

Democratic Services

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: (01225) 477000 *main switchboard*

Direct Lines - Tel: 01225 395090

Web-site - <http://www.bathnes.gov.uk>

16 September 2016

Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

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

Co-opted Non-voting Members: Richard Orton (Trade Unions), Cheryl Kirby (Parish and Town Councils) and Steve Paines (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 23rd September, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 23rd September, 2016 at 2.00 pm** in the **Kaposvar Room - Guildhall, Bath**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

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, 23rd September, 2016

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. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 24TH JUNE 2016 AND 30TH JUNE 2016 (Pages 7 - 24)

If the Committee wishes to discuss the exempt minutes of 24th or 30th June, it should consider passing 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 discussion of the exempt minutes of the meeting(s) of the 24th/20th June 2016 because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

8. APPROVAL OF FINAL ACCOUNTS (Pages 25 - 140)
9. APPROVAL OF FUNDING STRATEGY STATEMENT (Pages 141 - 192)
10. GAD SECTION 13 REPORT (Pages 193 - 204)
11. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 205 - 302)
12. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 303 - 314)

If the Committee wishes to discuss Exempt Appendix 2, it is advised 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 discussion of Exempt Appendix 2 of this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

13. REVIEW OF INVESTMENT PERFORMANCE (Pages 315 - 388)

If the Committee wishes to discuss Exempt Appendix 3, it is advised 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 discussion of Exempt Appendix 3 of this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

14. APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL AND TO NOTE PENSION BOARD REPORT TO COUNCIL (Pages 389 - 414)
15. BUDGET AND CASHFLOW MONITORING 2016/17 (Pages 415 - 424)
16. PENSION FUND ADMINISTRATION (Pages 425 - 454)
17. LGPS REGULATORY UPDATE (Pages 455 - 468)
18. WORKPLANS (Pages 469 - 480)

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

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, 24th June, 2016, 11.00 am

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

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

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

Advisors: Steve Turner (Mercer) and Paul Middleman (Mercer)

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Cllr Lisa O'Brien to her first formal meeting of the Committee.

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

Holly Templer and Elaine Ashley of Fossil Free Bristol and Councillor Lin Patterson made statements urging the Fund to disinvest from fossil fuels.

Richard Lawrence of Fossil Free Bristol submitted the following question:

On 27th March 2015 I, together with other members of the public, attended Avon Pension Fund Committee meeting to express concerns over the Fund's investments held in fossil fuels. The then Chair felt that this was a significant issue and needed to be considered by the Committee.

At its meeting on the 25th September 2015 the Committee agreed the scope of a review of its responsible investment policy which it was said would address these concerns.

Since that date the Committee has received further representations from councillors, concerned members of the public and Fund members on the issues of fossil fuel investments, and indeed the world at large has reported many concerns relating to global warming and uncertainties in the future of fossil fuel industries.

Can you tell me what progress is being made in respect of the responsible investment policy and when the Committee will receive a draft of the new policy?

The following answer was approved by the Committee:

Work on the review is underway and it is planned for the Committee to consider a revised Responsible Investing Policy at their meeting on 9th December 2016.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 18 MARCH 2016

The public and exempt minutes of the meeting of 18 March 2016 were approved as a correct record and signed by the Chair.

8 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investment Manager introduced the report. She said the Governance Compliance Statement was unchanged from last year, including the information given about the Pension Board. Government guidance on how the Pension Board should be referred to in the Statement had been expected, but had not been received. The Statement would need to be updated when the pooling arrangements were in place.

It was agreed that the three co-opted Members serving on the Investment Panel should continue to do so for another year.

It was agreed that Cllr Mike Drew, Richard Orton and Cllr Steve Pearce would continue to represent the Fund on the Local Authority Pension Fund Forum.

It was noted that Wendy Weston had taken over from Richard Orton as the trade union voting member with effect from this meeting.

