIES

6.1 There are no direct equality implications from this process.

7 CONSULTATION

7.1 No consultation is appropriate.

8 ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager x 5306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Regulations regarding Admission Bodies

There are two distinctive types of admission body that are able to join the Avon Pension Fund (defined below as per the regulations):

- a Community Admission Body [CAB]
- a Transferee Admission Body [TAB]

The 2013 regulations no longer use the terms “community admission body” and “transferee admission body” but in reality the distinction between the two remains and for convenience the Avon Pension Fund will continue to use these terms.

As the pension liabilities of a TAB have to be guaranteed by the outsourcing employer, Committee approval is not required. In these cases the Committee receives a periodic report detailing those which have joined the Fund over the relevant period. There is no change under the 2013 regulations in that the automatic guarantee remains.

However for a CAB, the 2013 regulations require that, if a bond is not provided, a guarantee be provided by a “person who funds the admission body or who owns, or controls the exercise of the functions of, the admission body”. In most cases, it is not feasible for a CAB to provide a bond and, in any event, a guarantee is preferable to a bond from the Fund’s standpoint. *(Previous regulations did not require any guarantee or bond; it was however Fund policy to require a guarantee or bond).*

The Committee’s policy is that, in the case of CAB, a guarantee must be provided, or failing that a bond. Under the regulations a bond is permissible provided that it is not deemed to be “undesirable”. A bond could arguably be deemed “undesirable” if the amount proposed is insufficient or if the bond provider is considered to be of insufficient substance. However, as already noted, a bond is less satisfactory from the Fund’s standpoint, the reason being that, unlike a guarantee, it is finite and therefore limited in the protection that it offers.

It should be noted that, under the Funding Strategy Statement, where a Scheme employer elects to take the pension liabilities and associated assets of the community admission body onto its own account with the Fund when the admission agreement ceases, this is tantamount to a guarantee and Committee approval would not be necessary. In this case any bond would simply be protecting the Scheme employer. However, where on termination a Scheme employer elects to leave the pension liabilities and associated assets of the community admission body with the Fund, there is effectively no fool-proof guarantee if a bond or indemnity is offered.

Given the new regulations, all applications to become an admitted body are accepted if a guarantee or indemnity is provided in accordance with the regulations by a Scheme employer. Where a bond is offered or the guarantee is from a person other than a Scheme employer, then the application is subject to Committee approval.

Regulations for Admission Bodies

Regulation 3 (1) (c) states “Subject to Regulation 4, a person is eligible to be an active member of the Scheme in an employment - if employed by an admission body and is designated or belongs to a class of employees that is designated by the body under the terms of an admission agreement, as being eligible for membership of the Scheme.

Regulation 3 (5) states “Where an administering authority enters into an admission agreement with an admission body –

(a) The admission agreement must comply with the requirements specified in paragraphs 3 to 12 of Part 3 of Schedule 2; and

(b) these Regulations apply to the admission body and to employment with the admission body in the same way as if the admission body were a Scheme employer listed in Part 2 of Schedule 2.”

The bodies covered by (a), (b) and (c) below are “community admission bodies” and those covered by (d) and (e) below are “transferee admission bodies”.

Part 3 (1) of Schedule 2 states:-

The following bodies are admission bodies with whom an administering authority may make an admission agreement-

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of—

(i) any Scheme employers, or

(ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i) the transfer of the service or assets by means of a contract or other arrangement,

(ii) a direction made under section 15 of the Local Government Act 1999 (a) (Secretary of State’s powers),

(iii) directions made under section 497A of the Education Act 1996 (b);

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

Appendix 2

Writhlington Sports Trust (WST)

Pension Committee Submission (prepared by B&NES Council)

Organisation details and relationship with Writhlington School

Writhlington Trust is a company limited by guarantee with charitable status, incorporated in 2003. The principal activity of the company is to operate Writhlington Sports Centre and to develop it as a community facility.

It has no legal connection to Writhlington School (other than shared Trustees). It is not a linked or group company. The relationship with the school is that the school leases the sports buildings (peppercorn rent) to the Trust. As an academy, Writhlington Trustees own all land and buildings. The Sports Trust is self-funding and relies on income from community use.

The Memorandum and Articles define the Board structure as: Headteacher of Writhlington School and nominated Governor, 4 members from "partner" organisations and 3 independent members, by invitation of the Board.

Relationship with B&NES

B&NES is proposing a Community Asset Transfer of South Wansdyke Sports Centre (SWSC), the adventure and play park, skate park, toilet block and Car Park to Writhlington Sports Trust to deliver Sport, Leisure and Health provision for 99 years from 1st July 2015. The asset transfer from B&NES leases the land and buildings for 99 years at peppercorn rent, with full operating, repairing and maintenance responsibility with the Trust.

It is proposed that there will be representation from B&NES on the board of trustees should the proposal progress. The Council will have the option to continue to influence the development of sport and leisure in the area through representation on the Writhlington Trust Board and to identify early if there are financial issues arising and seek appropriate corrective management actions.

Business Case for WST taking over the Sports Centre (and associated land and assets)

WST has an extensive proposal for refurbishing and redeveloping the sports centre and grounds including:

- Refurb of public conveniences
- Installation of a 3G pitch

- Installation of a high rope facility
- Upgrade the reception area to include a café
- Upgrade changing rooms
- Provision of new multipurpose activities room
- Suite of classrooms for higher education and apprenticeship learning

The Trust proposes to invest c£800k within 5 years, some of which will be funded by a loan already approved in principle by Nat West Bank. The bank has previously supported the Trust with a loan for a soft play facility which, due to the success of income streams is being repaid ahead of schedule.

Following completion of initial refurbishment works they anticipate a surplus of circa £39,000 for SWSC in year one with surpluses of circa £50,000 - £100,000 from year 3 onwards. Based on this and estimated refurbishment costs their expected return on investment would take approximately 8 – 10 years. All surpluses would be used to further improve and develop the site.

The pension costs of TUPE staff and the requirement for the bond have been factored into the projections.

Project management will be in partnership with Alliance Leisure, who are leisure specialists with a strong track record in building and refurbishing leisure centres which are attractive to visitors and bring refreshed income streams which provide a good return on investment.

Max Associates, Leisure Specialists and advisors to the Council on the main Leisure procurement have also carried out due diligence on the WST business case.

The trust feels savings could be made on expenditure in the region of £40,000 - £50,000 through economies of scale in relation to staffing, marketing and IT.

In the event of insolvency or inability to deliver the service the lease would be terminated and the asset and staff would transfer back to B&NES.

Financial Review

WST appears to be in a sound financial position. For year ended March 2014 the Trust achieved a surplus of circa £70,000 on a turnover of £1.3m. Year end March 2015 (unaudited) management accounts report a surplus of £116k on a turnover of £1.5m. Reserves at the end of March 2015 are £444k, with net assets of £559k.

Reserves: The Trust operates a reserve policy of a minimum of £300,000 ensuring that they are able to react to any adverse trading conditions or unplanned building dilapidation. They would work towards increasing this to £500,000 with the inclusion of South Wansdyke Sports Centre.

Historic and forecast financial summary for WST has been provided. The Council has reviewed the WST accounts for the last few years, in conjunction with the business case proposals and is satisfied that the Trust is a going concern, the business case is built on sound assumptions and has had external scrutiny from both Alliance Leisure and the Trust's Accountants/auditors.

Alliance Leisure has been trading since 1992 and has been involved in an exciting range of very successful projects. Last filed statutory accounts show the company has a net worth of £660,483.

2014	Turnover	(Audited)	£7,761,931
2014	Profit EBITDA	(Audited)	£345,604
2015	Turnover	(Budget)	£16,081,295
2015	Profit EBITDA	(Budget)	£904,556

Trust Board Resolution: taking on pension liabilities

This proposal has been discussed with the WST Trustee Board and has their full support including agreement to provide a bond to cover the pension deficit (see Annex 1). They have also held discussions with other advisors, including their bank manager and auditors/accountants, and the Writhlington Trust's Banking Relationship Manager, has written in support of the developments.

Annex 1

Extract from Meeting of Directors of Writhlington Trust
Writhlington School – 11 May 2015

Present:

Clive Sampson
Jon Pike
Mark Everett
Matt Wise
Richard Akers (Chair)
Chris Hobbs
Clare Timbrell

Apologies:

Jeremy Pilling
Ben Naunton
Andy Fairbairn

Pension Arrangements for South Wansdyke Sport Centre TUPE staff

Directors were advised by Chris Hobbs of the pension deficit which currently exists for those staff who are members of the Avon Pension Fund and who are due to transfer to Writhlington Trust on 1 July 2015.

The amount of the deficit (£119,000) was discussed along with the requirement from Bath and North East Somerset Council for a bond. Chris Hobbs indicated that a bond had already been offered through a broker at the rate of 4% of the deficit. It was agreed that the bank may offer more favourable terms and this should be explored. The Directors agreed unanimously to support the transfer of existing staff with the pension deficit and to take out a bond at the most favourable rate available.

It was agreed that Writhlington Trust would not be able to support new members to the scheme and has a NEST arrangement for other staff not currently members of the Avon Fund. One to One TUPE meetings will be held shortly to talk to staff about this and advise them on their future pension arrangements.

This is an extract from the minutes
Confirmed by Mark Everett, Director
26 May 2015

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 JUNE 2015**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT TO COUNCIL 2015**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council 2015		

1 THE ISSUE

1.1 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report would also include a reference to the future work programme.

1.2 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2015, will be submitted to the Council meeting on 16 July 2015. In addition, the report will be published so that it is available for all stakeholders to inform them in detail of the work undertaken by the Committee.

2 RECOMMENDATION

That the Committee:-

2.1 Review and approve the 2015 Annual Report to Council

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations in this report.

4 REPORT

4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months to 31 March 2015 and sets out its agenda over the coming year.

4.2 The Committee is invited to review this in order to ensure that it includes everything that the Committee would wish to report.

5 RISK MANAGEMENT

5.1 No decision is required and therefore a risk assessment in compliance with the Council's decision making risk management guidance is not necessary.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager 01225 395306 Geoff Cleak, Pensions Manager 01225 395277
Background papers	Committee reports
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

AVON PENSION FUND COMMITTEE
ANNUAL REPORT TO COUNCIL
(April 2014 - March 2015)

1 BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2014 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2009 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of more than 214 employing bodies including the four unitary authorities. The Fund has c. 96,000 members and the value of the Fund as at 31 March 2015 was £3.4 billion. In 2014/15 the Fund received £198 million in pension contributions and paid out £163 million in pension payments.

(a) GOVERNANCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the "Committee") which is the formal decision-making body for the Fund. The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. Due to the wide scope of the Committee's remit it is supported by the Investment Panel (the "Panel") which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions. The Terms of Reference, agreed by the Council, for the Committee and Panel are set out in Appendix A to this report.

Committee Membership

The Committee structure is as follows:

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

The Committee meets quarterly. Attendance at these meetings was 81% for the voting members and 37% for the non-voting members. (Note: one of the non-voting members was on long term leave)

Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. During the last twelve months one workshop was arranged to discuss the new governance arrangements for the LGPS including pension boards.

Investment Panel

The Panel consists of up to six voting members from the Committee and meets at least quarterly ahead of Committee meetings.

The Panel met formally five times during the year with attendance at 96%. Each meeting was followed by a workshop where selected investment managers present on their performance and outlook for their portfolio. In addition Panel members attended three selection panels held to appoint new managers for infrastructure, diversified growth fund and hedge funds.

2 TRAINING

The Fund provides training to committee members to ensure they possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties. The administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

The Fund has in place a training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds, which identifies six areas of knowledge as follows:

i. Legal and governance context
ii. Pensions Auditing and Accounting Standards
iii. Procurement and Relationship Management
iv. Investment Performance and Risk Management
v. Financial Markets and Product Knowledge
vi. Actuarial Methods, Standards and Practices

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Many of the areas identified by the framework are covered through detailed Committee and Panel reports and workshops where the topic is explored greater in detail.

Committee members will be required to complete the Pensions Regulator's Knowledge and Skills Toolkit within the first year of their appointment to the committee.

In addition, members are encouraged to attend seminars and conferences which broaden their understanding of investments and topics of relevance to the LGPS.

3 REVIEW OF THE YEAR

a) INVESTMENTS

- The Fund generated an investment return of 13.5% during the year, with a return of 11.2% p.a. over the last three years.
- The 2014/15 investment return was driven primarily by the strong returns from equities, bonds and property. Overseas equities (25% of the Fund's assets) were the main driver, whereas UK equities (15% of Fund assets) lagged the overall return. Having delivered negative returns in 2013/14, bonds rebounded strongly on expectations that bond yields will stay lower for longer.

Property assets continue to appreciate as demand for income generating real assets continues to outstrip supply.

- The appointment of a manager to invest in infrastructure and the restructuring of the hedge fund portfolio completed the actions arising from the review investment strategy in March 2013. The Fund terminated one of the Diversified Growth Fund mandates following the loss of key investment personnel and appointed a new manager to manage the assets.

b) FUNDING LEVEL

- As at 31 March 2015 the Actuary has estimated that the funding level has fallen back to 78% from 84% declared a year earlier and the deficit has increased to c. £1,104m from £636m.
- The deterioration in the funding level was due to a fall in gilt yields (which are used to value the liabilities) from 3.5% to 2.3%. This was partially offset by a small fall in inflation but overall there was a fall in ***real*** gilt yields (which take inflation into account). As the value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation, a decrease in real gilt yields will increase the value of the liabilities.
- During the year the value of the assets rose by more than expected. However, this was insufficient to offset the increase in the liabilities.

c) PENSIONS ADMINISTRATION

(i) Budget

- During the year to 31 March 2015, total administration costs (excluding governance and investment management costs) were £2.16 million a saving of £226,000 (9%) on the budget.
- Total costs including Investment Management, custody and governance costs, were £19 million, in line with the budget. Investment management fees were higher than expected due to the larger than anticipated increase in asset values since the setting of the budget. Governance costs were also slightly higher than expected due to the re-tendering of investment mandates.
- The investment management and custody fees of £16.2 million equates to 0.42% of the Fund's assets.

(ii) CIPFA Benchmarking (Benefits Administration)

- The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund".
- In 2013/2014 the Fund's overall costs at £18.27 p.a. per member were less than the average of £20.75. Staffing costs (excluding payroll) were significantly less at £6.97 per member against £8.87. Payroll costs per pensioner member of £1.74 compares favourably against the average of £1.97.

- The Fund invests heavily in communications with communication costs at £1.27 per member compared to the average of £0.87. Although significantly higher, the Committee has prioritised resources to this area as it strongly believes in the importance of providing members with timely, accurate information. This is delivered by specific newsletters to active and pensioner members, a high quality website, provision of member access to their "account" via the website and the facility for scheme employers to send information digitally via secure portal. Savings are being realised through the increased use of electronic delivery for employers 'ESS' & 'i-Connect' and through the introduction and promotion of the member self-service facility 'MSS'.

(iii) Pensions Administration Strategy

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- Performance of both the Fund and employers is closely monitored by officers and the Committee. The Strategy provides a transparent and robust operating and performance framework which improves accountability and has successfully focussed attention on the need for both parties to invest in and make use of electronic data provision to improve efficiency.

4 COMMITTEE BUSINESS TO MARCH 2015

a) Investment Strategy

During the year a number of strategic decisions were implemented as follows:

- The final restructuring of the investment portfolio was completed during the year with the appointment of an infrastructure manager to manager 5% of the fund's assets. The Investment Panel also reviewed the hedge fund portfolio and agreed to appoint a single manager to manage the assets on a bespoke basis for the fund. This will enable the fund to structure its investment exposure having considered its other investments and its cash flow requirements.
- The Fund has continued to support the Local Authority Pension Fund Forum (LAPFF) as part of its Responsible Investing Policy, with members and officers attending quarterly meetings. LAPFF act on behalf of local authority funds to promote best practice in governance in investee companies either on its own or in collaboration with other organisations with similar objectives.

b) Funding Strategy

- The next actuarial valuation is due in 2016. The Committee are updated quarterly on the funding position from the 2013 valuation as part of the financial monitoring process.

c) Approval of the 3-year Service Plan and Budget 2015/18

- The Service Plan sets out the Pension Fund's objectives for the next three years (2015/18). The three year budget supports the objectives and actions arising from the plan.

- The main focus of this plan is to ensure the Fund complies with The Pension Regulator requirements; to develop and implement an IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth; to develop a medium term funding strategy; to explore the options for more effective matching of liabilities; and to support the introduction of Pension Boards
- The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.
- The budget approved for administration for 2015/16 was £2,378,600. This includes gross savings of £224,000 that have been made through changes in working arrangements and the greater adoption of digital technology. £71,400 of these savings will meet the costs of additional responsibilities, regulations and inflation. A further £147,600 of the savings will be invested in the IT Strategy to generate cost savings in the future.
- The Service Plan includes a three year cash flow forecast reflecting the maturing of the scheme, which is no longer cash flow positive on a monthly basis. Investment income is now required to meet pension payments so closer monitoring of the cash flow position is required for the investment strategy to be effectively managed.

d) Approval of draft revised Administration Strategy

The Fund revised its 2011 Administration strategy to include a more detailed ICT Strategy and also to ensure the Governance and administration requirements of the Pension Regulator are properly addressed.

e) Public Service Pensions Act 2013 and government reform

- The Public Sector Pensions Act 2013 (PSPA2013) has changed the governance structure of the local LGPS funds. There was a consultation as to how the Act could be applied to the local LGPS funds.
- PSPA2013 gives the Pensions Regulator a role in regulating the public service schemes including the LGPS. The Regulator will require greater disclosure of member training and require all pension board members to attain a satisfactory level of knowledge in order to discharge their duties.
- The Act also established local pension boards for each local LGPS fund. The remit of these boards is to secure the Fund's compliance with regulations and TPR's Codes of Practice as well as assisting the administering authority to ensure effective and efficient governance and administration of the scheme. The Committee reviewed the Terms of Reference for the new Pension Board prior to it being considered by the Council.
- The government consulted further on their proposals for restructuring the local LGPS funds to reduce investment management costs and increase the efficiency of the national scheme. This consultation included a cost-benefit analysis of the potential option the Government's preferred approach to reform which focussed on the use of collective investment vehicles managed by the scheme itself. The government was not supportive of fund mergers at this stage. The government has yet to respond to the consultation but it is expected to be revived following the elections.

- The Committee responded to these consultations and further consultations on the regulations for the new scheme.

f) Treasury Management Policy and Cash Management Policy

- The Committee approves the Fund's Treasury Management Policy annually. The policy sets out how the Fund's cash is invested to meet its day-to-day requirements. The cash managed under this policy at any time is c. £25 million, which represents less than 1% of the Fund's value.
- The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately (via separate bank account) to the Council's and the Fund has a bespoke Treasury Management Policy.
- The policy has been further revised in line with the Council's policy due to the downgrading of the credit ratings of the UK banks, to ensure there is adequate flexibility for the efficient management and investment of the short term cash.

g) Responsible Investing Annual Report

- The Fund has a Responsible Investing (RI) Policy which supports its investment strategy. As transparency and disclosure are an important element of being a responsible investor the Fund publishes an annual report of its activities.
- The policy sets out how the Fund will incorporate and manage the risks arising from its investment activities that relate to Environmental, Social or Governance factors (ESG). The approach is to identify and manage these risks in a variety of ways: through considering how they can impact the overall risk and return of the Fund; by understanding how the investment managers evaluate the materiality of such risks within their investment decisions; by using its votes as a long term shareholder and to engage with company Boards to influence corporate behaviour
- The 2014 report highlighted the main activities as follows:
  - (i) Embedded ESG criteria into the evaluation and implementation of the new investment strategy for the new Diversified Growth Funds and infrastructure mandates and appointment decisions
  - (ii) Monitored whether our investment managers implemented RI policies or approach in line with their stated policy and the Fund sought to influence where appropriate
  - (iii) The Fund followed through with issues identified last year by asking the investment managers to promote board diversity for the 2014 proxy season and by reviewing managers policy towards resolutions on remuneration following the introduction of the binding vote structure on their voting policy and whether they support the public declaration of investment managers' opinions on how executive pay packages should be structured
  - (iv) Continued to support the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks.

h) Administration

- In accordance with the Pensions Administration Strategy the Committee monitors the KPI for pensions administration and the scheme employers quarterly.
- Focus in 2014/15 was the continued rollout of electronic receipt and delivery of data with employers. Work with employers in this area has resulted in a significant move towards full electronic data transfer with 60% of scheme employers now submitting member data electronically, representing 81% of overall fund membership.

i) Advisory Contracts

- In line with Council policy, the actuarial and investment consultancy contracts were re-tendered at the expiry of each contract. The fund tendered through the South West LGPS Advisory Framework Contract, a collaborative initiative to reduce procurement costs.

j) Workplans

- Separate workplans are prepared for the Committee and Panel detailing the forthcoming areas of work relating to the investment and funding strategies and to the administration of benefits to give the Committee and officers the opportunity to review the workload and accommodate issues that may arise.

5 FUTURE BUSINESS

The Committee and Panel's focus over the next twelve months will be as follows:

a) Investments

- Investment Strategy – explore options for more effective management of the liabilities through the investment portfolio, including how liability driven investing could assist in hedging the interest rate and inflation impact on the liabilities.
- Establish the framework for making investments that fall outside the strategic asset allocation. The fund can allocate up to 5% of its assets in "other bond" assets and up to 5% in "other growth" assets. A framework is required to set out the investment parameters and the decision making process.

b) Funding Strategy

- Explore options for insuring against ill-health retirements.
- Commission an interim valuation to prepare the Committee and employers for the potential outcome of the 2016 valuation.
- Review work undertaken to assess the financial covenants of scheme employers and how this analysis will be used in setting contribution rates in the 2016 valuation.

c) **Benefits Administration**

- Ensure compliance with stringent requirements of The Pensions Regulator (TPR).
- Review and approve the Funds data improvement plan in accordance with TPR Codes of Practice.
- Approve the Funds KPI Benchmarking reports and Fund/Employer performance reports following the implementation of the revised Pensions Administration Strategy.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.

d) **Governance of the LGPS**

- Engage with and respond to government consultations expected during the year on the governance structure of funds at the local level. It is expected that the focus will be on proposals to change the arrangements for the investment of assets across the LGPS funds nationally to improve investment returns through lower investment costs.
- The PSPA2013 included the use of cost cap mechanisms to control employer costs in the future. The LGPS cost cap mechanism is being developed and should be agreed during the year for it to be implemented alongside the 2016 valuation.
- The Committee will respond to consultations issued by the government or the Scheme Advisory Board on these issues.

Avon Pension Fund

June 2015

Appendix A

Terms of Reference for the Avon Pension Fund Committee and Investment Panel

1 Avon Pension Fund Committee

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

Function and Duties

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

The key duties in discharging this role are:

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

Delegations

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

Membership of the Committee

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

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

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

Substitution

Named substitutes to the Committee are allowed.

<u>2 Investment Panel</u>

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

The Investment Panel will:

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

and have delegated authority to:

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

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

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Appointment of specialist advisors to support the Committee in discharging it functions.
3. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).

4. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
5. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
6. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

May 2015

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 JUNE 2015**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: EXEMPT Appendix 1 – Fund of Hedge Fund Selection Decision		

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has not held any formal Investment Panel meetings since the March 2015 committee meeting because of the local elections in May. The Panel held a Clarification meeting on the Fund of Hedge Fund mandate tender on 25 March 2015. The recommendations and decisions arising from this meeting is set out in paragraph 4.1.

2 RECOMMENDATION

That the Committee notes:

2.1 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) Fund of Hedge Fund Tender - Clarification meeting 25 March 2015:

The Panel appointed JP Morgan Asset Management for the Fund of Hedge Fund mandate. Exempt Appendix 1 provides a brief summary of the decision.

5 DELEGATION

5.1 The selection decision was taken under the delegation set out in the Fund's Terms of Reference with the relevant section as follows:

The Investment Panel….have delegated authority to:

6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.

6 RISK MANAGEMENT

6.1 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.

6.2 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.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – 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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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-841/15

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 26 June 2015

Author: Matt Betts
Report Title: Item - Investment Panel Activity EXEMPT Appendix 1 – Fund of Hedge Fund Selection Decision

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

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

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

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 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 appendices also contain detail 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 and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2015**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 March 2015)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Annual Investment Review

Exempt Appendix 3 – Changes in RAG status of Managers

Appendix 4 – LAPFF Quarterly Engagement Monitoring Report

Appendix 5 – Revised Statement of Investment Principles

Appendix 6 – Potential impact of 2014 Budget flexibilities

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 March 2015.

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

Section 4. Funding Level Update
Section 5. Annual Investment Review
Section 6. Investment Performance: A - Fund, B - Investment Managers
Section 7. Investment Strategy
Section 8. Portfolio Rebalancing and Cash Management
Section 9. Potential impact of 2014 Budget flexibilities
Section 10. Corporate Governance and Responsible Investment (RI) Update
Section 11. Update to Statement of Investment Principles

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

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

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 4**

2.3 **Agree minor updates to the Statement of Investment Principles (SIP) as explained in Section 11, and approve the revised SIP in Appendix 5.**

2.4 **Note the assessment on the potential impact of the 2014 budget flexibilities on the Fund's cash flow and liabilities in Appendix 6.**

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, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). 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 7% over the year from 85% to c. 78% and the deficit has grown to c. £1.1bn from £876m.

(2) The deterioration over the year was largely due to a fall in real bond yields used to value the liabilities (from 5.1% to 3.9%), offset only partially by lower inflation expectations and better than expected investment returns.

5 ANNUAL INVESTMENT REVIEW

5.1 This quarter Mercer has provided an annual investment review of the year to 31 March 2015 (see Appendix 2) rather than the normal quarterly performance report. It was agreed as part of the strategic investment review in 2013 to provide an annual report to the Committee following the delegation of some investment decisions to the Investment Panel.

5.2 This purpose of this report is to inform the Committee as to how the strategy has performed over the last year, whether the underlying assumptions of the investment strategy remain valid, and whether the investment manager structure is delivering against expectations.

6 INVESTMENT PERFORMANCE

A – Fund Performance

6.1 The Fund's assets increased by £187m (a return of 5.5%) in the quarter, giving a value for the investment Fund of £3,829m at 31 March 2015. 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 benchmark is summarised below.

Table 1: Fund Investment Returns
Periods to 31 March 2015

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	5.5%	13.5%	11.2%
Avon Pension Fund (excl. currency hedging)	5.4%	13.3%	11.0%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	4.6% *(+0.9%)*	13.2% ***(+0.3%)***	9.9% *(+1.3%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	5.6% *(-0.1%)*	13.2% ***(+0.3)***	11.1% *(+0.1%)*

6.2 **Fund Investment Return:** Returns from Equity markets were positive over the quarter with Japan (16.4%) and Europe (10.6%) outperforming the US (5.9%) and the UK (4.7%). Emerging Markets also experienced strong returns (7.4%). Gilts and corporate bonds produced more moderate positive returns over the quarter following last quarters significantly strong returns.

6.3 Over the one year period all asset classes except UK Equities and hedge funds met or outperformed their strategic return assumption. Over 3 years all asset classes outperformed their strategic return assumption, with the exception of Emerging Market equities, hedge funds and overseas fixed interest.

6.4 **Fund Performance versus Benchmark: +0.3% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **0.7%** over the 12 months. This was due to the underweights to Hedge Funds and Diversified Growth, and an overweight in developed overseas equities. The currency hedging programme contributed **0.2%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance detracted -**0.6%** of the outperformance over the 12 month period, relative to the strategic benchmark, driven by under performance in overseas equities, hedge funds and property versus their individual benchmarks.

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

6.6 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme has contributed +0.1% from the total Fund return over the quarter and added 0.2% over the year.

B – Investment Manager Performance

6.7 Fifteen mandates met or exceeded their three year performance benchmark, which offset underperformance by Partners and Signet. SSgA, RLAM, and Jupiter all continue to perform particularly well against their three year performance targets.

6.8 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 TT has been downgraded from a Green to an Amber rating (explained in Exempt Appendix 3).** Currently 3 managers are amber rated, Schroder (global equity), TT (UK equity) and Signet (fund of hedge funds).

7 INVESTMENT STRATEGY

7.1 Fund of Hedge Funds: Following a review of the Fund of Hedge Funds portfolio, and an open OJEU tender process, the Fund has appointed JP Morgan Asset Management to manage a bespoke portfolio of hedge fund investments.

7.2 Infrastructure: The Fund’s investments in infrastructure are awaiting drawdown by the selected manager IFM who anticipate the funds being drawn down over the next 12 to 18 months.

7.3 A review of the Fund’s management of liability risk is another item on the meeting agenda and will form a significant part of the workplan over the coming months.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

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

8.2 The Equity:Bond allocation is estimated to be 77.3: 22.7 at 20 May 2015 which is within the range to review rebalancing. The upcoming investments in infrastructure will be funded from the equity portfolio which will bring the overweight to equites back into target range. Given this, it was decided not to rebalance ahead of this time to avoid overtrading.

Cash Management

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

8.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and during the quarter were invested in line with the Fund's Treasury Management Policy (latest approved on 28 March 2014).

8.5 The Fund continues to deposit internally managed cash on call with NatWest and Bank of Scotland. Following the withdrawal of Barclays Platinum Account and the March Committee's concern regarding the Eurozone the Fund is also depositing cash on call with Svenska Handelsbanken. This is following the approval by the Vice Chair to use counterparties meeting the required credit ratings that are outside the Eurozone. The Fund also deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated) and another AAA rated fund with Deutsche Bank is available for deposits if required. The Fund also has access to the Government's Debt Management Office, however the interest paid currently may not cover the transfer and administration costs incurred.

8.6 Following the lump sum deficit recovery payments in April 2014 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 31st March the outflow of cash averaged just over £2.2m. To fund the cash flow shortfall £5m of investment income was transferred back from the custodian during the quarter.

9 POTENTIAL IMPACT OF 2014 BUDGET FLEXIBILITIES

9.1 At the last meeting the committee requested an assessment of the potential impact on the fund of the pension flexibilities permitted from 1 April 2015 as set out in the 2014 budget. The 2014 Budget increased the flexibility available to members who hold Defined Contribution (DC) benefits, in particular allowing members the ability to take all DC benefits as a one off lump sum cash payment from April 2015 or drawdown on their pension pot as and when needed. The new flexibilities will potentially make transfers from DB schemes (including the LGPS) to DC arrangements more appealing for members than they have been in the past. Members have to get advice from an IFA before asking for a transfer and whilst it would be reasonable to expect that an IFA would not recommend a member to transfer their benefits away from an LGPS Fund (given the transfer terms), the option of taking all benefits as either a one off lump sum or as cash in different stages may be very appealing, depending on each individual's circumstances, such that the transfer may be taken anyway.

9.2 From the Fund's perspective, the changes coming into force in April 2015 could have a material negative impact on the liquidity of the Fund. The investment strategy takes the Fund's cash flow requirements in to account as the Fund is already experiencing negative cashflow if investment income is excluded. In recent years the investment strategy has focussed on income generating assets and the investment structure has been altered so that more income is distributed. The investment strategy and policies are monitored on an on-going basis and once there is more indication of the level of take up of these flexibilities, the investment strategy/structure may have to be reviewed in respect of investment income and treasury management (the level of cash reserves held).

9.3 Whilst one key impact is in relation to cash flows a further perhaps beneficial, albeit smaller at a total Fund level, impact is in relation to the reduction in liabilities and future risk e.g. in relation to longevity, given a member's benefit entitlements in the Fund would be extinguished if they take a transfer value. Equally there is a bigger proportionate impact for employers who have a small number of members.

9.4 Appendix 6 summarises the potential impact on the fund of these flexibilities in more detail.

9.5 The level of take up is as yet unknown but the actuary's view is that it is unlikely to be significant initially because of (i) the transfer terms currently offered given current market conditions; (ii) that the members will have to find a DC vehicle to transfer into and obtain independent financial advice if their pot is more than £30,000. A real "game-changer" in terms of take-up rates could be if defined benefit schemes (including the LGPS) were allowed to facilitate the flexibilities directly by for example, allowing members to "drawdown" on the value of their DB pension, as it removes at least one of the barriers. This is expected to be consulted on now that the General Election is over. However, based on anecdotal experience around the globe e.g. Australia where flexibilities have existed for many years now, it may not move the take-up to very high levels.

10 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	128
Resolutions voted:	1,631
Votes For:	1,574
Votes Against:	57
Abstained:	3
Withheld* vote:	0

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

10.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

11 STATEMENT OF INVESTMENT PRINCIPLES

11.1 The Fund's Statement of Investment Principles sets out the Fund's investment strategy and policies and states how the Fund complies with the Myners Principles for Effective Decision Making. The requirement to produce a Statement of Investment Principles is set out in the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009. These regulations provide that "the written statement must be revised by the administering authority in accordance with any material change in their policy … and published".

11.2 The SIP has been updated to include 3 new investment managers who have been added to the table of Investment Manager Mandates in page 5 of the SIP included in Appendix 5. Standard Life replace Barings DGF mandate, and IFM and JP Morgan Asset Management are new mandates.

11.3 The Committee is asked to approve the revised SIP in Appendix 5.

12 RISK MANAGEMENT

12.1 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.

13 EQUALITIES

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

14 CONSULTATION

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

15 ISSUES TO CONSIDER IN REACHING THE DECISION

15.1 The issues to consider are contained in the report.

16 ADVICE SOUGHT

16.1 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	LAPFF Member Bulletins, Data supplied by The WM Company Mercer report on 2014 Budget flexibilities
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 VALUATION - 31 MARCH 2015

	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	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Pyrford	Standard Life	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																	
UK	227.8	192.8	166.0			25.8										612.4	16.0%
North America	219.4					137.7										357.1	9.3%
Europe	171.1					34.3		44.3								249.7	6.5%
Japan	49.7					24.0		45.4								119.1	3.1%
Pacific Rim	55.8					7.9		34.8								98.5	2.6%
Emerging Markets				160.2	191.7	21.0										372.9	9.7%
Global ex-UK							291.4									291.4	7.6%
Global inc-UK															18.7	18.7	0.5%
Total Overseas	***496.0***	***0.0***	***0.0***	***160.2***	***191.7***	***224.9***	***291.4***	***124.5***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***18.7***	***1507.4***	***39.3%***
Total Equities	**723.8**	**192.8**	**166.0**	**160.2**	**191.7**	**250.7**	**291.4**	**124.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**18.7**	**2119.8**	**55.2%**
DGFs											**124.7**	**243.5**				**368.2**	**9.6%**
BONDS																	
Index Linked Gilts	239.8															239.8	6.2%
Conventional Gilts	112.5															112.5	2.9%
Corporate Bonds	22.2								308.9							331.1	8.6%
Overseas Bonds	113.3															113.3	3.0%
Total Bonds	**487.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**308.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**796.7**	**20.8%**
Hedge Funds										162.8						**162.8**	**4.2%**
Property													168.8	146.8		**315.6**	**8.2%**
Cash	5.0	2.1	9.5			5.7							8.9		44.2	**75.4**	**2.0%**
TOTAL	**1216.6**	**194.9**	**175.5**	**160.2**	**191.7**	**256.4**	**291.4**	**124.5**	**308.9**	**162.8**	**124.7**	**243.5**	**177.7**	**146.8**	**62.9**	**3838.5**	**100.0%**

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MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

AVON PENSION FUND

ANNUAL INVESTMENT REVIEW TO 31 MARCH 2015

MAY 2015

MARSH & McLENNAN COMPANIES

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.
- Performance figures are gross of fees and sourced from WM Services, unless stated otherwise.

Contents

Section 1

Executive Summary

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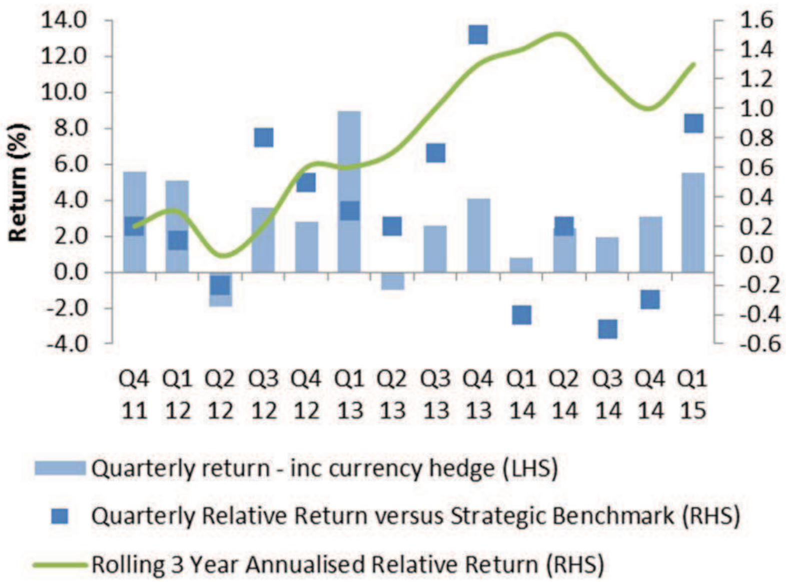
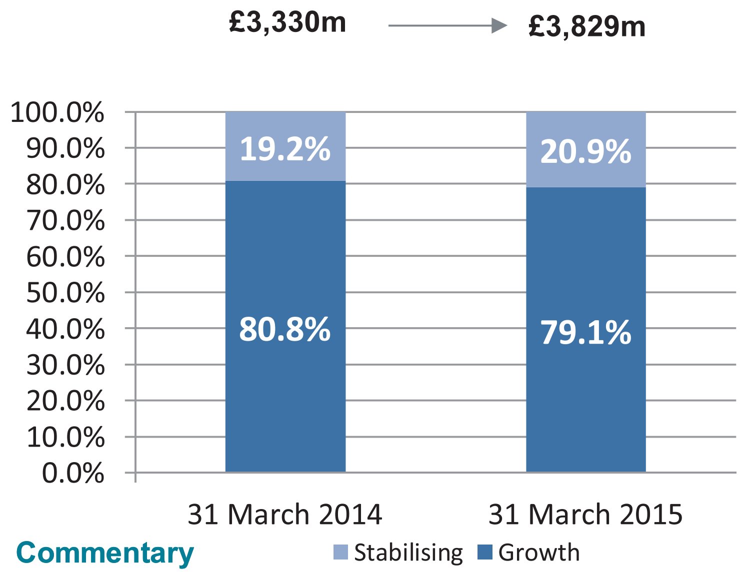
Executive Summary

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	5.5	13.5	11.2
Total Fund (ex currency hedge)	5.4	13.3	11.0
Strategic Benchmark (no currency hedge)	4.6	13.2	9.9
Relative (inc currency hedge)	**+0.9**	**+0.3**	**+1.3**

Excess Return Chart



Asset Allocation



Commentary

Over the year total Fund assets (including currency hedging) increased by just under £500m.

This increase was largely due to the strong performance of most asset classes in particular UK bonds, overseas equity and property, together with contributions paid over the year.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes with the exception of developed market equities (although this overweight allocation will be reduced once the investments in the new Infrastructure and Hedge Fund mandates is drawn down).

Executive Summary

This report has been prepared for the Avon Pension Fund ("the Fund"), to assess the performance and risks of the Fund's investments.

Funding level

- The estimated funding level fell by c7% to 78% over the year to 31 March 2015, with the rise in asset values outpaced by the increase in liabilities caused by the fall in real and nominal gilt yields (which increased estimated liabilities by around £750m).

Fund performance

- The value of the Fund's assets increased by c. £500m over the year, to £3,829m at 31 March 2015. The total Fund returned 13.5% (13.3% excluding Record's currency hedging mandate), as a result of positive returns from all funds except Man and Signet. This marginally outperformed the strategic benchmark return of 13.2% (excluding currency hedging) due to asset allocation in overseas equities (where an overweight position was held in assets that outperformed the total strategic return), and multi-asset and hedge funds (where the Fund was underweight assets which underperformed the strategic return).

Strategy (index returns versus strategic returns)

- Global (developed) equity returns over the last three years at 14.2% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We are neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest looking ahead over the next three years.

Strategy (continued)

- The three year return from emerging market equities has fallen to 3.7% p.a. from 4.8% p.a., with the Q1 2012 performance (which dropped out of the index) being significantly higher than the Q1 2015 return. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening USD on many emerging economies. Emerging markets have, however, rallied modestly post 31 March 2015 as sentiment gradually improves. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.
- UK government bond returns over the three years to 31 March 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 10.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 8.9% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remained insatiable. Whilst from an absolute return perspective, government bonds remain unattractive due to the low yields available, their value in the context of the overall portfolio is important from a liability risk management perspective.
- The strong returns from gilts also means the present value of the Fund's liabilities will have increased significantly over the three year period as a result of the falling bond yields (which will have resulted in a lower discount rate).
- UK Corporate bonds also performed strongly, returning 8.8% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns continue to increase above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK. Looking forward, our medium term view for the prospects for corporate bonds remains unattractive, and we are encouraging clients to consider ways of expanding credit mandates (potentially via multi-asset credit).

Strategy (continued)

- We have moved our rating for UK property from attractive to neutral over the year given the drop in yields and signs that the market is potentially moving beyond fair value in some parts (with ultra-prime central London assets in particular aggressively priced and rents back to pre-financial crisis levels).
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect 'alpha' driven investments such as Hedge Funds and DGF to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward.

Managers

- Absolute returns over the year were mixed, but generally positive in light of buoyant markets. The Fund's global equity mandates in particular fared well, with Invesco returning 21.6% (1.3% above benchmark), and SSgA's enhanced indexation Pacific Rim mandate returning 21.3% (against a benchmark of 19.4%). Weakest performance over the year was from the Fund of Hedge Fund mandates, with Signet returning -4.1% in a challenging environment for hedge funds.
- Over three years, all funds produced positive returns (with the exception of Signet), with Partners and Signet both failing to beat their benchmarks (although see comments on the measurement of Partner's performance later). In addition, despite producing returns at least in line with benchmark, Schroder (Equity), and TT International failed to achieve their three-year performance objectives (with the remainder of the active managers achieving their objectives).

Executive Summary

Key points for consideration

- Over the coming year, the Fund will be reviewing its policies on rebalancing and the use of opportunistic assets / tactical asset allocation, together with reviewing the alignment of the Fund's assets and liabilities, and ways to better manage liability risk.

- Over the year, the Fund disinvested from the Barings Dynamic Asset Allocation Fund, following the departure of the leading portfolio managers (Percival Stanion, Andrew Cole and Shaniel Ramjee) to join Pictet.

  – Proceeds from the disinvestment were invested in the BlackRock multi-asset portfolio in such a way as to broadly replicate the underlying asset allocation of the DAAF.
  – In February 2015, the proceeds were invested in a new Diversified Growth mandate with Standard Life.

- The Fund has confirmed the appointment of IFM to manage the 5% allocation to infrastructure. This mandate is expected to be funded from the equity holdings.

- The Fund has also reviewed its hedge fund allocations, and is in the process of confirming the appointment of one manager (JPMorgan) to replace the existing mandates.

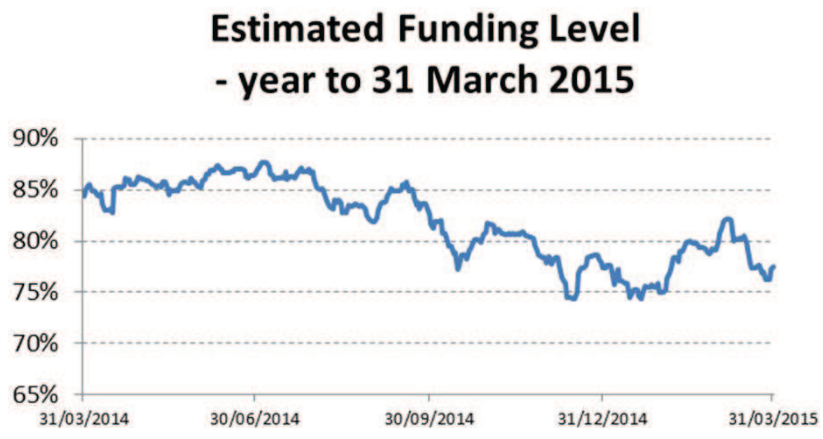
- The Schroder Global Equity mandate continues to underperform its performance objective. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity).

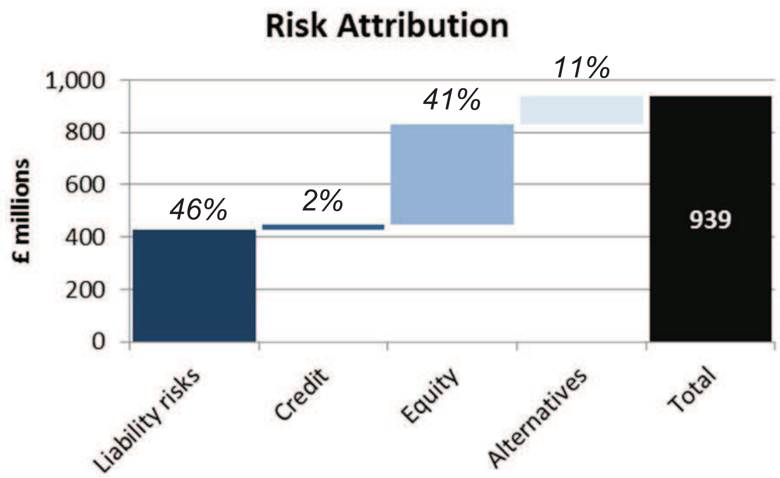
- The absolute performance of the Partners Property investment may be misleading given the significant cash flows, and the net internal rate of return (9.3% p.a. since inception) is a more meaningful measure, and is broadly in line with performance expectations.