A Member recalled that there had been discussion at the Panel about the desirability of it having additional powers to take investment decisions, because of the Fund's need to respond more rapidly and flexibly to market conditions. The Head of Business, Finance and Pensions suggested that this need had to be more carefully defined; a proposal to amend the Panel's terms of reference could then be brought to the Committee.

RESOLVED

1. To note the roles and responsibilities of members, advisors and officers.
2. To note the terms of reference of the Committee and Investment Panel.
3. To approve the Governance Compliance Statement.
4. To agree that Ann Berresford, Cllr Mary Blatchford and Shirley Marsh should continue to serve as members of the Investment Panel.

To agree that Cllr Mike Drew, Richard Orton and Cllr Steve Pearce should continue to represent the Fund on the Local Authority Pension Fund Forum.

9 DRAFT FUNDING STRATEGY STATEMENT

The Investment Manager introduced this item. She reminded Members that the broad principles of the FSS had been discussed at a workshop on 8 March 2016. After the approval of the draft FSS, it would go out to consultation with employers and would come back to the Committee for approval at the September meeting. The final FSS would be used by the actuary for the 2016 valuation. It is the primary document used for valuing the Fund's assets and liabilities.

The Fund's actuary, Paul Middleman, distributed a set of PowerPoint slides summarising the key points in the draft FSS and commented on them. He reminded Members that if the Fund was not 100% funded, a plan had to be put in place to achieve that within a reasonable time frame. It was vital to maintain a balance between achieving 100% funding and a reasonable level of employer contributions. This valuation differed from the previous one in that all the Fund's policies would be brought together. He was proposing to reduce the discount rate from CPI + 3% p.a. to CPI + 2.75% p.a, which would increase the Employer Future Service Rate by approximately 1%.

Members asked questions and made comments to which Mr Middleman and officers responded.

After discussion it was **RESOLVED** to approve the draft Funding Strategy Statement as set out in Appendix 1 (subject to the insertion of information which can only be included when the actuarial valuation is complete) for consultation to employing bodies.

10 FRAMEWORK FOR LIABILITY DRIVEN INVESTMENT

The Investment Manager introduced this item. She said that the Panel had considered this proposal in detail over the last six months, and was now recommending that the Committee approve the framework set out in Exempt Appendix 1. The framework addresses the mismatch between the changes in the value of assets and liabilities. At present if the deficit grew significantly, employers would have to be asked for higher contributions. The actuarial valuation was concerned with various issues, such as the value of the assets and the funding level, but ultimately one of the most important issues is cash flow. This framework gave an additional tool for managing the mismatch risk and cash flow more effectively.

RESOLVED that, 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, the public shall be excluded from the meeting for the discussion of Exempt Appendix 1 because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

Mr Turner commented on Exempt Appendix 1 and he and officers responded to questions and comments from Members.

After discussion it was **RESOLVED**:

1. To agree the Liability Risk Management Framework recommended by the Investment Panel on pages 13 and 14 of Exempt Appendix 1.
2. To delegate the implementation to Officers in consultation with the Investment Panel.

11 POOLING OF INVESTMENT ASSETS - VERBAL UPDATE

The Investment Manager gave a verbal update. She said that the agenda for the special meeting to be held on 30 June had been sent out the previous day. The Government had asked for the submission to be based on a template. The papers on the agenda were in the form in which they would be submitted to the Government. The full business case would be put to the committees in October. There had been a lot of input from Project Brunel's legal and financial advisors; PwC had been advising on the financial aspects. Because of time constraints the approval of any decisions required after consideration by the committees will be delegated to the Chair and the Head of Business, Finance and Pensions.

She invited Members to report any concerns that they still had at the special meeting on 30 June.

The final business case would have to be approved by the Committee. It could not be approved before the issue of the new Investment Regulations, which would establish the legal basis for the pool.