Section 2

Consideration of Funding Level

Consideration of Funding Level
Year to 31 March 2015





The charts above illustrate the estimated progression of the funding level over the year to 31 March 2015 on the left hand side, and on the right the main risks the Fund is exposed to (which is why the funding position is volatile) and also the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the “big picture”.

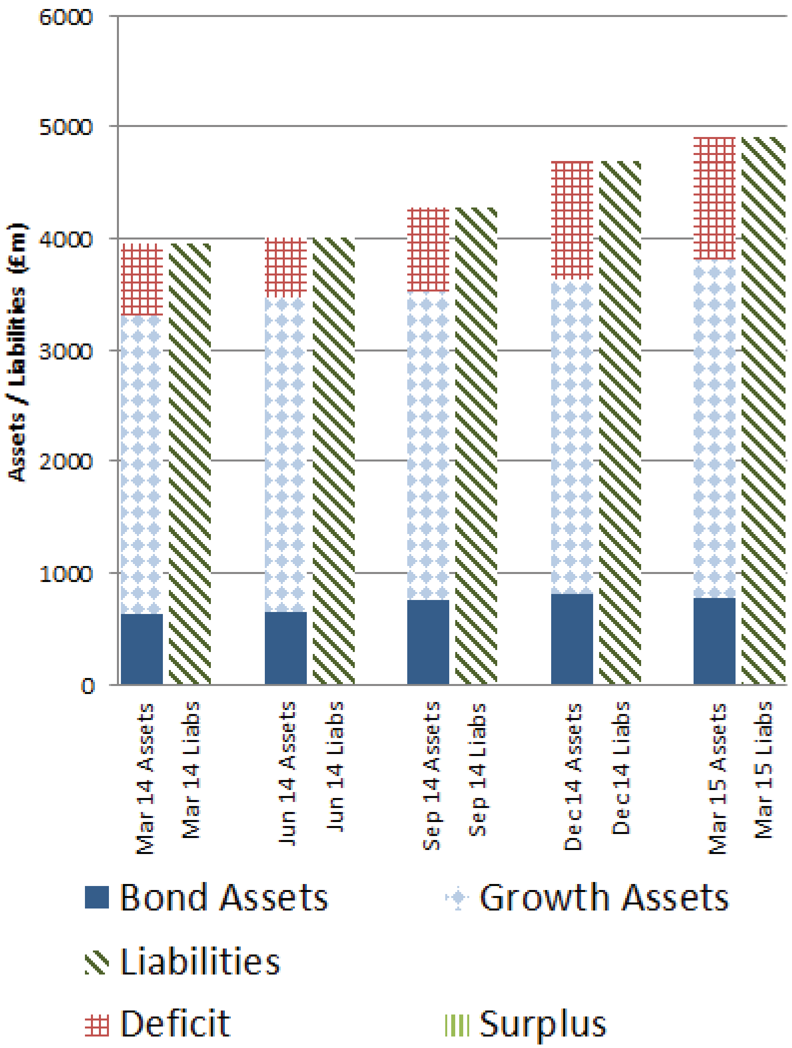
The black column on the right hand side of this chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider the worst case outcome which has a 1 in 20 chance of occurring, what would be the impact on the deficit relative to our “best estimate” of what the deficit would be in one years time. As at 31 March 2015, the chart shows that if a 1 in 20 “downside event” occurred, we would expect that in one year’s time, the deficit would increase by an additional **£939m** on top of the expected deficit at that time.

Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, and volatility of equity markets and alternative assets). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.**

Liability risks (i.e. interest rate and inflation) and equity market risk dominate as the two significant drivers of volatility. It is proposed that the liability risks are reviewed in greater detail as part of a comprehensive Risk Management Framework over the coming year, alongside the 2016 actuarial valuation, to ensure that the balance of risks taken is appropriate.

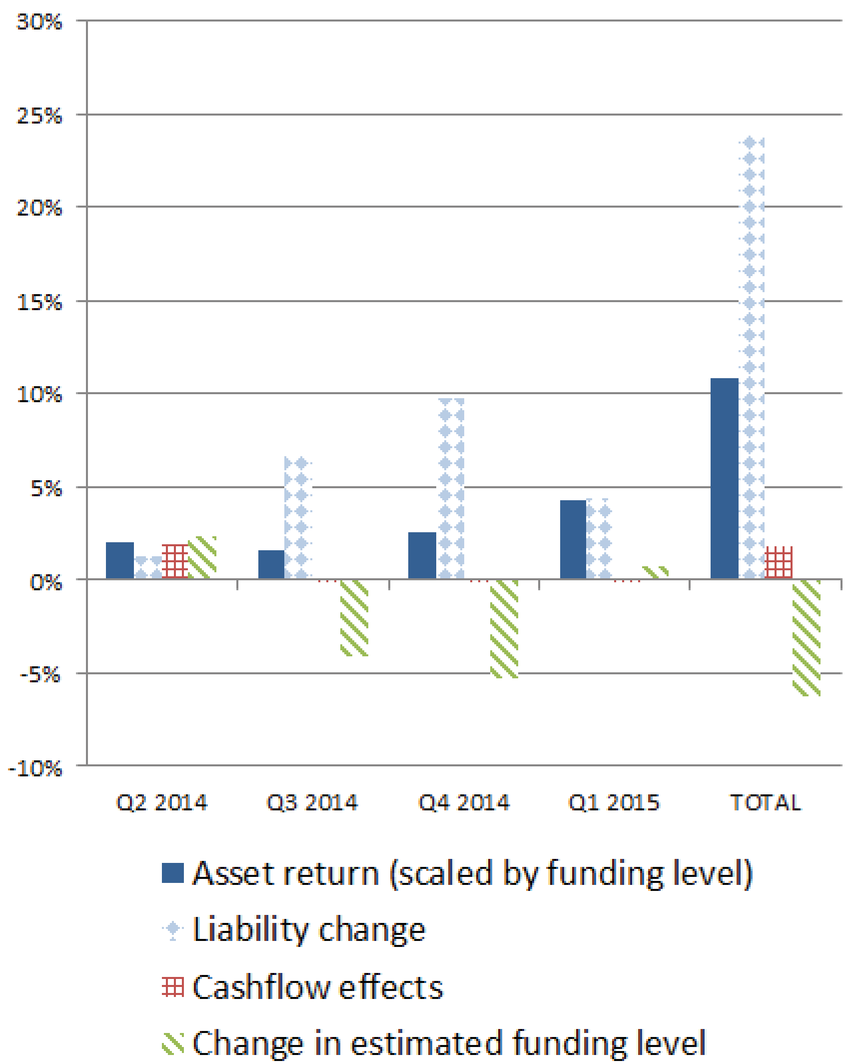
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

Consideration of Funding Level
Asset allocation and funding level



- Based on market movements, investment returns and cash flows into the Fund, the estimated funding level fell by approximately 7% over the year to 31 March 2015, to c. 78%.
- This was largely driven by the actuarial valuation interest rate decreasing, increasing the value placed on the liabilities (dropping from 5.1% p.a. to 3.9% p.a. as a result of falling gilt yields), offset slightly by lower inflation expectations.
- Over the coming year, the Fund will be undertaking work to review the alignment of its assets (particularly the Stabilising Assets) and movements in liabilities.
- At the valuation date, 31 March 2013, the Scheme was 78% funded; as at 31 March 2015 the funding level was broadly unchanged, although the size of the deficit had grown from £876m to c. £1.1bn.

Consideration of Funding Level
Fund performance relative to estimated liabilities



- The Fund's assets, scaled to take into account the estimated funding level, produced an absolute return of 10.9%, over the year.
- However, the Fund's estimated liabilities increased by 23.9% (primarily due to a fall in the discount rate, offset to some extent by a decrease in the inflation assumption used to value inflation-linked liabilities).
- Over the year, the "cashflow effect" from contributions was a positive 1.8%. The significant 1.9% impact 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 78% (from c. 84% at 31 March 2014).

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Section 3

Fund Valuations – 31 March 2015

Fund Valuations
Valuation by asset class – 31 March 2015

Asset Allocation

Asset Class	31/03/2014 (£'000)	31/03/2015 (£'000)	31/03/2014 (%)	31/03/2015 (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,567,935	1,769,396	47.1	46.2	40.0	35 - 45	+6.2
Emerging Market Equities	311,776	351,961	9.4	9.2	10.0	5 - 15	-0.8
Diversified Growth Funds	314,340	368,177	9.4	9.6	10.0	5 - 15	-0.4
Fund of Hedge Funds	162,986	162,792	4.9	4.3	5.0	0 - 7.5	-0.7
Property	260,987	306,177	7.8	8.0	10.0	5 - 15	-2.0
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	640,599	798,547	19.2	20.9	20.0	15 - 35	+0.9
Cash (including currency instruments)	71,739	71,606	2.2	1.9	-	0 - 5	+1.9
Total	**3,330,362**	**3,828,656**	**100.0**	**100.0**	**100.0**		**0.0**

Source: WM Performance Services, managers. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges. May not sum due to rounding.

Invested assets increased over the year by c £500m.

Over the quarter, the developed market equity allocation has been reduced but remains over weight and outside of tolerance ranges; this overweight will be used to fund drawdowns for the infrastructure allocation over the coming year. The investment in Standard Life GARS has brought the DGF allocation back close to the target weight.

Fund Valuations
Valuation by manager – 31 March 2015

Manager Allocation					
Manager	**Asset Class**	**31/03/2014 (£'000)**	**31/03/2015 (£'000)**	**31/03/2014 (%)**	**31/03/2015 (%)**
BlackRock	Passive Multi-Asset	1,026,945	1,216,557	30.9	31.8
Jupiter	UK Equities	160,880	175,562	4.8	4.6
TT International	UK Equities	185,267	194,929	5.6	5.1
Schroder	Global Equities	214,480	256,314	6.4	6.7
Genesis	Emerging Market Equities	145,088	160,236	4.4	4.2
Unigestion	Emerging Market Equities	166,687	191,725	5.0	5.0
Invesco	Global ex-UK Equities	239,795	291,423	7.2	7.6
SSgA	Europe ex UK & Pacific inc. Japan Equities	107,146	124,517	3.2	3.3
Record Currency Management	Dynamic Currency Hedging	12,044	0	0.4	0.0
Record Currency Management	Overseas Equities (to fund currency hedge)	15,988	20,608	0.5	0.5
Pyrford	DGF	104,542	124,700	3.1	3.3
Barings	DGF	209,798	-	6.3	-

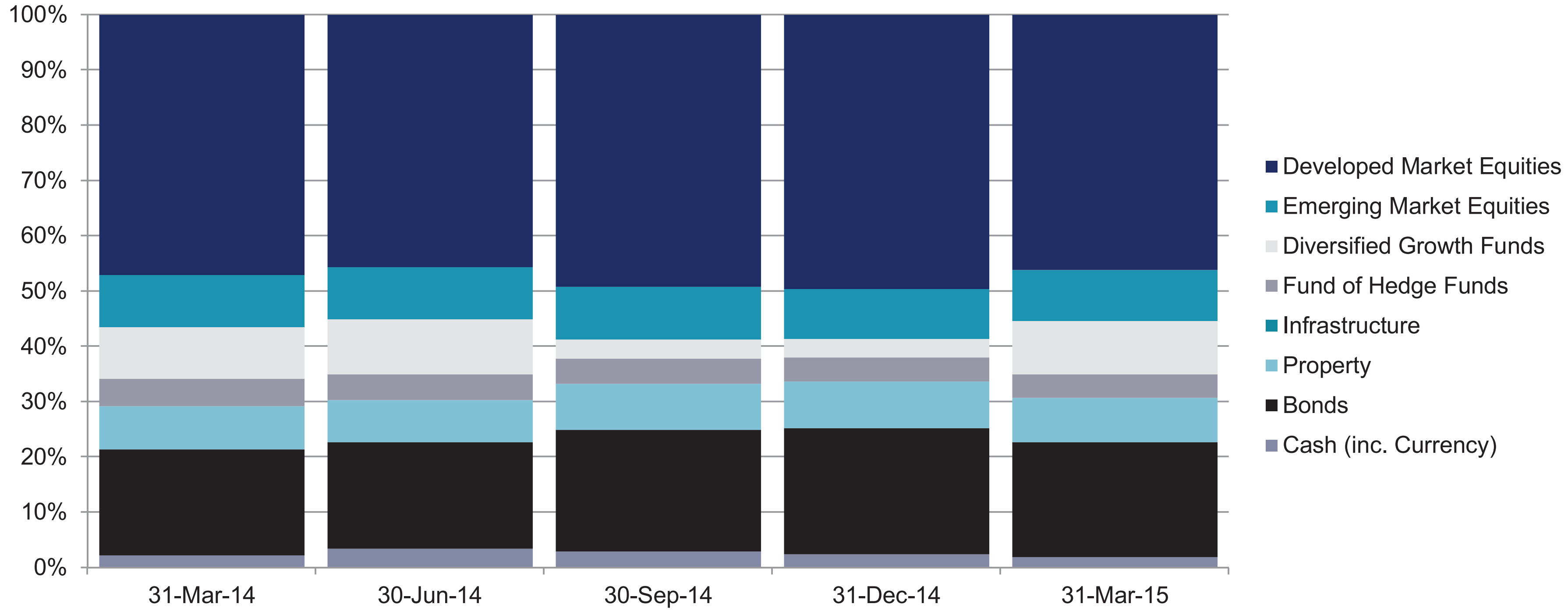
Source: WM Services, Avon. Totals may not sum due to rounding. *estimated holding at 31 March 2015.

Fund Valuations
Valuation by manager – 31 March 2015

Manager Allocation					
Manager	**Asset Class**	**31/03/2014 (£'000)**	**31/03/2015 (£'000)**	**31/03/2014 (%)**	**31/03/2015 (%)**
Standard Life	DGF	-	243,477	-	6.4
MAN	Fund of Hedge Funds	1,115	549*	0.0	0.0
Signet	Fund of Hedge Funds	66,155	63,441	2.0	1.7
Stenham	Fund of Hedge Funds	37,654	39,661	1.1	1.0
Gottex	Fund of Hedge Funds	58,062	59,141	1.7	1.5
Schroder	UK Property	150,249	177,723	4.5	4.6
Partners	Property	112,058	136,985*	3.4	3.6
RLAM	Corporate Bonds	249,851	308,883	7.5	8.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	45,643	0	1.4	0.0
Internal Cash	Cash	20,915	42,224	0.6	1.1
Total		**3,330,362**	**3,828,656**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding. *estimated holding at 31 March 2015.

Commentary on change in asset allocation over year



The asset allocation remained broadly unchanged over the year, with the exception of the disinvestment from Barings in Q3 2014 following the departure of the fund's key managers. The proceeds from this disinvestment were held in bonds and developed market equities in BlackRock's multi-asset portfolio (to broadly reflect the underlying Barings allocations), resulting in the increased allocation to these asset classes and lower exposure to DGF seen at 30 September 2014 and 31 December 2014.

In mid February 2015, £240m was invested in the Standard Life GARS (a replacement DGF vehicle), taken from the cash holdings and the BlackRock multi-asset portfolio, returning the DGF holdings to near the strategic benchmark.

Equity holdings remain overweight, in the anticipation that the Infrastructure mandate will be funded from equities.

Section 4

Market Background

Market Background
Index Performance over the year to 31 March 2015

Equity Markets– strong returns

Global equity markets continued to post positive performance over the year, returning 19.2% in sterling and 14.3% in local currency terms.

Despite robust economic growth, UK equities rose by 6.6% over the year to 31 March 2015, lagging the wider global equity markets.

Equity returns were strongest in the US, at 26.4% for the year. Emerging market assets underperformed their developed counterparts, with equities rising by 16.3%, as falling commodity prices and the rising US dollar affected a number of countries in this region significantly. Japanese equities performed strongly, returning 27.1% in sterling terms and 31.8% in local currency terms, driven by some initial signs of economic recovery following a technical recession triggered by the value-added tax hike in 2014. European equities were weaker, returning 7.5% in sterling and 19.3% in local currency terms (as the long awaited ECB announcement regarding euro-zone quantitative easing surpassed market expectations, which caused the euro to depreciate in Q1 2015).

Bond Markets– strong returns

Bond market yields fell further over the second half of the year, particularly at the longer end of the yield curve. The yield for the FTSE Gilts All Stocks index fell over the year from 3.0% p.a. at 31 March 2014 to 2.0% p.a. at 31 March 2015. As a result, returns on UK Government bonds as measured by the FTSE Gilts All Stocks Index were strong at 13.9%, while long dated issues as measured by the corresponding Over 15 Year Index recorded growth of 27.0%.

Real yields also fell over the year, with the FTSE All Stocks Index Linked Gilts index returning 18.6% andthe corresponding over 15 year index also exhibiting a positive return of 28.1%.

Global credit returned -1.1% in local currency terms, but +11.1% in sterling terms on the back of a weakening pound relative to the dollar.

In a broader risk-on environment, credit spreads tightened over the year, which in combination with falling gilt yields resulted in a total return of 13.2% for the UK corporate bonds over the year to 31 March 2015.

Currency Markets – mixed performance from sterling

Over the 12 month period to 31 March 2015, sterling fell 11.0% against the US Dollar from $1.667 to $1.485. Sterling appreciated 3.7% against the Yen from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3% from €1.21 to €1.38 over the same period.

Commodity Markets – material falls

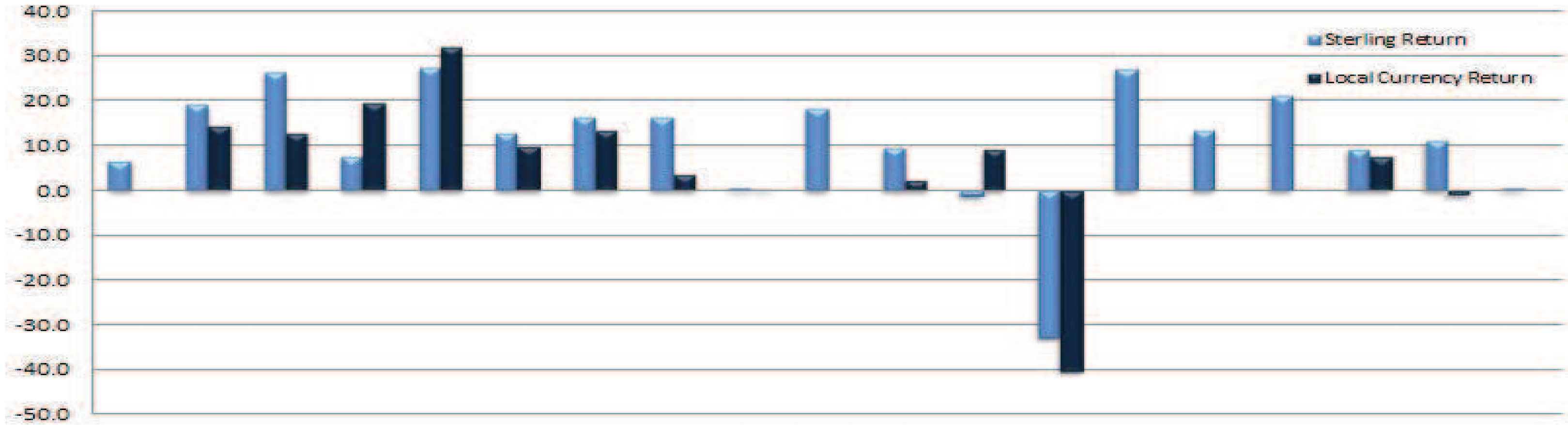
The price of Brent Crude fell significantly (by 49.2%) from $107.31 to $54.56 per barrel over the one year period to 31 March 2015. Over the same period, the price of Gold also depreciated by 7.9% from $1289.28 per troy ounce to $1187.60.

The S&P GSCI Commodity Spot Index fell by 33% over the one year period to 31 March 2015 in sterling terms.

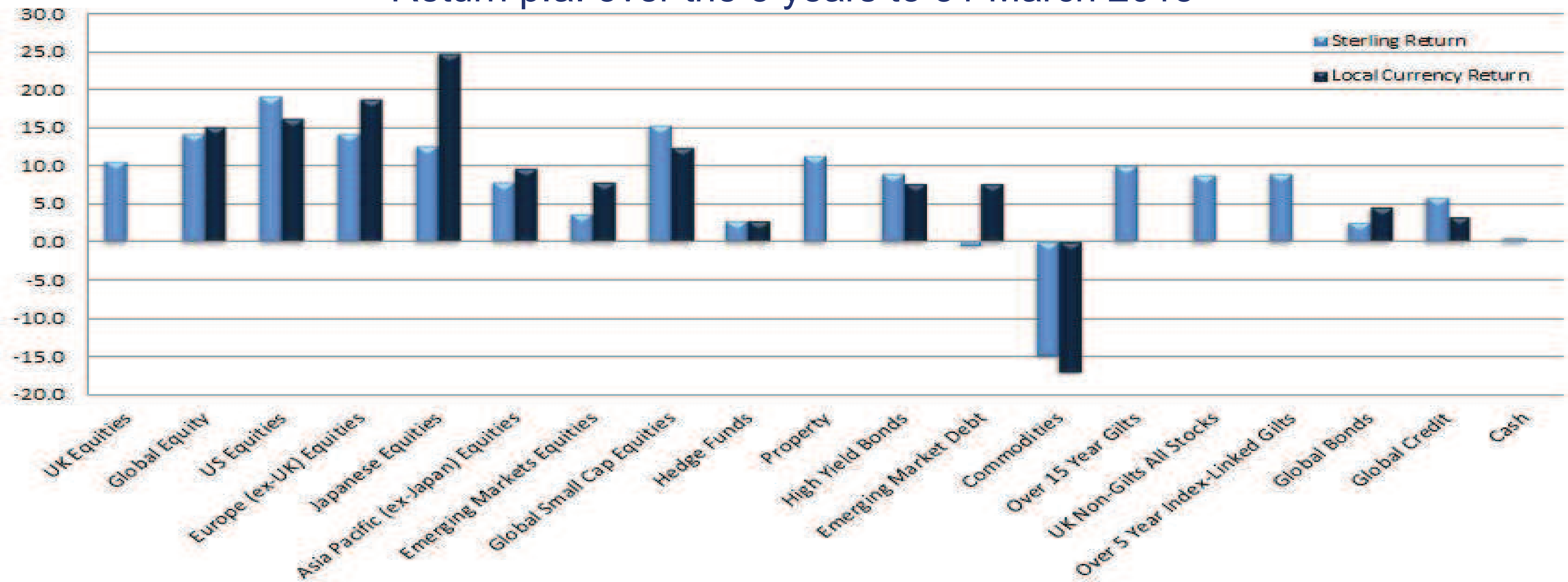
Source: Thomson Reuters Datastream.

Market Background
Index Performance

Return over the 12 months to 31 March 2015



Return p.a. over the 3 years to 31 March 2015



Source: Thomson Reuters Datastream.

Section 5

Performance Summary

Performance summary
Total Fund Performance

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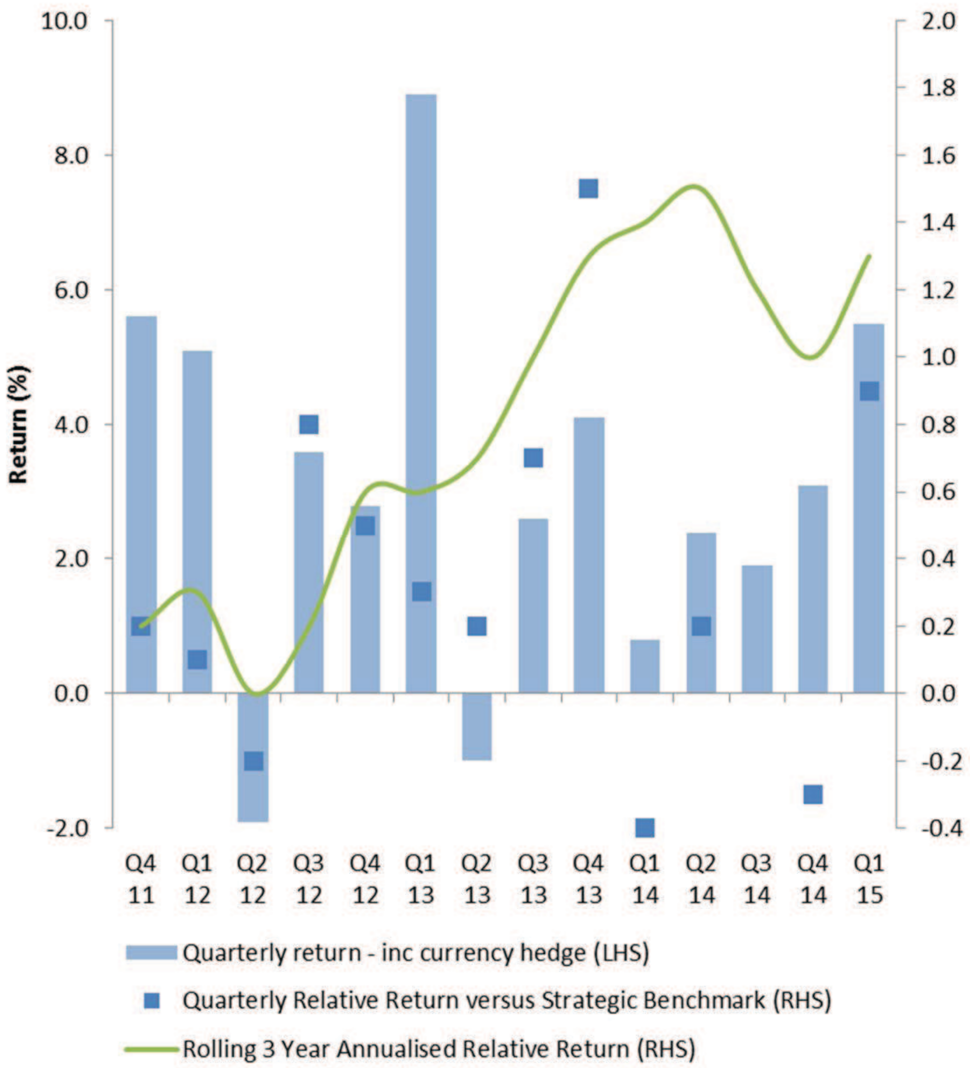


	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	5.5	13.5	11.2
Total Fund (ex currency hedge)	5.4	13.3	11.0
Strategic Benchmark (no currency hedge)	4.6	13.2	9.9
Relative (inc currency hedge)	**+0.9**	**+0.3**	**+1.3**

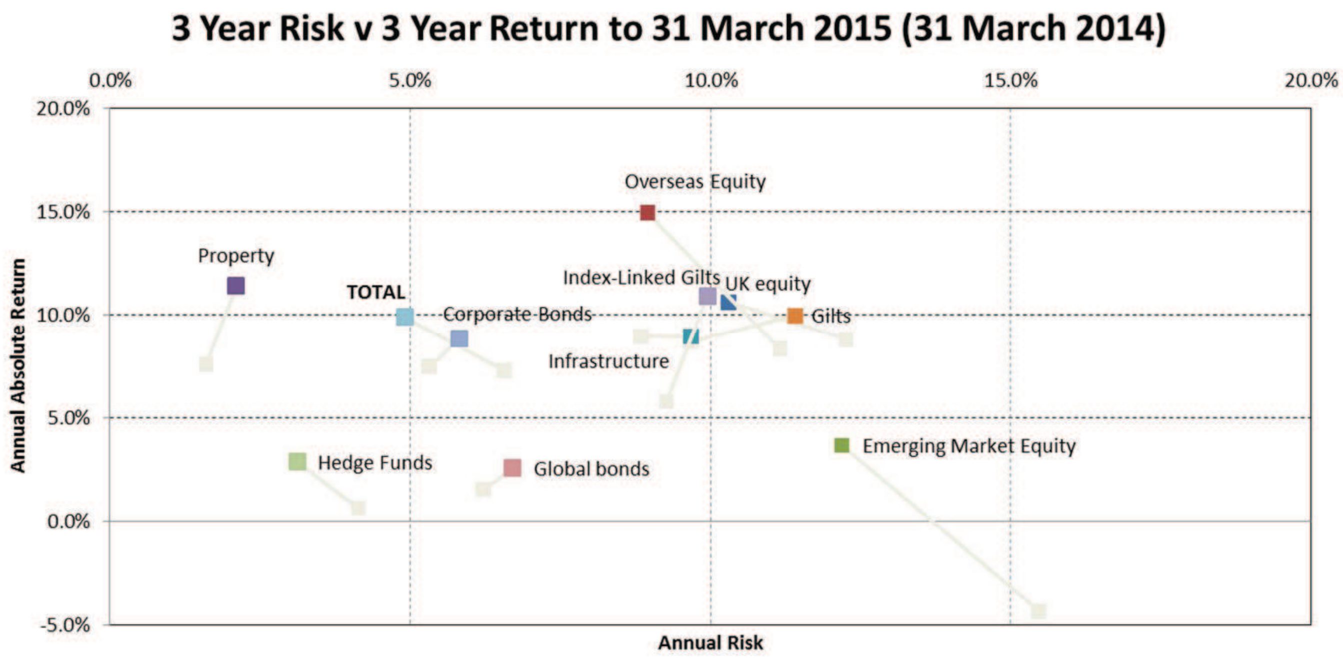
- Over the year to 31 March 2015, the Fund outperformed its Strategic Benchmark by 0.3% when including the currency hedge, and by 0.1% when not including the currency hedge.
- The largest component of the year's outperformance was the overweight position in overseas developed equities (which outperformed the Fund's returns as a whole), and the outperformance of the multi-asset mandates relative to their benchmarks.
- The Fund has also outperformed the Strategic Benchmark over the three year period, by 1.3% p.a. including the currency hedging returns.
- The last year's outperformance was marginally lower than that for the year to 31 March 2012, and as a result the rolling three year outperformance has dropped slightly from 1.4% p.a. to 1.3% p.a.

Performance summary
Index Performance versus strategic benchmark

Asset Class	Weight in Strategic Benchmark (From October 2013) [1] (%)	Index returns 1 year (%)	Contribution to total benchmark 1 year (%)	Index returns 3 years (% p.a.)	Contribution to total benchmark 3 years (% p.a.)	Assumed strategic return: Return (% p.a.)	Assumed strategic return: Contribution[2] (% p.a.)
UK Equities	**15.0**	6.6	1.0	**10.6**	1.8	**8.25**	0.5
Overseas Equities	**25.0**	20.3	5.1	**15.5**	4.7	**8.25**	2.1
Emerging Market Equities	**10.0**	12.8	1.3	**3.2**	0.4	**8.75**	-0.3
Diversified Growth Funds	**10.0**	4.6	0.5	**4.6**	0.2	**4.6**	-0.1
UK Government Bonds	**3.0**	26.9	0.8	**10.0**	0.4	**4.5**	0.1
UK Corporate Bonds	**8.0**	13.1	1.1	**8.8**	0.6	**5.5**	0.3
Index Linked Gilts	**6.0**	21.0	1.3	**8.9**	0.6	**4.25**	0.3
Overseas Fixed Interest	**3.0**	7.6	0.2	**1.0**	0.0	**5.5**	-0.1
Fund of Hedge Funds	**10.0**	4.6	0.5	**4.6**	0.3	**6.0**	-0.3
Property	**10.0**	16.6	1.7	**9.4**	1.0	**7.0**	0.3
Total Fund	**100.0**		**13.2**		**9.9**	**7.1**	**+2.8**

Source: WM and Mercer estimates. May not sum due to rounding.
1. Allocations used by WM to calculate the total strategic benchmark return BEFORE the agreed investment in infrastructure.
2. Contribution to total difference between strategic benchmark return over last three years (9.9% p.a.) and overall assumed strategic return (7.1% p.a.) – weighted by strategic benchmark

Performance summary
Risk Return Analysis



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at 31 March 2014, in grey.

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Comments

- *The three-year period to 31 March 2015 excludes the year to 31 March 2012 which was included in the previous year's analysis.*
- *The most significant changes seen over the period were the fall in risk and increased returns seen for overseas equities, as 2014/15 was significantly less volatile than the year to 31 March 2012. Three year returns for UK equities also rose and volatility fell, albeit more modestly.*
- *Three year returns for bonds also rose marginally given the fall in yields in late 2014 / early 2015, while backward-looking risk measures rose for gilts in light of the recent volatility.*

Active investment manager contribution – year to 31 March 2015

Asset Class	Weight in Strategic Benchmark		Average overweight position	Fund return	Index return	Asset allocation impact	Active management's impact
	Start (%)	End (%)	(%)	(%)	(%)	(%)	(%)
UK Equities	15.0	15.0	1.1	6.5	6.6	-0.1	-
Overseas Equities	25.0	25.0	5.5	18.6	20.3	+0.4	-0.4
Emerging Market Equities	10.0	10.0	-0.7	12.9	12.8	-	-
Diversified Growth Funds	10.0	10.0	-0.4	9.4	4.6	+0.3	+0.2
UK Government Bonds	3.0	3.0	-0.2	26.9	26.9	-	-
UK Corporate Bonds	8.0	8.0	0.4	13.8	13.1	-	+0.1
Index Linked Gilts	6.0	6.0	0.0	21.1	21.0	-	-
Overseas Fixed Interest	3.0	3.0	-0.4	7.5	7.6	-	-
Fund of Hedge Funds	10.0	10.0	-5.5	0.2	4.6	+0.4	-0.2
Property	10.0	10.0	-1.3	13.4	16.6	-0.3	-0.2
Total Fund	**100.0**	**100.0**		**13.3**	**13.2**	**0.7**	**-0.6**

Source: WM and Mercer estimates. May not sum due to rounding.
Average overweight position taken as the average of the beginning and end of year weights.

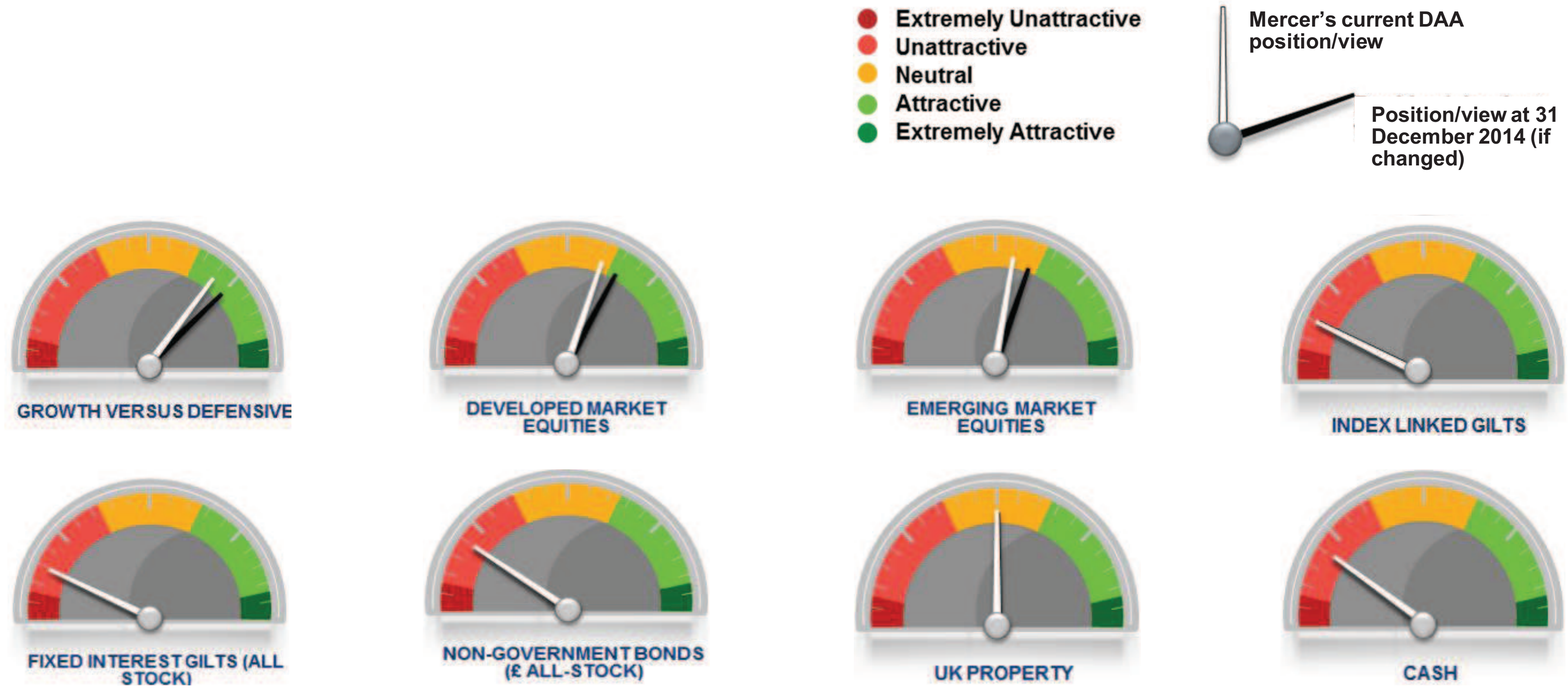
Manager monitoring

Manager Performance – returns relative to benchmark (to 31 March 2015)

Manager / fund	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	0.0	0.1	Target met
Jupiter	2.0	4.1	Target met
TT International	-1.6	2.5	Target not met
Schroder Equity	0.0	0.0	Target not met
Genesis	-2.8	1.2	Target met
Unigestion	2.2	NA	NA
Invesco	1.2	1.2	Target met
SSgA Europe	0.6	1.5	Target met
SsgA Pacific	1.9	1.6	Target met
Pyrford	1.2	NA	NA
Standard Life	NA	NA	NA
Signet	-7.7	-4.1	Target not met
Stenham	1.7	2.4	Target met
Gottex	-1.8	0.2	Target met
Schroder Property	0.7	1.6	Target met
Partners Property	-10.1	-3.1	Target not met
RLAM	0.2	2.2	Target met

Source: WM Services, Avon.
Returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
Individual manager performance can be found in Appendix 1.

Forward looking return expectations – 31 March 2015



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These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

Forward looking return expectations – changes over the last year

Asset Class	April 2014	July 2014	Oct 2014	Jan 2015	April 2015
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Global Equities	Attractive	Attractive	Attractive	Attractive	**Neutral**
Emerging Market Equities	Attractive	Attractive	Attractive	**Neutral**	Neutral
UK Property	Attractive	Attractive	**Neutral**	Neutral	Neutral
UK Cash	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive

Valuation Scale: Extremely Attractive → Attractive → Neutral → Unattractive → Extremely Unattractive, Bold items represent views that have changed from the previous meeting

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Appendix 1

Manager Monitoring

Manager monitoring
UK Equities

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance*	Fund	B'mark	Relative	Target	Contribution to outperformance*
Jupiter	8.6	6.6	**+2.0**	+0.09	14.7	10.6	**+4.1**	+2	**+0.17**
TT International	5.0	6.6	**-1.6**	-0.09	13.1	10.6	**+2.5**	+3	**+0.12**

Source: WM Services / Mercer estimates. "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

Market Commentary

- UK Equities rose over the year, returning 6.6%, driven by positive economic news. This lagged global markets which returned 19.2%, driven by strong US equities which returned 26.4% in sterling terms.

Performance Commentary

- Jupiter have outperformed over the one and three year periods. Tracking error has stayed between c3.6% and 3.8% over the year, with overall volatility consistently below that of the benchmark index. While UK equities returned 6.6% over the year, over the same period the median UK active manager in Mercer's universe outperformed the FTSE All-Share by 1.2%, placing Jupiter's performance above median as well as above benchmark.

- Holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.

- TT's unconstrained mandate underperformed over the year but outperformed over the three year period, with strong stock selection being a significant driver of returns. The portfolio holds a significant overweight position in Consumer Services (21.3% vs 12.0% in the benchmark) and smaller over weights in Consumer Goods, Healthcare and Telecoms.

Manager monitoring
Developed Global Equities

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Invesco	21.5	20.3	**+1.2**	+0.09	16.7	15.5	**+1.2**	+0.5	**+0.08**
SSgA Europe	7.4	6.8	**+0.6**	+0.01	14.9	13.4	**+1.5**	+0.5	**+0.01**
SSgA Pacific	21.3	19.4	**+1.9**	+0.03	11.9	10.3	**+1.6**	+0.5	**+0.03**
Schroder	19.0	19.0	**0.0**	+0.01	14.1	14.1	**0.0**	+4.0	**+0.01**

Source: WM Services / Mercer estimates

Market Commentary

- Global equities were strong over the year, producing a 19.2% return. This was largely driven by strong returns in the US (26.4%) and Japan (27.1%).

Performance Commentary

- All managers at least achieved their benchmarks over the one and three year periods, although Schroder have significantly lagged their target of +4% p.a. As a result, all managers contributed positively to outperformance over the year and three-year periods.
- Invesco's tracking error remains small at 1.5% p.a. since inception, while sector and country allocations remain relatively close to benchmark weightings (as would be expected for an enhanced indexation product), with all within +/- 1.2% at 31 March 2015.
- Schroder's active share (the percentage of stock holdings in a manager's portfolio that differ from the benchmark index) remains high at around 90%, but while performance from stock selection and asset allocation has been positive over the last few months, longer term performance remains relatively disappointing. The Investment Panel has been actively monitoring changes made by Schroder to improve performance.

Manager monitoring
Emerging Market Equities

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis	10.4	13.2	**-2.8**	-0.10	4.4	3.2	**+1.2**	-	**+0.07**
Unigestion	15.0	12.8	**+2.2**	+0.10	N/A	N/A	**N/A**	+2-4	**N/A**

Source: WM Services / Mercer estimates.

Market Commentary

- Emerging market assets underperformed their developed market counterparts, with equities rising by 16.3% (FTSE All World Emerging), against 19.4% return from the FTSE All World Developed, as falling commodity prices and the rising US dollar affected a number of countries in this region significantly.

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Performance Commentary

- Unigestion have outperformed their benchmark over the year. Over the period since inception (in January 2014), they have returned 12.9% p.a. against a benchmark return of 12.1% p.a. They have achieved this with lower volatility than the benchmark (11.0% p.a. vs 12.6% p.a.). The largest regional weighting of the portfolio is in China (23%) and the vast majority of holdings (89.7%) are in mega- or large-cap stocks.
- Genesis have underperformed by 2.8% over the year, producing a negative contribution to overall Fund performance. This was largely due to underperformance in Q1 2015 (-2.25%), largely down to overweight positions in mining and oil companies (with a long-term overweight position to South Africa), and an underweight allocation to China (which performed well).
- However, over three years they have outperformed the benchmark by 1.2% p.a. and contributed positively to performance.

Manager monitoring
Fund of Hedge Funds

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Signet	-4.1	3.6	**-7.7**	-0.14	-0.5	3.6	**-4.1**	-	**-0.08**
Stenham	5.3	3.6	**+1.7**	+0.02	6.0	3.6	**+2.4**	-	**+0.03**
Gottex	1.8	3.6	**-1.8**	-0.03	3.8	3.6	**+0.2**	-	**0.00**

Source: WM Services / Mercer estimates

The Fund is in the process of divesting from all three managers listed above, with the allocation to be managed by JPMorgan in a bespoke fund of funds vehicle.

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Market Commentary

- Fund of Hedge Funds have generally lagged equity markets over the year and three years, but looking ahead we would expect returns to be driven more by 'alpha' than beta, and hence stronger performance.

Performance Commentary

- Signet saw significant underperformance over the year, which led to a negative overall contribution to relative performance. This stemmed from the underperformance of their illiquid holdings in the Event Driven & Special Situations Fund (with the main holdings in the Global Fixed Income strategy returning +0.1% over the twelve month period).
- Stenham's long/short equity and global macro approach fared well over the year, outperforming its benchmark by 1.7% (outperforming their benchmark by 2.9% in Q1 2015 alone, as a result of strong equity returns across most markets and the US in particular).
- Gottex's market neutral approach underperformed over the year with poor returns in Q4 2014, but generated positive performance over the three-years to 31 March 2015.

Manager monitoring
Multi-Asset and DGF

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
BlackRock	15.9	15.9	**0.0**	-0.04	11.9	11.8	**+0.1**	-	**+0.04**
Pyrford	7.1	5.9	**+1.2**	+0.04	N/A	N/A	N/A	-	**N/A**

Source: WM Services / Mercer estimates.

Performance Commentary

- The passive multi-asset mandate managed by BlackRock continues to perform broadly in line with underlying indices (as expected).
- Pyrford outperformed their benchmark of RPI + 5% p.a. over the year to 31 March 2015, although performance lagged rising global equities (as would be expected). Over the period since inception (on 1 December 2013) they have underperformed their benchmark, returning 5.9% p.a. against a benchmark return of 6.6% p.a.
- The portfolio remains defensively positioned and the current equity weighting (at 30%) is the same as it was going into the financial crisis in 2008, and with 67% in short duration bonds (entirely held in UK, Canadian and US government stock).
- We have excluded Standard Life GARS from the above table given the limited investment period.

Manager monitoring
Corporate Bonds

Manager / fund	1 Year(%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
RLAM	13.3	13.1	**+0.2**	+0.03	10.9	8.7	**+2.2**	+0.8	**+0.14**

Source: WM Services / Mercer estimates

Market Commentary

- In a broad risk-on environment, credit spreads tightened over the year, which in combination with falling gilt yields resulted in a total return of 13.3%* for UK corporate bonds
  *Noting that this is based on the return of the BofA Merrill Lynch Sterling Non Gilts All Stocks Index, which differs slightly from the iBoxx £ Non-Gilts All Maturities which RLAM is benchmarked against.