The proposal to set up an independent investment company would require approval by the Councils. S151 and Monitoring Officers of the 10 funds were now fully

involved in the decision-making process. It was hoped that the company would begin operation in April 2018.

There will be a further update at the September meeting of the Committee. It would probably necessary to arrange further special meetings to provide updates on the business plan.

The Chair said that there had been four meetings of the Shadow Joint Board. There had also been a private meeting of the ten fund Chairs, who had all expressed confidence in the way things were progressing.

A Member said that the workshop for Members on pooling had given her confidence in the proposals. She was pleased to note the dedicated website for Project Brunel, which was very good.

The Head of Business, Finance and Pensions said that not only had six or seven pools been established, but there was also cross-pool working.

RESOLVED to note the update.

12 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager introduced this item. There was only one recommendation from the Panel, namely that that the Committee should be invited to approve the Liability Risk Framework discussed under item 10.

RESOLVED to note the minutes of the Investment Panel meeting on 25th May 2016.

13 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

[Councillor Mike Drew joined the meeting.]

The Assistant Investments Manager introduced this item. He invited Mr Turner to comment on the referendum vote for “Brexit”. Mr Turner said it would be a long time before the economic impact would be clear and portfolios would need to be monitored for some time to identify trends. This morning UK markets had fallen about 5% and European markets 3.6%. Gilt yields were performing well. The strongest impact had been on the pound. There would be an impact on the portfolios of active managers. It was not possible at this time to make any specific recommendations about how the Fund should respond. He suggested that the vote further underlined the need for a risk management framework.

The Assistant Investments Manager summarised the key information in the covering report. The funding level rose by 5% over the year as a result of a reduction in the value of the liabilities which was greater than lower than expected investment returns. On a gilts basis the funding level fell from 78% to 72%. Absolute returns had been disappointing with most equity markets produce negative returns. Sterling had appreciated against the Dollar, Yen and Euro, so that currency hedging detracted 1.9% over the year. Relative performance against the benchmark was poor over the year. Longer-term performance had been a little healthier. More than half the

allocation to infrastructure had been drawn down by 1st April. A \$105m commitment to infrastructure was still to be drawn.

Mr Turner commented on the Mercer annual investment report. He drew attention to the index performance summary on agenda page 225 and the manager performance summary on page 229.

RESOLVED to note the information set out in the report.

14 APPROVAL OF DRAFT ACCOUNTS 2015/16

The Finance and Systems Manager (Pensions) presented the report. He reminded Members that though the Fund's accounts were separately audited, they formed part of Bath and North East Somerset's accounts. The Committee was invited merely to note them. They would be presented for approval to the Council's Corporate Audit Committee. He circulated a document listing corrections made to the draft accounts since the agenda had been circulated.

A Member said that she was surprised by the range of employee contributions (5.5%-12.5%) given on page 268. The Finance and Systems (Manager) Pensions replied that they varied according to the profiles of Fund members employed by individual employers.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2016 for audit.

15 BUDGET AND CASHFLOW OUTTURN 2015/16

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

RESOLVED to note:

1. Administration and management expenditure incurred for the year to 31 March.
2. Cash Flow Report for the year to 31 March 2016.

16 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER ENDING 30 APRIL 2016 AND RISK REGISTER ACTION PLAN

The Acting Pensions Manager presented the report. He drew attention to the entry added to the Risk Register concerning the Brunel Pension Partnership.

RESOLVED to note:

1. Summary Performance Report to 30 April 2016;
2. Performance Indicators and Customer Satisfaction feedback for 3 months to 30 April 2016;

3. Progress on the Data Improvement Plan;
4. Risk Register top 10 risks.

17 LGPS REGULATORY UPDATE

The Technical and Development Manager presented the report. He asked Members to note the state of play on proposed changes to the LGPS reported in the appendices. He said that the £95,000 cap on exit payments would be unlikely to be implemented before 1st October. In response to a question from a Member, he clarified that the cap related to payments made by employers.