Performance Commentary

- RLAM have outperformed their benchmark over the one and three year periods by 0.2% and 2.2% respectively, significantly above their target of +0.8% p.a.
- Relative to the benchmark the portfolio has a shorter duration (7.6 years vs 8.2), a higher weighted average gross redemption yield (3.3% vs 2.6%) and a significantly more concentrated portfolio of stocks (at 273 vs 1,019).
- This reflects the positioning of the strategy, which has been consistently overweight BBB and BB bonds at the expense of AAA and AA, and with a sizable allocation to unrated bond (reflecting their longstanding view that higher yielding, lower rated bonds will outperformance investment grade credit).
- Looking ahead, our view is that prospective returns from UK corporate bonds will be more modest, as credit spreads have contracted; there is also the risk of inflation surprises and sudden increases to base rates. As a result, from an absolute return perspective we currently view UK corporate bonds as "unattractive".

Manager monitoring
Property

Manager / fund	1 Year(%) Fund	1 Year(%) B'mark	1 Year(%) Relative	1 Year(%) Contribution to outperformance	3 years (% p.a.) Fund	3 years (% p.a.) B'mark	3 years (% p.a.) Relative	3 years (% p.a.) Target	3 years (% p.a.) Contribution to outperformance
Schroder	17.3	16.6	**+0.7**	+0.04	11.0	9.4	**+1.6**	+1	**+0.05**
Partners	7.1	17.2	**-10.1**	-0.33	5.5	8.6	**-3.1**	-	**-0.11**

Market Commentary

- The UK property market was strong over the year, returning 16.6%. This comes with an improving UK economy as rental rates in commercial property increase, boosting property valuations.
- The global property market outperformed the UK market, returning 28.9% over the year in sterling terms. As with the UK, this performance is linked to the recovery of the global economy.

Performance Commentary

- Schroder outperformed their benchmark over the year and three-year periods to 31 March 2015, also outperforming their target of +1% p.a. over three years.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 December 2014 (the latest date currently available) at 9.3% p.a. is broadly in line with their target of 10% p.a.
- Schroder contributed 0.1% to total outperformance versus benchmark over the three-year period. Partners have detracted from performance over both and one and three-year periods (noting the above comment on the measurement of their returns).

Manager monitoring
Currency

Performance (Total Hedging Portfolio)	3 months (%)	1 year (%)	3 years (%)
Record Hedge	0.31	0.80	0.84
50% Illustrative Hedge	-1.22	-1.80	0.48
Relative	**+1.53**	**+2.60**	**+0.36**

Currency Hedging 12 Month Performance (£ terms)

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	438,127,692	559,047,385	12.30%	-5.73%	-1.80%	10.38%
EUR	195,291,888	207,358,854	-12.49%	6.97%	8.83%	-4.51%
JPY	115,802,811	147,838,770	-3.56%	1.76%	-0.39%	-3.34%
Total	**749,222,392**	**914,245,009**	**3.82%**	**-1.80%**	**0.80%**	**4.74%**

Market Commentary

- Over the 12 month period to 31 March 2015, sterling fell 11.0% against the US Dollar from $1.667 to $1.485. Sterling appreciated 3.7% against the Yen from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3% from €1.21 to €1.38 over the same period. Note that these are the inverse of the currency returns shown above.
- More recently, over the last quarter, the pound weakened against most major currencies as the Bank of England left interest rates unchanged, while indications from the US were that the Federal Reserve would be more inclined to increase rates (removing the label that it would be “patient” with any policy adjustments from its March statement).

Performance Commentary

- Over the year and three-years to 31 March 2015, Record out-performed a passive 50% hedge (one of the alternatives to dynamic currency hedging) at the total mandate level and also across US Dollar and Euro mandates given the relatively strong trends over the year, but underperformed the passive hedge on Yen.
- Record’s hedge added value in absolute returns on the Euro exposure over the year, but detracted with their positions in the US Dollar and Japanese Yen.
- The total size of the currency mandate has increased over the year, reflecting the growth in the value of the Fund’s equities.

Appendix 2

Summary of Mandates

Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI + 5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
BlackRock	Overseas Property Account	Customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

Appendix 3

Market Statistics Indices

Market statistics indices

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

Appendix 4

Changes in Yields

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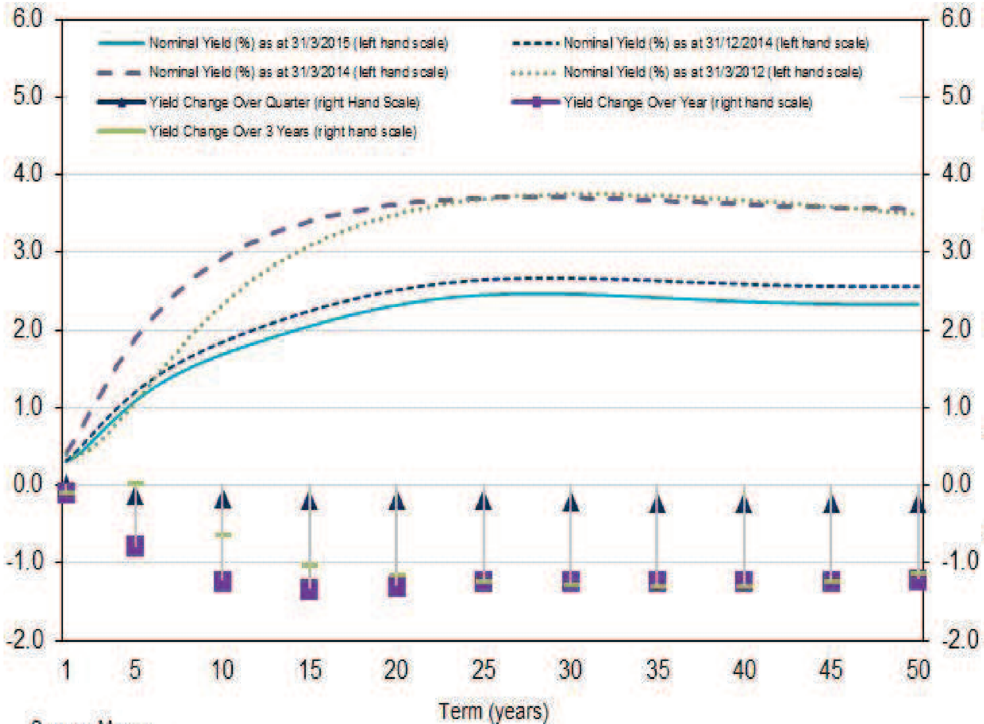
Changes in yields

Asset Class Yields (% p.a.)	31 March 2015	31 December 2014	31 March 2014	31 March 2012
UK Equities	3.33	3.37	3.41	3.45
Over 15 Year Gilts	2.23	2.42	3.43	3.26
Over 5 Year Index-Linked Gilts	-0.91	-0.75	-0.08	-0.09
Sterling Non Gilts	2.65	2.99	3.69	4.49

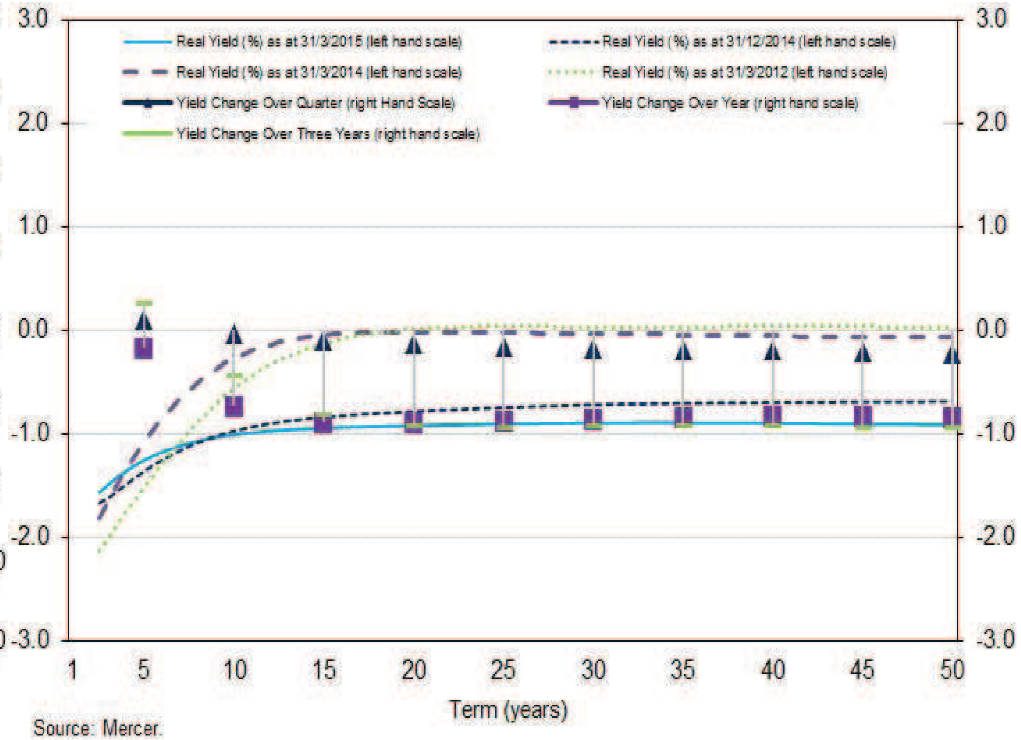
- Bond market yields fell significantly over the year, particularly at the longer end of the yield curve.
- Over 15 year gilt yields fell from 3.4% p.a. to 2.2% p.a. over the year, while the real yield curve also fell at most durations, with over 5 year index-linked gilt real yields falling from -0.1% to -0.9% p.a.
- Corporate bond yields (as shown by the Sterling non-gilt index) also fell over the year

Nominal yield curves.



Source: Mercer

Real yield curves.



Source: Mercer

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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-841/15

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 26 June 2015

Author: Matt Betts
Report Title: REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 March 2015) 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 and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2015

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £165 billion, www.lapfforum.org.

ACHIEVEMENTS

- The boards of **Shell** and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A investor coalition of which LAPFF is part. The resolutions address 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition.

- **Societe Generale** announced in late 2014 the separation of the roles of Chairman and Chief Executive. LAPFF has met with the company since 2010 to discuss this concern.

- This issue was also raised at a meeting with **Total,** in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capex plans for marginal oil reserves.

- Addressed concerns over the lack of investor rights at the **Roche** AGM and opened engagement with the board of **Sage** on remuneration, at the company's annual meeting.

- Subsequent to collaborative engagement in 2014, **Wilmar** revealed a full mapping of its palm oil supply chain, allowing investors a better understanding of the implementation of its supply chain sustainability practices. Other collaborative engagement outcomes include palm oil trader **Kuala Lumpur Kepong's** announcement that it will begin to use the preferred industry standard definition of High Carbon Stock (HCS) forests and **IOI**, publicly committing to applying its sustainable palm oil policy to its subsidiaries and trading partners.

- The Forum is already planning its fringe meeting programme for the 2015 party conference season on the following dates: *Lib Dems* in Bournemouth, on Sunday 20th September at 6.00pm in the evening fringe; *Labour* in Brighton on Monday 28th September at 1.00pm at the lunch fringe; and *Conservative* in Manchester on Monday 5th October.

- LAPFF is also actively considering the establishment of an All-Party Parliamentary Group on the Local Government Pension Scheme, following the 2015 General Election. This will provide the Forum with a leading voice amongst the new House of Commons and the Lords.

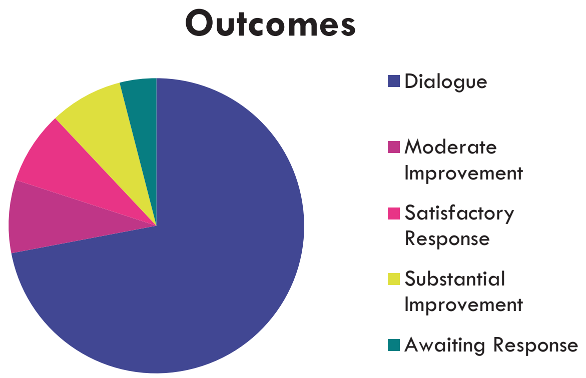
- A meeting with the Forum's third largest European holding, **Novartis**, explored board independence and executive remuneration in the context of new Swiss governance regulation.

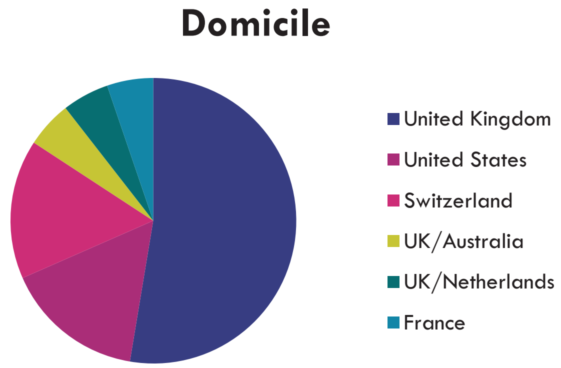
- LAPFF welcomed its newest members, **Suffolk County Council Pension Fund**, **Powys County Council Pension Fund** and **Strathclyde Pension Fund**, taking LAPFF membership to 64 funds.

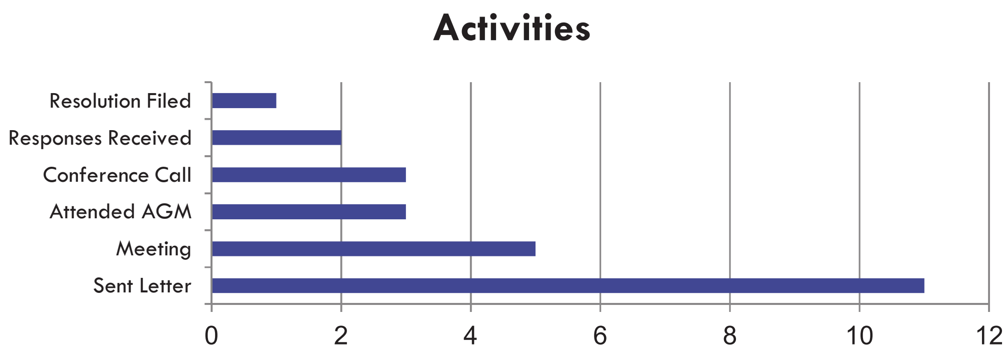
ENGAGEMENT SUMMARY

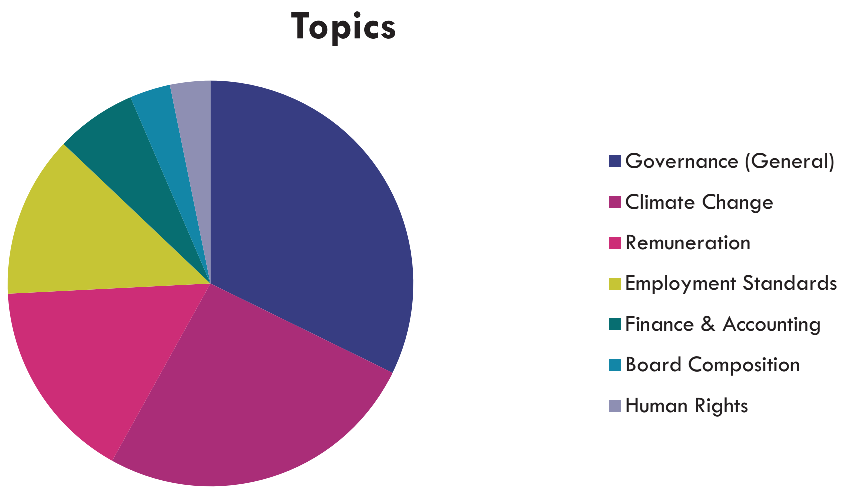
JANUARY TO MARCH 2015

The Forum engaged with **19 companies** over the period









COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF co-signed an international investor statement in a letter sent to the Italian government, to express concerns about a proposal that double voting rights be granted to shareholders who have owned their shares for over two years. Although the measure was intended to prevent short-termism, concerns were raised that certain shareholders would benefit at the expense of others as has been the case in France where this approach has been in place for a number of years. Here predominantly controlling shareholders have benefitted, often at the expense of minority shareholders.

Italy has had best practice in this area thanks to the Draghi Law of 1998, which requires a two-thirds majority of votes of special meeting resolutions to allow loyalty shares. The proposed changes called for a simple majority to approve double voting rights. The letter asked the Italian government to allow a sunset clause to set in so that the simple majority rule did not take effect. In early February, the Italian government capitulated to investor pressure and decided to invoke the sunset clause thus scrapping the proposal on double voting rights.

Cllr Toby Simon raised the issue of voting rights at the **Roche** AGM in Switzerland in February. Because of the company structure, being controlled predominantly by family members and Novartis, only one-sixth of Roche shares are in free float and most of the shares are non-voting shares. Cllr Simon pointed out that most institutional investors are excluded from the rights of ownership and influence that should attach to these shares. He requested that the board engage with its controlling shareholders to see if a corporate structure that more closely represents the needs of 21st-century investors could be evolved.

PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF Chairman Cllr Kieran Quinn called for Sir John Sunderland, the Chairman of Barclays' Remuneration Committee, to step down from the board "immediately". The company had made a clearstatement ahead of the 2014 AGM that he would be stepping down. However, 11 months later, he was still presiding over remuneration decisions. Cllr Quinn stated in a 9 March LAPFF news release that "[w]e would not expect not to see Sir John as a director for the AGM next month."

Cllr Cameron Rose attended the **Sage** AGM and asked about the company's long-term performance share plan and annual incentive. The company does not currently have malus or clawback provisions linked to its share plan but assured Cllr Rose that it was working toward best practice in relation to executive remuneration.

LAPFF has also written to Tesco linking the issue of executive remuneration to good governance. It has come to light that the company does not appear to employ ‘malus’ provisions, which has been especially problematic given the departure of staff with apparent roles in the company’s accounting scandal. The Forum also contacted Hays and **Centrica** to seek feedback on its ‘Expectations on Executive Pay’ document.

A subsequent round-table meeting with Centrica’s chairman and a number of board committee chairs was informative on a number of topics in addition to executive pay and included succession planning and carbon management.

Executive remuneration is currently a hot topic in Switzerland, with the final provisions of the new corporate governance law set to be implemented during 2015. As a result, both **Novartis** and **Nestlé** were keen to share with investors their respective approaches to implementing the new law. The ‘Ordinance Against Excessive Pay’, also known as the Minder Initiative, covers board election processes and remuneration. During 2014, provisions came into force to require the election of each board member individually, the direct election of the Chairman and individual members of the compensation committee. As of this year, Swiss companies will have to submit a binding resolution on board and executive remuneration.

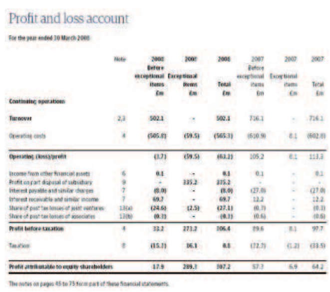
A roundtable meeting of shareholders including LAPFF with the chairman of Nestlé explored the implications of the company’s application of these new requirements and cited new areas in which the law could develop. Likewise, representatives from Novartis set out their intended implementation and actions. LAPFF had approached both companies as they are two of the most widely held companies amongst LAPFF portfolios in continental Europe. The meeting with Novartis thus offered the opportunity to explore other areas such as mergers and acquisitions, pay structures, the role of significant shareholders and the approach to drug patents in the developing world.

Holdings Based Engagement

AstraZeneca is another company held by most LAPFF members. The Forum issued a voting alert for the company’s AGM in 2013 over payments to the incoming chief executive but had not previously met directly with the company. The meeting provided an opportunity to explore aspects of remuneration with the company, its approach to mergers as well as other governance and corporate responsibility issues.

Reliable Accounts

In the wake of revelations that **Tesco** had misrepresented its accounts, LAPFF requested a discussion with the company about a way forward from the company’s accounting deficiencies. This request is part of LAPFF’s broader strategy to push for improved



Profit and loss account

For the year ended 30 March 2008

	Note	2008 Before exceptional items £m	2008 Exceptional items £m	2008 Total £m	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m
Continuing operations							
Turnover	2,3	502.1	-	502.1	716.1	-	716.1
Operating costs	4	(505.8)	(59.5)	(565.3)	(610.9)	8.1	(602.8)
Operating (loss)/profit		(3.7)	(59.5)	(63.2)	105.2	8.1	113.3
Income from other financial assets	6	0.1	-	0.1	0.1	-	0.1
Profit on part disposal of subsidiary	9	-	335.2	335.2	-	-	-
Interest payable and similar charges	7	(8.0)	-	(8.0)	(27.0)	-	(27.0)
Interest receivable and similar income	7	69.7	-	69.7	12.2	-	12.2
Share of post tax losses of joint ventures	13(a)	(24.6)	(2.5)	(27.1)	(0.3)	-	(0.3)
Share of post tax losses of associates	13(b)	(0.3)	-	(0.3)	(0.6)	-	(0.6)
Profit before taxation	4	33.2	273.2	306.4	89.6	8.1	97.7
Taxation	8	(15.3)	16.1	0.8	(32.3)	(1.2)	(33.5)
Profit attributable to equity shareholders		17.9	289.3	307.2	57.3	6.9	64.2

The notes on pages 45 to 75 form part of these financial statements.

accounting standards.

In February 2015, LAPFF Chairman, Kieran Quinn, signed a joint letter to the Financial Times calling on the UK to favour a position of ‘prudence’ rather than one of ‘neutrality’ as the overriding principle in its accounting standards.

MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

In the first two months of 2015, both **Shell** and **BP** announced their advice to shareholders to support ‘strategic resilience’ resolutions filed by LAPFF members as part of the Aiming for A coalition. Co-filers also included other pension funds with assets greater than $15bn, namely three Swedish AP Funds, Connecticut and Ilmarinen from Finland.

Recommendations of support from company boards for resolutions filed by shareholders are unprecedented in the UK and extremely rare in other markets. The resolutions call for disclosures on ongoing operational emissions management, asset portfolio resilience to the International Energy Agency’s scenarios, low carbon energy research and development and investment strategies, relevant strategic key performance indicators and executive incentives and public policy positions relating to climate change.

By the end of March, 25 LAPFF funds had publicly declared their voting intentions to support the resolution, bolstered by a significant number of global asset owners and fund managers also making voting declarations. These included CalPERs and the University of California in the US, AXA Investment Managers and Natixis AM from France, PKA Denmark, Robeco from the Netherlands. UK investor support included RMPI Railpen in addition to UK asset managers such as Royal London Asset Management, Jupiter Asset Management, Royal London Asset Management, Aviva Investors, F&C Investments and Schroders.

Such support for active engagement by shareholders on essential disclosure on the strategic approach to carbon management has the potential to set an industry standard. It also highlights investors’ interest in the longer-term strategic options for the oil and gas majors.

Similar issues covered in the BP/Shell resolutions were discussed by Cllr Rose with members of the sustainability and legal teams of **Total** as well as transitional fuels and how the company viewed fracking in its business strategy. Discussions on board succession planning and the separation of powers were prompted by the sad loss of the company’s Chairman and CEO in a plane crash in late October 2014.

LAPFF also met with representatives of **BHP Billiton** as part of its Aiming for A investor engagement. BHP Billiton had improved from a 'C' to a 'B' rating on the CDP Climate Leadership Index during 2014.

During 2014, LAPFF was part of a coalition encouraging palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. One company contacted was **Wilmar**, which revealed in early 2015 that it has fully mapped its supply chain making public all its suppliers in Indonesia and Malaysia.

Promotion of the Sustainable Palm Oil Manifesto to companies, of which LAPFF was part, led to Malaysian palm oil trader, **Kuala Lumpur Kepong**'s announcement in January that it will begin to use the best practice definition of High Carbon Stock (HCS) forests. This commitment should help to further a moratorium on clearing HCS areas and towards a No Deforestation approach. Building on this development, **IOI**, which controls an estimated 10.5% of the global palm oil trade, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

LAPFF's Cllr Richard Greening attended the **Lonmin** AGM, where he asked the Board about the implementation of the recommendations from the South African Human Rights Commission's report from October 2014 to improve labour and community relations in the wake of the company's Marikana mine disaster in 2012. Lonmin endured a debilitating five month strike during 2014, but proposed solutions to the company's labour concerns have been linked more broadly to its community engagement approach.

Lonmin CEO Ben Megara outlined how the company had engaged with the South African Human Rights Commission to work on a solution, part of which is a Five Point Plan to resolve social investment issues, such as the company's role in promoting education and providing housing for the community in which it operates. In addition to formally recognising the Association of Mineworkers and Construction Union (AMCU) and employing the relatives of Marikana victims, the Bapo ba Mogale community now owns 2.4% of Lonmin's share capital after the company made a royalty payment to the community and allocation to the Bapo trust in line with its commitment to meet South Africa's Black Economic Empowerment requirement.

THE FORUM IN THE NEWS

LAPFF Press Releases on the Shell and BP resolutions
http://www.lapfforum.org/

BP and Shell shareholder resolutions
Guardian, Independent, Financial Times, Courier, Investment Week, Professional Pensions, Blue and Green Tomorrow, Fund Web, Forbes, Local Government Chronicle, Investment & Pensions Europe

LAPFF G20 tax transparency
Responsible Investor

IFRS and Reliable Accounts
Financial Times

NETWORKS AND EVENTS

The LAPFF Chairman, Cllr Quinn travelled to Scotland to meet with new LAPFF executive committee member Barney Crockett of North East Scotland Pension Fund, as well as visiting Cllr Paul Rooney chair of Strathclyde Pension Fund, who subsequently joined the Forum.

Novethic Conference: Cllr Greening addressed a conference on investors, climate and low carbon finance in Paris, setting out LAPFF's position on corporate carbon management. LAPFF also fielded a speaker at the UKSIF 'ownership' day to talk about BP and Shell's support of the Strategic Resilience shareholder resolutions and to encourage further voting declarations.

LAPFF representatives also attended a number of other events including a **30% Club Investor** Group meeting focussed on board refreshment; a Pensions Infrastructure Platform seminar reviewing the platform one year on and talks on Embedding Global Markets relating to the governance role of investors on Human Rights and on environmental protection legal developments relating to Rio Tinto's role in the unrest in Bougainville, Papua New Guinea.

COMPANY PROGRESS REPORT (companies not previously engaged with on an individual basis noted in bold)

Company	Topics	Activity/Outcome	Domicile
Total	Carbon management	Meeting/Moderate Improvement	France
BP	Carbon management	Resolution/Substantial Improvement	United Kingdom
Associated British Foods	Board Composition	Letter/Satisfactory Response	United Kingdom
Lonmin	Employment Standards	Attended AGM/Dialogue	United Kingdom
Shell	Carbon management	Resolution/Substantial Improvement	UK/Netherlands
Microsoft	General Governance	Letter/Dialogue	United States
Tesco	Remuneration/Accounts	Letter/Dialogue	United Kingdom
Novartis	General Governance	Meeting/Dialogue	Switzerland
Centrica	Executive Pay	Letter/Dialogue	United
Amazon	Governance/Employment Standards	Letter/Dialogue	United States
Hays	Remuneration	Letter/Dialogue	United
AstraZeneca	Mergers & Acquisitions	Letter/Dialogue	United States
Nestlé	General Governance/ Remuneration	Meeting/Dialogue	Switzerland
Barclays	Remuneration	Letter/Dialogue	United Kingdom
BP	Carbon management	Resolution/Substantial improvement	United Kingdom
BHP Billiton	Carbon management	Meeting/Dialogue	UK/Australia
Morrison	Accounts	Letter/Dialogue	United Kingdom
Roche	Governance	AGM Attendance/Dialogue	Switzerland
Sage Group	Remuneration	AGM Attendance/Dialogue	United Kingdom
Trinity Mirror Group	Governance	Letter/Dialogue	United Kingdom

Local Authority Pension Fund Forum Members

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cardiff and Vale of Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
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
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
Sheffield City Region Combined Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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

AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

This statement sets out the principles that will guide the Avon Pension Fund Committee ("the Committee") when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets and is consistent with the Fund specific funding strategy as set out in the Funding Strategy Statement.

The Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 ("the regulations") require the Avon Pension Fund ("the Fund") to prepare, publish and maintain a statement of the principles governing its investment of the Fund's monies. As required by the regulations, the Committee will review this statement periodically to ensure it is consistent with the Fund's funding strategy.

This statement is required to cover the following:

- Types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of voting rights (if there is any such policy)
- Stock lending
- Statement of compliance with the Myners Principles

1 Investment Objective

The investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long term as well as reflect the balance between maximising returns consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a longer term strategy.

Implementation: The Fund has a strategic benchmark which reflects the Fund's liability profile. The expected return of the current strategy is equivalent to 2.8% p.a. over the expected return on long dated gilts and the expected volatility of the returns relative to liabilities is 10.0% p.a. (source: JLT). This investment objective is consistent with the investment return assumptions in the funding strategy used in the actuarial valuation.

2 Types of Investment Held

The Fund may invest in any type of investment permitted under the regulations. Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

Implementation: The Fund invests in equities (both UK and overseas), diversified growth funds, index-linked and fixed interest stocks, Fund of Hedge Funds and property funds. The strategic benchmark includes an allocation to infrastructure which has yet to be invested. Some of these investments are in segregated portfolios but the majority are in pooled funds. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

3 Asset Allocation and Expected Long Term Returns on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under or out performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the longer-term it provides a framework within which de-risking strategies could be implemented.

For each portfolio managed on an active basis, the manager has an outperformance target which means that the Fund should outperform its strategic benchmark, everything else being equal. The outperformance target will reflect the level of risk and approach to investing taken by each active manager. The strategic benchmark does not assume any outperformance from the investment managers.

Implementation: The strategic asset allocation along with assumptions for expected return and volatility for each asset class is set out in the table below. This strategy was agreed in 2013 and will be implemented during 2013 and 2014.

Asset Class	% of Fund	Range	Expected return*	Expected Volatility
Growth assets	**80%**	**65 -85%**		
Equities	*50%*	*45 - 55%*		
Developed	*40%*	*35 - 45%*	*+3.75%*	*15 - 20%*
Emerging	*10%*	*5 - 15%*	*+4.25%*	*15 - 25%*
Diversified Growth Funds	*10%*	*5 - 15%*	*+3.75%*	*10 - 15%*
Illiquid Growth	*20%*	*15 - 25%*		
Hedge Funds	*5%*	*0 - 7.5%*	*+1.5%*	*6 - 15%*
Property	*10%*	*5 - 15 %*	*+2.5%*	*5 - 10%*
Infrastructure	*5%*	*0 - 7.5%*	*+2.5%*	*5 - 10%*

Other Growth	*0%*	*0 - 5%*	*+2.5%*	
Stabilising Assets	**20%**	**15 - 35%**		
Government Bonds	*3%*	*0 - 10%*	*0%*	*5 - 10%*
Index linked bonds	*6%*	*3 - 10%*	*-0.25%*	*5 - 10%*
Corporate Bonds	*8%*	*4 - 20%*	*+1.0%*	*5 - 10%*
Other Bonds	*3%*	*0 - 5%*	*+1.0%*	*5 - 10%*
Cash	**0%**	**0 - 5%**		

** Expected return is expressed as an excess return over UK gilt yields or the "premium over gilts" to reflect the extra risk being taken. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.*

The inclusion of diversified growth funds (DGFs), property and hedge funds in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. The reduction in volatility results from these assets and investment approaches having a lower correlation to both bond and equity returns over the long term. In addition the Fund expects to benefit from the "illiquidity premium" from investing in property and infrastructure, and to a lesser extent, hedge funds.

The Fund takes an active approach to hedging its US dollar, Yen and Euro developed market equity exposure. This is managed on a segregated basis. Foreign currency exposure is expected to be an unrewarded risk over the longer term, thus the currency hedging is to protect the sterling value of the hedged portfolios and to reduce the volatility that arises from currency. The active approach attempts to reduce the cash outflows associated with currency hedging during times of sterling weakening, by reducing the hedge when sterling weakens.

A dynamic rebalancing policy is triggered when the proportions invested in bonds and liquid growth assets (equities and DGFs) deviates by more than permitted. The rebalancing policy will ensure that the allocations remain within the strategic ranges.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The cash held internally is managed by the Council's Treasury Management Team. This cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

The strategic policy and the medium term performance of the managers are monitored at quarterly Panel and Committee meetings.

4 The balance between different types of investment and the Investment Management Structure

The Fund will at all times invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing. Whilst the Fund experiences a deficit in its funding position, there will be a significant allocation to "return generating" assets such as equities and diversified growth funds. The equity portfolio will be diversified by manager, geography and investment style.

The Fund will invest via segregated and pooled portfolios based on the appropriateness for each portfolio (namely, cost, liquidity, impact on voting rights, flexibility and speed of implementation). The Fund will invest across a combination of passive, enhanced indexation, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Implementation: A significant proportion of the Fund is invested in passive mandates (across equity and bonds markets only) which rely solely on market returns to generate the investment return. The rest of the Fund is invested in active mandates (across equities, bonds, DGFs, hedge funds, infrastructure and property) where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent.

Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner. These are suitable for equity and bond portfolios managed on a pooled or segregated basis. An "enhanced indexation" approach to managing equity portfolios aim to provide an incrementally higher return than the index but at a low risk relative to the index. This approach utilises quantitative models to generate portfolios. Active managers seek to outperform the index or benchmark through the selection of the underlying investments. Such portfolios are usually more concentrated and can be more or less volatile than the index/benchmark depending on the investment approach. Within the Fund, the active equity mandates tend to be more volatile than the index whereas the DGFs target a lower volatility through active management.

Each mandate has a portfolio specific outperformance and risk target. Absolute return portfolios seek to provide a positive return in all market environments. These managers use a wide range of investment techniques to generate returns. An active currency hedging mandate aims to manage the currency exposure so that the Fund benefits from favourable foreign currency movements but that adverse movements (i.e. when sterling strengthens) are hedged against.

The investment structure is detailed in the table below. As the Fund is transitioning to the strategic benchmark set out in 3 above the allocations per manager will not be consistent with the strategic benchmark allocations and will exceed 100% as new mandates yet to be awarded are included:

Manager	***Mandate***	***Performance Objective***	***% of Fund***	***Inception date***
BlackRock	*Passive multi-asset*	*In line with customised benchmark*	*32%*	*01/04/03*
Jupiter Asset Management	*UK Equities (Socially Responsible Investing active)*	*FTSE All Share +2% p.a.*	*5%*	*01/04/01*
TT International	*UK Equities (unconstrained active)*	*FTSE All Share +3-4% p.a.*	*5%*	*11/07/07*
Invesco Perpetual	*Global ex-UK Equities (Enhanced Indexation)*	*MSCI Global ex-UK Index +0.5% p.a.*	*6.5%*	*19/12/06*
State Street Global Advisors	*Europe ex-UK Equities (Enhanced Indexation)*	*FTSE World Europe ex-UK Index +0.5% p.a.*	*3.5%*	*14/12/06*
State Street Global Advisors	*Pacific inc. Japan Equities (Enhanced Indexation)*	*FTSE Developed Asia Pacific Index +0.5% p.a.*		*14/12/06*

Schroders Investment Management	*Global Equities (unconstrained active)*	*MSCI All World Index +2-4%*	*6%*	*01/04/11*
Genesis Investment Management	*Emerging Market Equities (unconstrained active)*	*MSCI Emerging Markets Index*	*5%*	*13/12/06*
Unigestion	*Emerging Market Equities (active)*	*MSCI Emerging Markets Index + 2% p.a.*	*5%*	*21/01/14*
Standard Life	*Diversified Growth Funds (active)*	*LIBOR + 4% p.a.*	*6.7%*	*04/02/15*
Pyrford International	*Diversified Growth Funds (active)*	*RPI + 5% p.a.*	*3.3%*	*14/11/13*
Royal London Asset Management (RLAM)	*UK Corporate Bond Fund (active)*	*iBoxx £ non-Gilt Index +0.8% p.a.*	*5%*	*11/07/07*
Gottex Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*2.5%*	*01/08/07*
Signet Capital Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*3%*	*01/08/07*
Stenham Asset Management	*Fund of Hedge Funds*	*LIBOR +3% p.a.*	*1.5%*	*01/08/07*
Schroders Investment Management	*UK Property (active)*	*IPD UK Pooled Property Fund Index +1% p.a.*	*5%*	*01/02/09*
Partners Group	*Overseas Property (active)*	*IPD Global Property Index +2% p.a.*	*5%*	*18/09/09*
Record Currency Management	*Currency hedge (US$, Yen and Euro equity exposure)*	*N / A*	*n/a*	*26/07/11*
Current Structure			**100%**	
New mandates				
IFM	*Infrastructure (active)*	*Gilts +2.5% p.a.*	*5%*	*30/09/14*
JP Morgan Asset Management	*Fund of Hedge Funds*	*The higher of LIBOR +3% or 6% p.a.*	*5%*	*To be advised*

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

5 Risk

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is partially offset through diversification.

Investment by its very nature is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in the section "Responsible Investment Policy".

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. An independent custodian safe keeps the assets on behalf of the Fund.

Implementation: Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit (and counterparty) risk arises in the bond portfolios, the currency hedging programme, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

The currency hedge manages the unrewarded risk that arises from the foreign currency exposure. Adverse movements in the currency that overseas assets are denominated in will reduce the value of those assets when translated into sterling.

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds and infrastructure.

Risk and return of the overall Fund and the individual portfolios is monitored closely to ensure the managers are investing in line with their expected long term risk return parameters and that the Fund overall is achieving its investment objectives.

The investment strategy provides some protection against the liability risks, mainly interest rates and inflation. The gilt, corporate bond and other bonds (14% of the Fund) provides an interest rate hedge. Infrastructure could also provide some interest rate protection depending on the structure of the mandate. Index Linked bonds provide a direct hedge against inflation and changes to inflation expectations whilst property and infrastructure, and to a lesser extent, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

6 Regulatory Investment Limits

The regulations impose certain "prudential" limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk. For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of prudential limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

Implementation: Currently all the "normal" prudential investment limits apply to the Fund, except for the following:

- *Investments in Life Funds - following a Committee resolution in March 2006, this has been increased to the maximum limit of 35% to accommodate the life fund investments managed by Blackrock.*

- *Investments in single partnerships - following a Committee resolution in December 2008, this has been increased to the maximum limit of 5% to accommodate the property investments managed by Partners.*

7 Realisation of Investments

The Fund must be able to realise its investments within a reasonable period appropriate for its cash flow and maturity profile. Therefore the investment strategy must reflect the need to realise assets or use of investment income to meet projected cash flow requirements.

Implementation: The Fund's investment policy is structured so that the majority of its investments (70% in quoted equities and bonds, 10% in DGFs) which it holds can, except in the most extreme market conditions, be readily realised. However, the growth in indirect investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Property and infrastructure are long term investments which the Fund will not be able to realise in a short period. "Lock-up" periods are normal practice in Fund of Hedge Funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realised. However, the Fund has sought to minimise the length of these "lock-up" periods when selecting managers and investment vehicles.

The Fund is transitioning to a more mature membership profile as the monthly payment of pensions is no longer met by pension contributions, thus there is a need to realise assets or utilise investment income on an on-going basis within the investment strategy. Based on projected cash flow, investment income from the segregated portfolios will be used to meet any shortfall in cash inflows prior to divesting of assets.

8 Responsible Investing Policy

The Avon Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee has a Responsible Investing Policy that sets out the framework for considering such issues throughout the investment decision-making process.

Implementation: The Committee approved its Responsible Investing Policy in June 2012. The full policy can be accessed via www.avon.avonpensionfund.org.uk.

The policy includes:

- *analysis of the impact of RI issues on each asset class as part of strategic reviews*
- *evaluation of an investment manager's approach for assessing RI risks within their investment process in mandate tenders*
- *monitoring of the decisions by its investment managers regarding RI issues that have a material financial impact on the Fund*
- *voting and engagement policy*
- *participation in collaborative groups to influence corporate behaviour*

Although the investment structure means that some parts of the policy are more relevant to some mandates than others, the strategic aspects will apply across the entire Fund.

The managers of actively managed portfolios have provided a statement setting out the extent to which they take social, environmental and ethical considerations into account in their investment processes, which are included as Appendices to this Statement.

The Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, Jupiter manages a UK equity portfolio in accordance with Socially Responsible Investment (SRI) criteria (within this context SRI means investing in companies which contribute to, or benefit from, more environmentally and socially sustainable economic activity), justified by the argument that superior performance could be achieved over time from a portfolio constructed on this basis. Given the mandate objective, this SRI portfolio has a bias towards mid-sized / smaller companies and this, together with the concentrated nature of the portfolio, means that the volatility of investment returns is high. The portfolio includes companies providing products/services which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

At the strategic level, a manager's approach to identifying and managing SRI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund has adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies. The aim is to improve long-term returns to shareholders and by setting out good practice on engagement with investee companies, improve governance standards. The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code. As a result, each of the investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers, the monitoring of its voting activity by an independent 3rd party and through membership of the Local Authority Pension Fund Forum, a collaborative body seeking to promote best practice in corporate governance.

9 Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

Implementation: The Fund requires its managers to vote their UK company shares in line with their internal voting policy. The Fund has appointed an independent proxy voting agent to monitor the voting activity of the managers which will be reported to the Committee at least annually. The Fund will also publish an annual summary of its voting activity and trends (provided by the proxy voting agent).

For overseas markets voting is left to the discretion of the managers but they are encouraged to exercise voting rights where practical.

10 Stock Lending

The Fund allows stock held by the Fund to be lent out to market participants.

Implementation: The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund's custodian acts as the Fund's lending agent and the Fund receives income from the lending activities. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason.

The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

11 Myners Principles

The Myners Principles sets out a code of best practice in pension fund governance, investment decision making and disclosure. Regulations state that local authority pension funds are required to make clear in their Statement of Investment Principles the extent to which they comply with these principles.

Implementation: The Fund fully complies with the principles. Appendix 6 sets out the Fund's compliance.

To be approved by Avon Pension Fund Committee on 26 June 2015

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Appendix 6

Potential impact of 2014 budget flexibilities on the Fund

1. The Fund's actuary has analysed the potential impact of the 2014 budget freedoms on the pension fund's cash flow and liabilities.
2. The analysis assumes 5%, 10% and 20% of eligible active and deferred members i.e. those aged 55 or over elect to take the transfer value at their expected earliest retirement age (i.e. unreduced benefits).
3. The analysis assumes (i) the transfer value (TV) will not be reduced to reflect the funding level and (ii) TV reduced to 90% of the full amount. The Actuary has approximately assessed the Fund to be around 100% funded on the Government Actuary Department's (GAD) prescribed assessment basis. Reductions to TV will only be allowed if the funding level is <100% on the GAD basis; in addition, if this basis showed a deficit, it would still require consent from CLG/Treasury for the Fund to reduce the TV. The 90% basis is only showed for comparison.

Cashflow impact:

4. The Fund is already cash negative on a monthly basis (c. £2m p.m.) excluding investment income. The investment strategy is structured to use some of the investment income (currently c. £15m p.a.) to meet the cash shortfall.
5. The results of the analysis are as follows:
    a. If 5% of members transfer out then the *additional* cash outflow will be c. £7m p.a. for next 5 years (c. £6m p.a. if 90% TV)
    b. If 10% of members transfer out then the *additional* cash outflow will be c. £14m p.a. for next 5 years (c. £12m p.a. if 90% TV)
    c. If 20% of members transfer out then the *additional* cash outflow will be c. £28m p.a. for next 5 years (c. £24m p.a. if 90% TV)

Liability impact:

6. There will be savings versus current liabilities if members transfer out. A take up of 20% would generate transfers in the order of £140m i.e. £28m p.a. over 5 years which would reduce the funding deficit by c. £20m or £4m p.a. A 5% take up would only reduce the deficit by c. £5m over 5 years or £1m p.a. The savings would be greater if the TVs were reduced in line with the prescribed approach.
7. Obviously this financial analysis is at the aggregate fund level but the impact at the employer level will vary depending on the membership profile. Essentially the younger the members transferring, the greater the savings (a 50 year old would save the fund 15% of the liabilities whereas a 60 year old will only save 10% i.e. as members get closer to retirement the saving for the Fund will reduce). However, for individual employers the take-up could be a much higher proportion due to the small membership numbers. This could have a more significant impact at an employer level in terms of risk reduction both on an ongoing basis and termination basis (corporate bond basis).
8. Following on from this the reduction in the funding risk will be even greater for employers funded on the corporate bond basis.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2015**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR FULL YEAR TO 31 MARCH 2015;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 March 2015;** **(3) SUMMARY PERFORMANCE REPORT to 31st March 2015**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Full year to 31 March 2015
Appendix 2 Summary Budget Variances: Full year to 31 March 2015
Appendix 3A Balanced Scorecard : 3 months to 31 March 2015 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4 Customer Satisfaction Feedback in the 3 months to 31 March 2015 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5 Active membership statistics over 12 Months to 31 March 2015
Appendix 6 Joiners & Leavers statistics over 12 Months to 31 March 2015
Appendix 7 Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 31 March 2015. Annex 1 current quarter, Annex 2 timeline.
Appendix 8 Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 12 months to 31 March 2015. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 March 2015 and Summary Performance Reports on Employer and APF performance over 4 years to 31 March 2015 as well as the Risk Register

2 RECOMMENDATION

That the Committee notes:

1.1 Administration and management expenditure incurred for 12 months to 31 March 2015

1.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 March 2015.