RESOLVED:

1. To note the current position regarding the potential changes that would affect the administration of the Fund.
2. To note the information regarding the HM Treasury consultations.
3. To approve the discretionary policy set out for transfer requests made after the 12 month of scheme entry. The decision to be delegated to specified officers, who must consider:
 - a. whether it would be detrimental to the Avon Pension Fund;
 - b. whether the delay was the result of actions or non-actions of the scheme or employer or administering authority.

18 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans.

The meeting ended at 2.56 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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

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AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Thursday, 30th June, 2016, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

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

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

Advisors: Tony Earnshaw (Independent Advisor)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions) and Matt Betts (Assistant Investments Manager)

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

21 DECLARATIONS OF INTEREST

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

24 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

25 LGPS POOLING OF INVESTMENTS - UPDATE

RESOLVED that 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 discussion of Exempt Appendices 1 and 2 of this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Head of Business, Finance and Pensions introduced this item. He distributed a set of PowerPoint slides about the pooling proposal and commented on them. Members put questions and made comments, to which he responded.

After discussion it was **RESOLVED** that the Committee:

1. Approves the joint submission from the Brunel Pension Partnership (BPP), including the Avon Pension Fund, to DCLG
2. Authorises Officers to continue to work with the other funds in BPP on the Business case reporting back to this Committee in due course.
3. Delegates approval of any minor changes (consistency and typos) to the Chair of the Committee and Head of Pension Fund.
4. Notes establishing a Local Authority Company with the other BPP funds will be subject to Council approval at a future date.
5. Notes the full business case is to be finalised by October 2016.

The meeting ended at 3.53 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:	23 September 2016	AGENDA ITEM NUMBER
TITLE:	Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2015/16	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Audited Statement of Accounts 2015/16		
Appendix 2 – Annual Governance Report 2015/16		
Appendix 3 – Draft Avon Pension Fund Annual Report 2015/16		

1 THE ISSUE

- 1.1 The Audited Statement of Accounts and the Annual Governance Report are now presented to be noted.
- 1.2 The Annual Governance Report summarises the results of the Grant Thornton audit of the 2015/16 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – "Communication of audit matters with those charged with governance".
- 1.3 The Corporate Audit Committee will be recommended to approve the final audited Statement of Accounts for 2015/16 and note the issues raised in the Governance reports at its meeting on 27 September 2016.
- 1.4 The Fund's Annual Report 2015/16 is a statutory document which the Auditor reviews as part of the Fund's audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

- 2.1 Notes the final audited Statement of Accounts for 2015/16.**
- 2.2 Notes the issues raised in the Annual Governance Report.**
- 2.3 Approves the draft Avon Pension Fund Annual Report 2015/16.**

3 FINANCIAL IMPLICATIONS

- 3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2016 as £3,737 billion.

4 THE REPORT

- 4.1 The draft Statement of Accounts 2015/16 is in Appendix 1.
- 4.2 The Committee noted the draft Statement of Accounts 2015/16 at its meeting of 24 June 2016. There were only two changes to the Statement of Accounts since the June Committee meeting:-
- The addition of a Non Adjusting Post Balance Sheet Event note explaining the significance to the Fund of the result of the EU referendum.
 - The correction of a duplicated accrual reducing the Fund's current liabilities by £24k.
- 4.3 The Annual Governance report is in Appendix 2.
- 4.4 The draft Avon Pension Fund Annual Report is in Appendix 3. Under the Local Government Pension Scheme Regulations 2013 (regulation 57) the Fund is required to publish a report annually by 1 December. As this is before the next Committee meeting, the Committee are asked to approve the 2015/16 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1 December deadline. The report will be published on the Fund's website.
- 4.5 The external auditor has reviewed the annual report as part of the audit.

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 and funding strategy that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The work in relation to this year's audit has not identified any new corporate risks or significant changes.