1.3 Summary Performance Report for period from 1 April 2011 to 31 March 2015.

1.4 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 12 months to 31 March 2015 are contained in **Appendix 1.**

The Net Expenditure to 31 March 2015 was £4,000 over budget. Within the directly controlled Administration budget expenditure was £226,000 below budget. This was partly due to savings on salaries resulting from the temporary partial secondment of the payroll manager and support officer to the Council's payroll section to provide support while they undertake a major project. Those parts of their roles that they no longer covered were temporarily covered by other members of the management team. Further savings on salaries came from the temporary secondment of the Projects Officer to Bristol City Council to assist their payroll team on pension matters. Large savings were also made in communication costs through the greater use of digital technology, in training costs through the greater use of in house courses and through higher income from recharges.

In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £230,000. The increase in Governance costs is largely due to the additional investment advisory fees incurred in re-tendering the DGF mandate. The increase in compliance costs reflects the additional actuarial costs of responding to the circumstances of particular employers. These costs have been recharged to employers wherever possible, largely offsetting the increased expenditure.

The increased spending against budget on Investment management fees is due to a stronger market performance than was anticipated in the budget.

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

5 CASH FLOW FORECAST

5.1 Since September 2014 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 are managed by taking more income from the investment portfolio. 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 3 years, together with two large group Transfers In, has resulted in a net cash in-flow to 31 March of £42m above the forecast. This cash has been transferred to the Custodian while not required and transferred back as necessary to meet the Funds operational cash flow requirements.

5.3 The outflow on benefits above forecast is largely due to the increased payment of benefits following the large scale redundancy exercise at Bristol City Council. The outflow on Administration costs is above forecast due to an increase in the Investment Manager fees paid by cash as opposed to being deducted by the Manager. Increased inflow from Investment income has been arranged to meet the demands of the Fund becoming cash flow negative.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 31 March 2015

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 8476 new cases were received and 7368 were cleared. As a snapshot, at 31 March 2015 there were 5166 cases outstanding of which 37% represents actual workable cases and 63% represents cases that are part complete, pending a third party response.

7.2 **CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 December 2014 - Retirements**

Appendix 4 reports on the customer satisfaction based on 120 questionnaires returned from members retiring from both active and deferred status (out of a total of 261 questionnaires issued in respect of the reporting period). 96% reported that the information provided by the Fund was both clear and concise with 87% rating the service as good or excellent.

8 LEVEL OF OPT OUTS FROM THE SCHEME

8.1 Reports indicate that 0.12% of active membership with more than 3 months service opted out over the period to 31 March 2015.

8.2 The position on opt outs will continue to be monitored. A report will also be developed to report 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

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**

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 a requirement of the Pensions Administration Strategy. The Report for the period to 31 March 2015 is included as **Appendix 7. (Annex 1,2 &3)**

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 four Unitary Authorities and collectively 'Other' employers reporting an event during the period. Performance against retirements and early leavers is 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 4 year period.

10.6 Report on any late pension contributions by employers to the Fund due for the 3 months to 31st January 2015.

11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

- Following the approval in March by Pensions Committee of the draft Administration Strategy no responses were received from employers following the consultation process. The Strategy became effective from 1st June 2015. Work is already underway to fully implement the Strategy and a full report and work plan will be reported at the next Committee meeting and subsequent meetings.
- Following the Governments introduction from 1st April 2015 of Freedom and Choice in Pensions the Fund has undertaken a review of its processes to ensure compliance.
- The Year End project is continuing and the Fund is currently reconciling employer data. The project is due completion at the end of June ahead of member annual benefit distribution.
- Initial reports and plans have been put in place to demonstrate that we are working towards compliance with The Pension Regulator requirements effective from April 2015. A suite of reports is currently being developed and will be reported at the next Committee meeting and subsequent meetings.
- The transfer of orphaned member data in respect of Ministry of Justice (Probation Service) to Greater Manchester Pension Fund has been completed.

The Fund is continuing to progress towards complete digital receipt of member data

11.1 **Employer Self Service: Update**

As at 31st March 2015 60% of employers had received full training on ESS data submission – representing approx. 75% of total scheme membership.

11.2 ***i-Connect***

11.3 Work is continuing to ensure that the i-Connect middleware is fully integrated with the four unitary authorities. 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 dedicated resource has been identified 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 have signed agreements to use i-Connect and currently two are successfully sending monthly returns. A further two medium sized employers are currently in discussion to take the software in the near future. For the two unitary authorities not currently sending returns:-

11.4 **South Gloucester Council** is in the final stages of data extract testing and is expected to go ‘live’ in July 2015.

11.6 **Bath & North East Somerset Council** has just replaced its HR & Payroll service. Due to in-house staff expertise required to support this exercise a decision was made to suspend i-Connect for the relevant period until the new system is in operation and required extract reports have been re-written. Avon Pension Fund is in discussion with B&NES regarding a probable timeframe for re-introduction which is likely to be late August 2015. Key member data will continue to be supplied via an alternative EDI process during the interim period.

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 The Register is reviewed regularly by the management team and reported to Committee annually or when there is a change in significant risks.

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

13 RISK MANAGEMENT

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

14 EQUALITIES

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

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

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

17 ADVICE SOUGHT

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

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

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2015

	FULL YEAR 2014/15		
	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	69,425	60,811	(8,614)
Administration Costs	78,535	46,296	(32,238)
Communication Costs	90,133	62,665	(27,468)
Payroll Communication Costs	46,923	60,338	13,415
Information Systems	289,886	265,576	(24,309)
Salaries	1,525,341	1,451,156	(74,185)
Central Allocated Costs	425,851	407,155	(18,696)
Miscellaneous Recoveries/Income	(142,536)	(196,525)	(53,989)
Total Administration	**2,383,557**	**2,157,473**	**(226,085)**
Governance & Compliance			
Investment Governance & Member Training	252,630	298,790	46,160
Members' Allowances	39,105	37,516	(1,589)
Independent Members' Costs	18,886	20,770	1,884
Compliance Costs	331,127	440,174	109,047
Compliance Costs recharged	(191,000)	(295,866)	(104,866)
Pension Board	0	3,251	3,251
Total Governance & Compliance	**450,748**	**504,635**	**53,887**
Investment Fees (subject to markets)			
Global Custodian Fees	82,500	66,042	(16,458)
Investment Manager Fees	15,978,740	16,170,790	192,050
Total Investment Fees	**16,061,240**	**16,236,832**	**175,592**
NET TOTAL COSTS	**18,895,545**	**18,898,940**	**3,395**

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APPENDIX 1A

Summary of main budget variances: Full year to 31 March 2015

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	(74,000)	Reduced salaries expenditure due to:- - the partial and temporary secondment of the Payroll Manager and Support Officer to the Council's Payroll section to provide support during a major project. (Those parts of their roles that they no longer cover being temporarily covered by members of the management team). - the secondment of Project Officer to Bristol City Council to assist with pension matters.
Miscellaneous Recoveries / Income	(54,000)	Increased Actuarial work on behalf of various employers involved an increase in rechargeable administrative work carried out by the Fund.
Administration	(32,000)	Savings were made in Staff Training through the greater use of in house courses. There was also a reduction in expenditure on printing and equipment purchase through the greater use of paperless practices.
Communications and Payroll Communication Costs	(14,000)	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. There were also savings in the development of the Website by carrying it out "in house".
Information Systems	(24,000)	The budget allowed for the earlier implementation of a Disaster Recovery System than was actually achieved. It also provided for main server hardware that was not required.
Central Recharges	(19,000)	The budget included a provision for corporate legal advice that was not required.
Investment Expenses	(9,000)	The budget provided for more expenditure on subscriptions and staff travel than was required.
Administration	**(226,000)**	

Investment Governance	46,000	Additional Investment advisory fees were incurred due to the retendering the DGF mandate.
Pension Board	3,000	Additional expenditure was incurred on advertising for members of the Pension Board.
Compliance Costs Compliance Costs Recharged	109,000 (104,000)	The increase in expenditure on Actuarial fees has largely been offset by increased recharges of actuarial fees to employers.

Global Custodian Fees	(16,000)	Actual fees charged for 2013/14 were less than those allowed for in the estimated accrual in to 2013/14.
Investment Manager Fees	192,000	Investment Manager Fees exceeded the budgeted figure following a stronger market performance than had been anticipated. This more than offset the saving on fees that resulted from the late implementation of the infrastructure mandate. The expenditure on fees does not include any provision for performance related fees that relate to the period but remain subject to variation as a result of future performance.
Expenditure Outside Direct Control	**230,000**	
Total Forecast Overspend	**4,000**	

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

APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FULL YEAR 2014/15		
		Forecast Per Service Plan £'000	Out-turn £'000	Variance £'000
Outflows				
Benefits	Pensions	(117,447)	(125,077)	(7,630)
	Lump sums	(33,226)	(30,800)	2,426
Administration costs		(5,537)	(8,103)	(2,566)
Total Outflows		(156,210)	(163,980)	(7,770)
Inflows				
Deficit recovery (allowing for a lump sum in 2014/15)		48,141	87,678	39,537
Future service Employers		73,618	76,282	2,664
Future service Employees		37,318	34,215	(3,102)
Total Contributions		159,077	198,176	39,099
Net cash received for Transfers In		-	10,768	10,768
Net Cash Flow (ex Investment Income and tranfers to the Custodian)		**2,867**	**44,964**	**42,097**
Investment income received as cash		10,156	15,621	5,465
Transfers to Custodian		-	(59,021)	(59,021)
Net Cash In-Flow (Out-Flow)		**13,023**	**1,564**	**(11,460)**

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 31 Mar 2015

	INDICATOR	Red Amber Green	2013/14 Actual	Target for 2014/15	Actual 3 months to 31/03/2015	Comments	
A	**Customer Perspective**						
1	General Satisfaction with Service - retirees' feedback	G	97%	97%	96%	120 out of 261 responses received from retirees in reporting period	Appendix 4
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	G	91%	91%	89%	33 of 37 Tasks were completed within target	
	Retirements [15 days]	G	89%	90%	88%	365 of 417 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	81%	75%	83%	821 of 986 Tasks were completed within target	
	Refunds [5 days]	G	82%	80%	78%	280 of 359 Tasks were completed within target	
	Transfers In [20 days]	G	74%	75%	75%	51 of 67 Tasks were completed within target	
	Transfers Out [15 days]	G	77%	75%	50%	73 of 146 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	79%	737 of 937 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			Nil	No complaints received in the period	
4	Pensions paid on time	G		100%	100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)				n/a	None due this quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	4000	15,621	5207 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)	G			Yes	Pension Member Newsletter Issued March 2015	
9	Annual Benefit Statements distributed by year end				n/a	2014/15 due by 31 August 2015 (Report Next Qtr)	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining				0%		
2	% Sickness Absence a) Short Term	G	1.3%	3%	3%	Ahead of APF target and well ahead of corporate target of 5%	Appendix 3b Graph 2
	% Sickness Absence b) Long Term	G	0%	2%	0%		
C	**Process Perspective**						
1	Services actually delivered electronically	A			9.5%	9.45% represents eligible users who have signed up to My Pension Online. 7,983 members now have electronic access to their record details online.	
2	a) Active membership covered by employer EDI	A	72%	90%	81%		
	b) % of employers submitting data electronically	A	58%	70%	60%		
3	% Telephone calls answered within 20 seconds	G	97%	95%	97.2%	9775 calls, 9502 answered within 20 seconds	Appendix 3b Graph 3
4	Maintain work outstanding at below 75%	G	20658 created 20892 cleared	75%	87%	8476 created, 7368 cleared	Appendix 3b Graphs 4 & 5
5	Year End data receipt			100%		2014/15 due by 30 April 2015	
6	No. of errors (due to incomplete member data from employers)	G		3%	2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	91%	Business Financial Services (inc Pensions).	
2	Temp Staff levels (% of workforce)	G	0.74%		0.0%	Within target	

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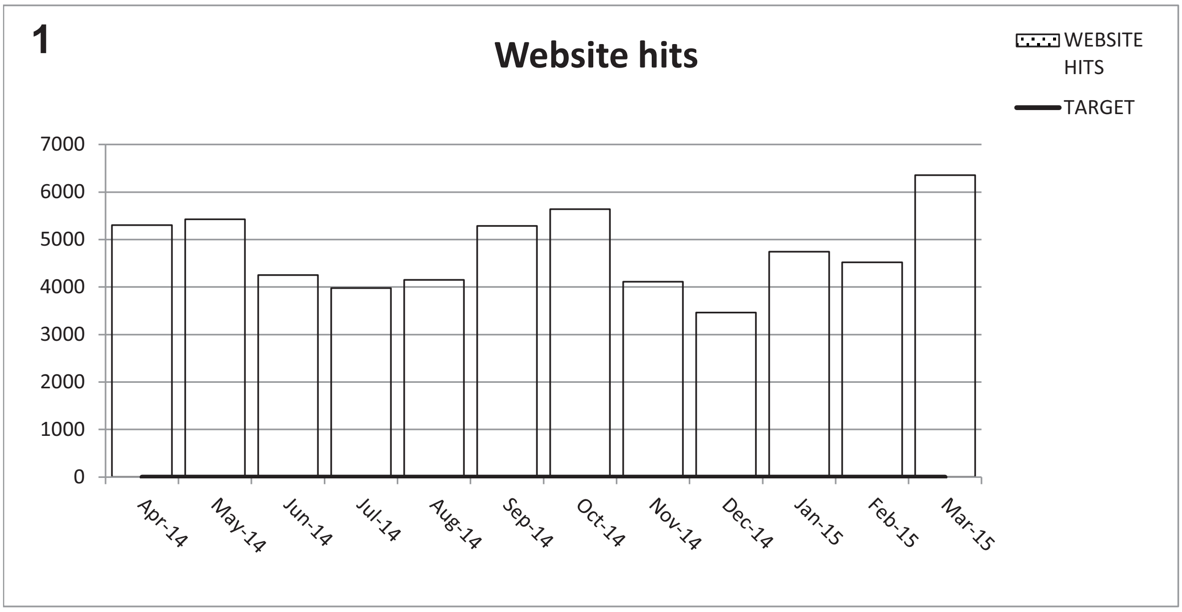
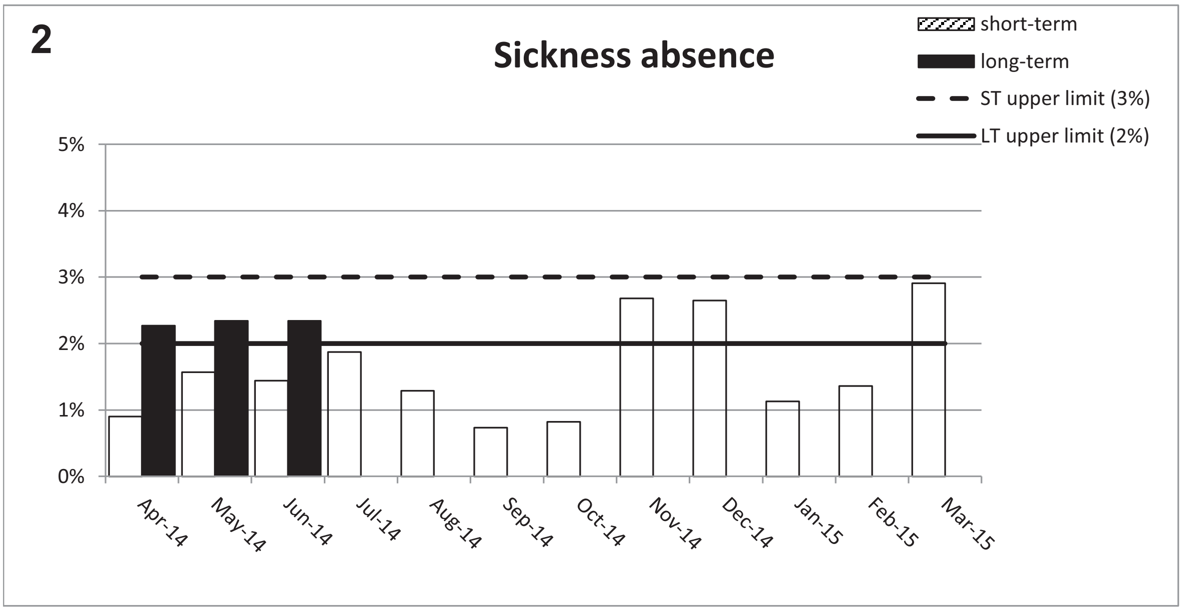
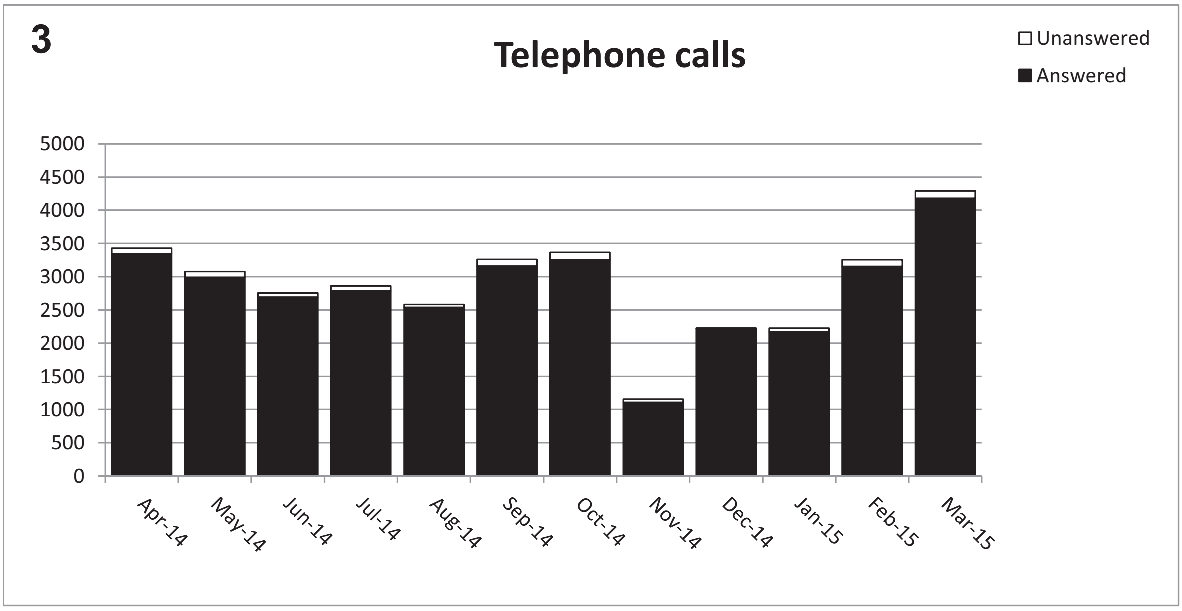
Pension Fund Administration report: Appendix 3b







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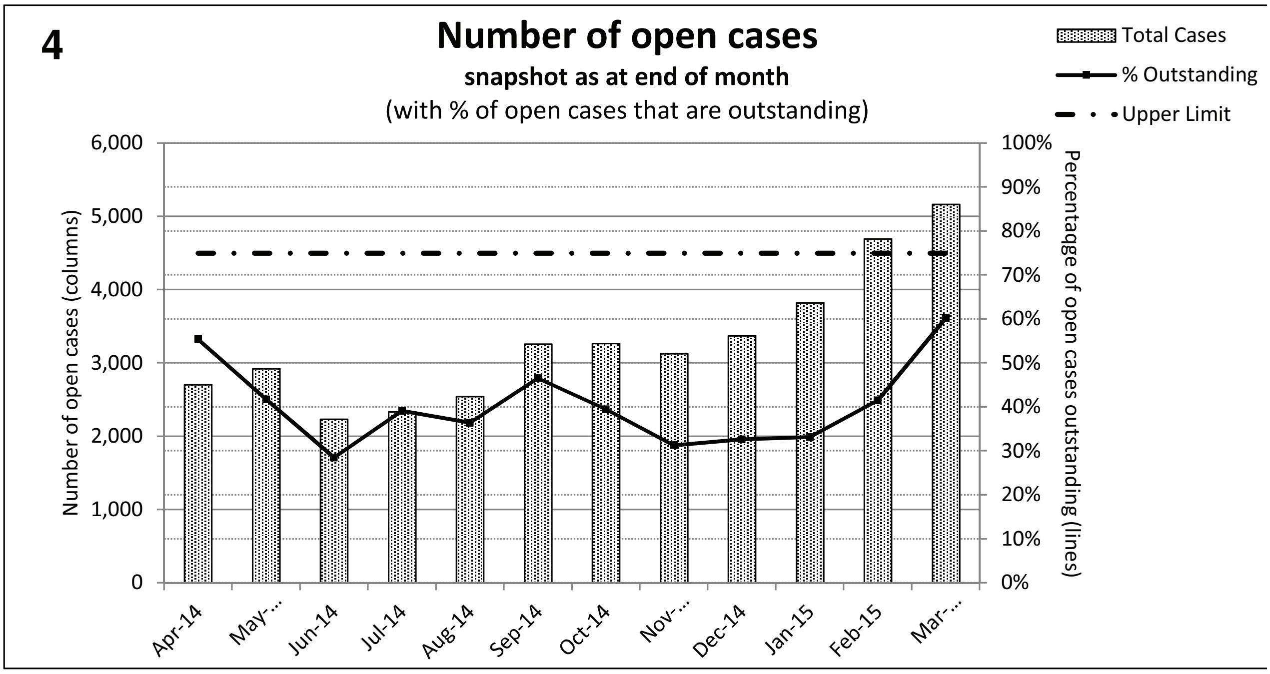
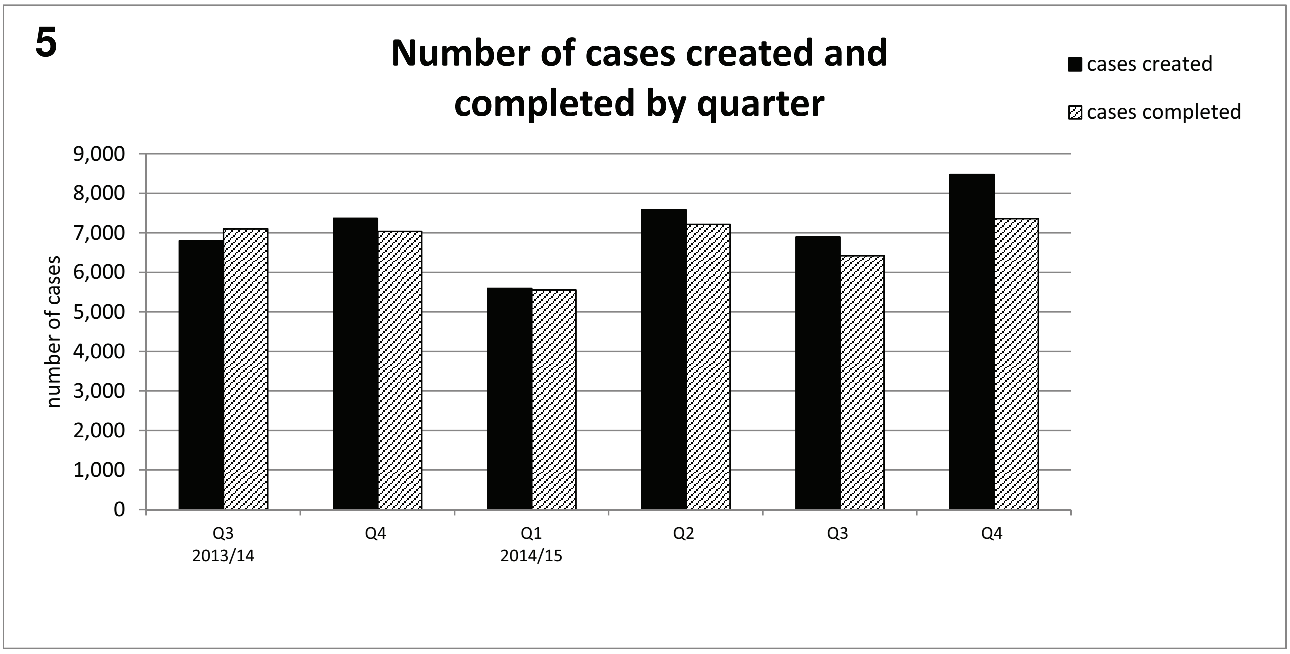
Pension Fund Administration report: Appendix 3b





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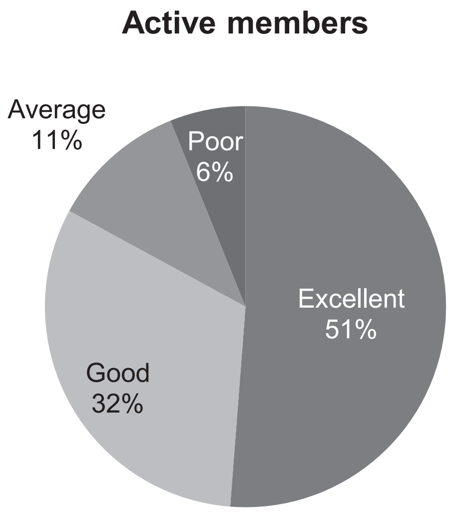
Customer satisfaction (Jan - Mar 2015)

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

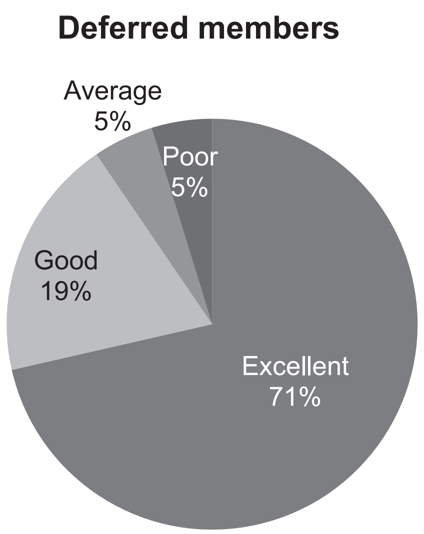
Active members

Number retiring	155
Questionnaires received	82
Response rate	53%



Deferred members

Number retiring	106
Questionnaires received	38
Response rate	36%



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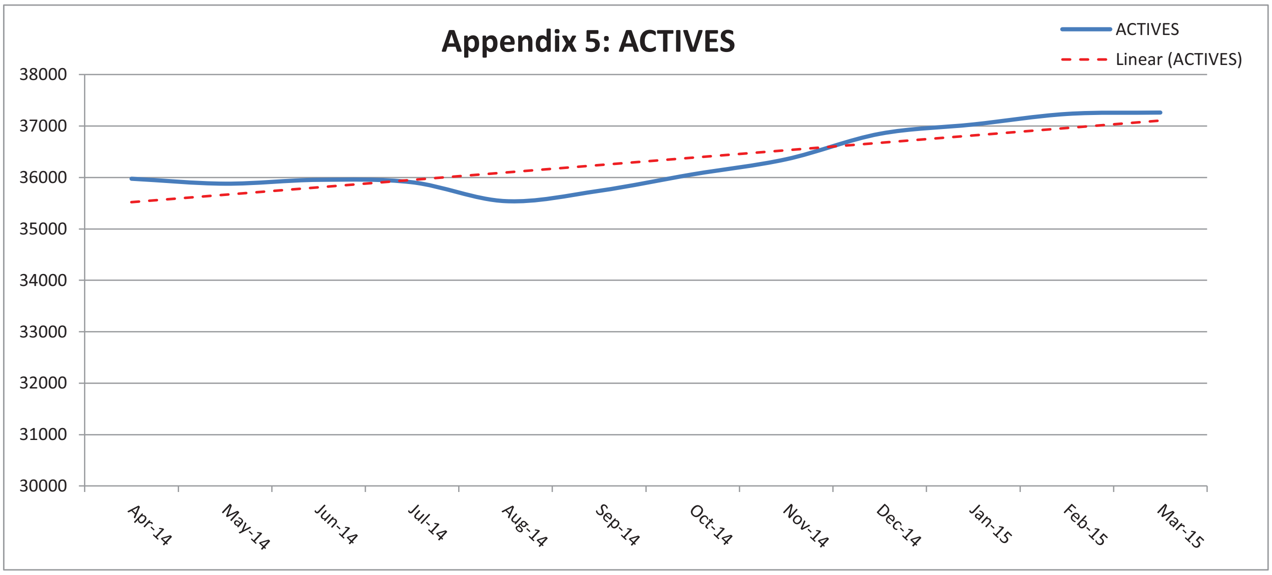
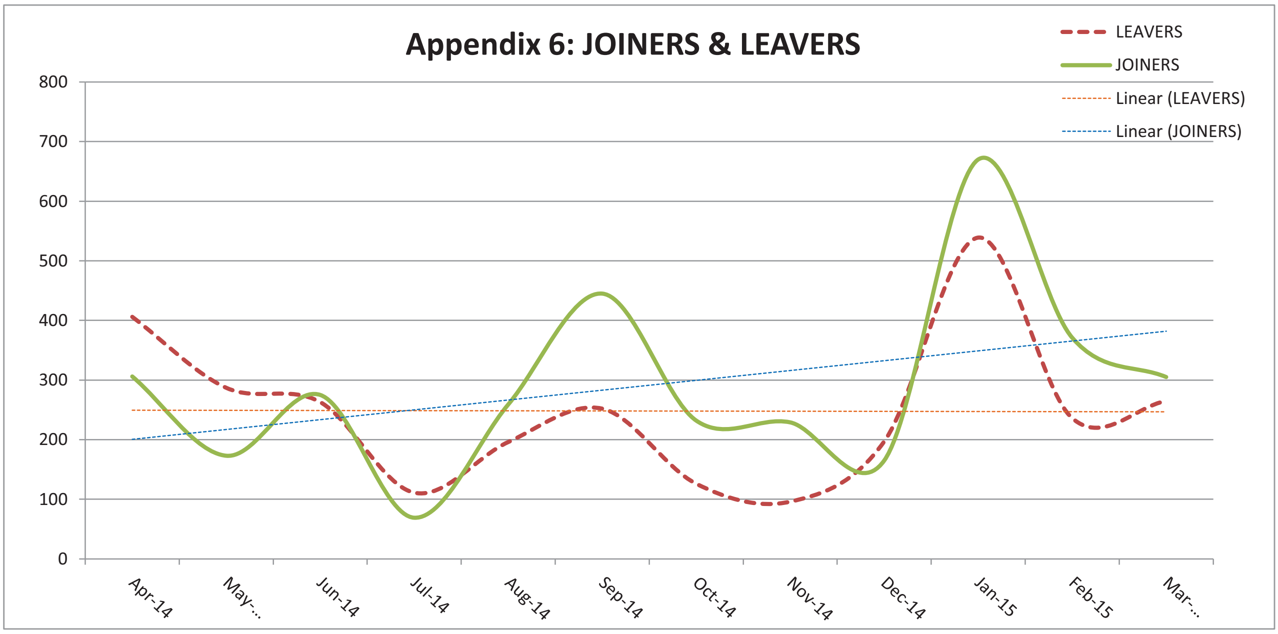
Admin Reports - Appendices 5 and 6. Actives, Joiners and Leavers to 31st March 2015





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APPENDIX 7 (to Pension Fund Administration Report)   Agenda Item 16

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the fourteenth 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 four Unitary Authorities and collectively all 'Other' reporting employers 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 31st March 2015.

2. Report of late payers of pension contributions (employers) in the period to 31st March 2015

2. Late payers of Pension contributions

Late payment of contributions due in 3 months to 31st March 2015:

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
Patchway Town Council	March	38	£3,445

Patchway Town Council prepared a cheque but overlooked sending it. When chased they experienced delays in getting it approved. The Fund has been in regular contact with the Town Council in regard to this matter.

Total number of employers = 215
Total contributions received in period = £35,630,000
Total late contributions including those below reporting threshold = £14,778
(0.04% 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 2013 regulations.

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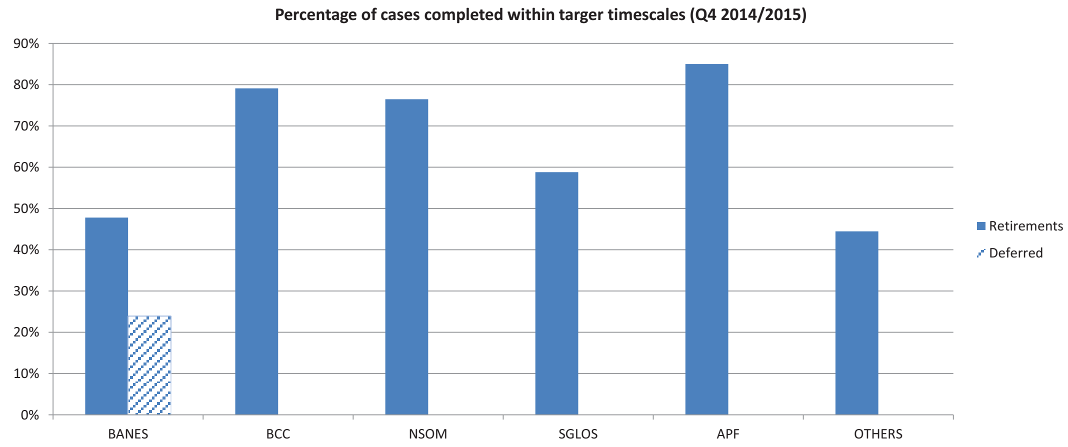
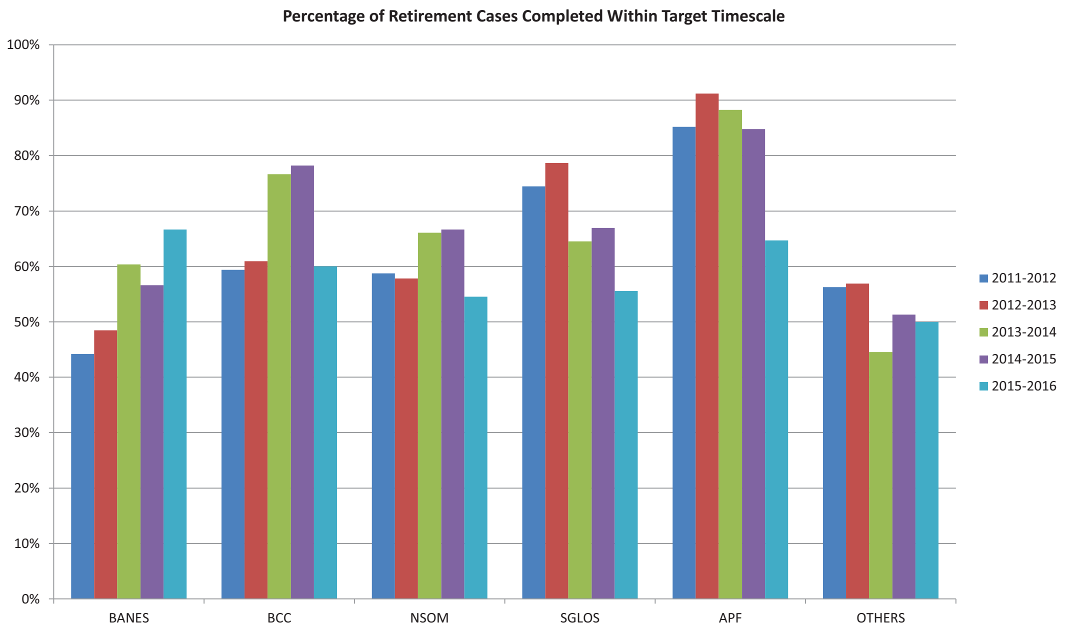
Admin Report: Appendix 7

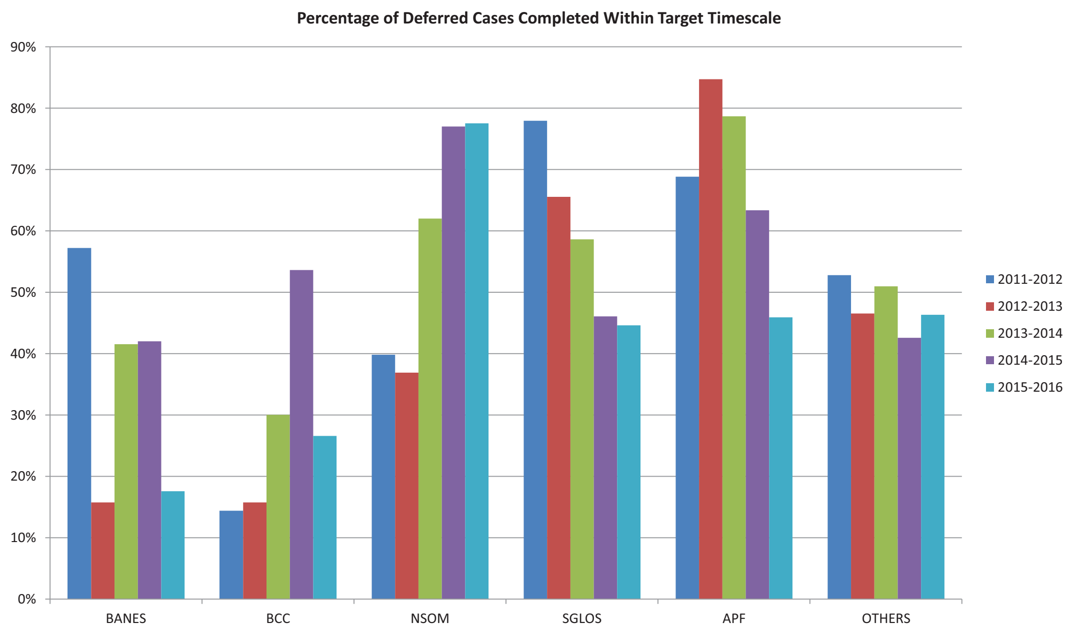
Annex 1



Annex 2



Annex 3



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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS **APPENDIX 8**

			Likelihood					Impact					Risk	RAG	Scale of	Funded by
			1	2	3	4	5	1	2	3	4	5	Score		Financial	
	Risk	**Management Actions**	L		M	H		L		M	H				Impact	
1	The Fund fails to achieve investment returns sufficient to fund its liabilities. This could negative affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities.			3						4		12	A	>£1m	**Increases in Employer contribution**
2	Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions. This could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with government through the consultation process, giving a consistent message.			3						4		12	A	>£1m	**Unclear but potentially increases in employer contribution**
3	Lack of continuity within the Avon Pension Fund Committee. Until new members fully trained this could delay decision making.	Wide representation on Committee including two Independent Members not subject to electoral cycle. Training made available to new members.				4				3			12	A	>£1m	**Annual budget**
4	Pensions legislation allows people to withdraw their pension "pot" from age 55. This will apply to the LGPS. Although tax penalties may reduce the attractiveness of this option, there is a risk that the fund matures more rapidly than assumed in the 2013 valuation. Cashflow could become more negative due to transfers out. No clarity yet as how to reduce the transfer value to reflect funding level.	Work with actuary to understand potential consequences on maturity profile of fund, funding of liabilities and agree a policy for valuing the transferring pension "pots". Incorporate into 2016 valuation.				4				3			12	A	>£1m	**Potentially through employer contribution, investment income and divestment of assets**

5	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.				**4**			**2**				**8**	**A**	**>£1m**	**Increases in Employer contribution**
6	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.				**4**			**2**				**8**	**A**	**>£1m**	**Increases in Employer contribution**
7	Non compliance with the Data Protection Act and the Pensions Regulator's codes of practice and standards. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended, or 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**
8	Contributions from Employing bodies to the Fund are incorrect in value or late. This could adversley affect short term cash flow, could mean under/over funding of liabilities, breach of obligations which 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**
9	For the cash invested by the Council on behalf of Pension Fund that the counterparties fail / delay the return of principle and /or investment income to pension fund as requested.	The Committee annually approves the Fund's Treasury management Policy which sets out maximum limits and maturity terms for each counterparty. Monthly monitoring of compliance with the policy through review of Investment activity report.		**2**						**3**			**6**	**G**	**>£1m**	**Increases in Employer contribution**

10	The pension fund cashflow profile is maturing. Risk there is not have enough cash to pay pensions on a monthly basis due to a reduction in contributions paid into the Fund. This will result in the bank account being overdrawn and possibly non payment of pensions.	The cash balance is monitored during the monthly cycle to identify if there is a cash shortfall. Investment strategy addresses need to use income from investment portfolio and/ or divestment of assets as required.		**2**						**3**			**6**	**G**	**£100,000 to £1m**	**Increase in employer contribution, investment income and divestment of assets**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2015**
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 December 2015** **Appendix 3 – Committee Workplan to 31 December 2015** **Appendix 4 – Investments Panel Workplan to 30 September 2015** **Appendix 5 – Training Programme 2015 - 2017**	

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 2015-16 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.

1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.

1.3 The provisional training programme for 2015-17 is included as Appendix 5.

1.4 The workplans are consistent with the 2015-18 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 programme 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 programme for 2015-17 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit.

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 JUNE 2016

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 FX hedging programme • Liability hedging – preliminary work to start in 2H14/15 • Use of tactical ranges and "others"	 Start 2Q15 Start 2Q15; Committee report 2Q16
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Set up actuarial modelling online tool	Set up web based tool following once new actuarial contract in place actuarial	From 2Q15
Review AVC arrangements	Review choice of investment funds offered for members	3Q15
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	Commence 2Q15
Establish Pensions Board	Appointment process Training plan	March - June From July 2015
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Commence June 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 2015/16

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 Committee workshop 4Q15
2016 Actuarial Valuation	As at 31 March 2016; review Funding Strategy Statement	Preparatory work starts 2Q16

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 December 2015

Project	**Proposed Action**	**Report**
Employer Self Service rollout	Employer Self Service roll–out and training of all remaining employers to enable full electronic data delivery. Due completion March 2016	Ongoing
i-Connect software - to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live On-boarding and set up of Avon Fire & UWE Market to other employers during 2015/16 once complete.	3Q15/16 3Q15/16 Commence 3Q15
Move to Electronic Delivery of generic information to members	Continue 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	Complete 3/4 Q15 Ongoing
Successfully Implement New Fire Scheme Pension Reform	To follow through Project Plan to effectively implement and communicate the New Fire Scheme. Including staff training & member presentation sessions	Ongoing Completion due 2Q15/16
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.	Ongoing Completion due 16/17
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance	September 2015
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section in April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing
2014/15 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2015	Due Completion August 2015
Review Workflow & Data Processing	Implement new Task Workflow Arrangements. Introducing new software - Process Automation.	Completion due 3/4Q 2015

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Appendix 3

Committee Workplan to 31 March 2016

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
Annual Responsible Investing Report
Workplans
Planned Workshops: Overview of Fund Strategies (September 2015)

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 (October 2015)

MARCH 2016
Review of Investment Performance for Quarter Ending 31 December 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 31 December 2015 and Risk Register Action Plan
Budget and Service Plan 2016/19
Audit Plan 2015/16
Managing Liability Risk
Report on Investment Panel Activity
Review of AVC arrangements
Workplans

Committee Workplan to 31 March 2016

Planned Workshops: None
Actuarial policies – admissions, exits, covenant assessment (February 2015)

Appendix 4

INVESTMENT PANEL WORKPLAN to March 2016

Panel meeting / workshop	Proposed agenda

Workshop September 2015 (TBA)	• Introduction training session
	  ○ Asset allocation & Statement of Investment Principles
	  ○ Investment strategies e.g. active vs. passive
	  ○ Process for appointing managers
	  ○ Monitoring managers and performance measurement
	  ○ Fees

Formal Panel Meeting 8 September 2015	• Review managers performance to June 2015 • Managing liabilities – preliminary report • Review of decision to hedge FX exposure • Use of tactical ranges within strategic asset allocation (flexibility to protect portfolio, take advantage of opportunities)

Meet the managers workshop (TBA)	• Meet the managers workshop
	  ○ Genesis
	  ○ Pyrford
	  ○ Blackrock
	  ○ Unigestion

Formal Panel Meeting 18 November 2015	• Review managers performance to September 2015 • AVC Review • Framework for allocating to “Other Bonds” and “Other Growth” assets
Formal Panel Meeting 1Q16 (TBA)	• Review managers performance to December 2015 • Managing liabilities – recommendation to Committee • Meet the managers workshop

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Committee training programme 2015-17

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure Overview of Fund LGPS Scheme Advisory Board The Pensions Regulator Codes Agenda for June Committee meeting	Committee Workshop	Morning of June 2015 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Investment Strategy Funding Strategy	Committee Workshop	½ day in September 2015
3	Actuarial Valuations	Valuation methodology Recap on 2013 valuation 2015 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	½ day October 2015
4	Covenants, admission and exit policies	Covenant assessment process Admission and exit policies and funding basis used	Committee Workshop	½ day in February 2016
5	Investment strategy	Asset allocation & Statement of Investment Principles Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Investment Panel Workshop	½ day September 2015
6	Managing liabilities	Understanding objective Potential solutions Impact on bond portfolio Impact on funding level Proposed framework Recommendation: Objective and proposed framework	Investment Panel meeting Committee Meeting	February 2016 June 2016
7	Responsible Investing	Objective and rationale Current policy	Committee Workshop	Morning of June 2016 committee meeting

Training Programme and the CIPFA Knowledge & Skills Framework (2015/16)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new committee training); introductory workshops
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting)
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation e.g. Liability investing
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2015 interim valuation workshop; covenant and funding policies workshop

The previous Committee scheduled future dates as follows:

25 September 2015
11 December 2015

18 March 2016
24 June 2016
23 September 2016
9 December 2016

24 March 2017
22 June 2017
22 September 2017
8 December 2017

23 March 2018
22 June 2018
21 September 2018
7 December 2018

22 March 2019
21 June 2019
20 September 2019
6 December 2019

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