6 EQUALITIES

- 6.1 An equalities impact assessment is not necessary

7 OTHER OPTIONS CONSIDERED

- 7.1 None as this report is a statutory requirement.

8 CONSULTATION

- 8.1 Consultation has been carried out with the Section 151 Finance Officer.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

- 9.1 No decision as this is a statutory requirement.

10 ADVICE SOUGHT

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

Contact person	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 26 June 2015: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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PENSION FUND ACCOUNTS 2015/16

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 2015 to 31 March 2016.

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 2015/16 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 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 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.

1.4 In compliance with CIPFA guidance the presentation of the accounts includes the following changes from previous years:-

For greater clarity The Fund Account is split between "Dealings with members, employers and others directly involved in the fund" and "Returns on investments". For the same reason Management expenses, Other Income, and Investment Expenses are included under the single heading "Management Expenses".

Management expenses, Other Income, and Investment Expenses are shown in a single note (note 7) analysed between Administration Costs, Investment Management Expenses and Oversight and Governance Costs. This note also includes a more detailed analysis following previous practice.

Investment transaction costs have been included in the Investment Management Expenses. These do not include underlying transaction costs incurred within pooled investments.

Agency Services (note 17) in respect of benefits recharged to other employers now includes a note of payments made on behalf of the Fire Service and Teachers pensions schemes.

Financial Instruments (note 22) are analysed between those carried at Fair Value, Loans & Receivables and Financial Liabilities at Amortised Cost. There is no longer a requirement to analyse Financial Instruments according to their carrying value and the fair value since it is recognised that for most of the Fund's assets and liabilities these are the same.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme (Administration)

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

1.6 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 2016 has risen to 83% from 78% at 31 March 2015 based on the preliminary financial assumptions proposed for the 2016 valuation. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities. Preliminary discussions with the Scheme Actuary about the 2016 valuation indicate a discount rate based on CPI and a real investment return of 2.2% better reflects the prudent expected return from the long term investment strategy than using the unadjusted gilts basis below.

The funding level using the gilts basis fell to 72% on a consistent basis with the 2013 valuation. This reduction has come mainly from the fall in gilt yields which increase the present value of the liabilities over the period.

1.10 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 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 2016 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 2016.
- 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 2016.
- 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. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016.
- 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 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.
- 2.6 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 2.7 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.
- 2.8 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

- 2.9 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

- 2.10 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.

2.11 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. 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

2.12 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

2.13 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 15) 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 23d.

Events After the Balance Sheet Date

2.14 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

2.15 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 2016

	Notes	2015/16 £'000	2014/15 £'000
<i>Dealings with members, employers and others directly involved in the fund</i>			
Contributions Receivable	4	143,578	202,100
Transfers In	16	4,170	4,794
		147,748	206,894
Benefits Payable	5	155,310	157,156
Payments to and on account of Leavers	6	7,861	5,001
		163,171	162,157
<i>Net additions/ (withdrawals) from dealings with member</i>			
		(15,423)	44,737
Management Expenses	7	21,334	21,810
		(36,757)	22,927
<i>Net additions/ (withdrawals) from dealings with members</i>			
<i>Returns on Investments</i>			
Investment Income	8	24,399	28,104
Profits and losses on disposal of investments and change in value of investments.	9	(85,504)	437,550
<i>Net Returns on Investments</i>		(61,105)	465,654
<i>Net Increase in the net assets available for benefits during the year</i>		(97,862)	488,581
<i>Opening Net Assets of the Fund</i>		3,834,792	3,346,211
<i>Closing Net Assets of the Fund</i>		3,736,930	3,834,792

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments". They are now included in "Management Expenses" together with Other Income, Administrative Expenses, Investment Management Expenses and Fund Management Performance Fees. A full analysis is shown in note 7.

Net Assets Statement at 31 March 2016

	Note	31 March 2016 £'000	%	31 March 2015 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		-	-	111,675	2.9
Equities		598,343	16.0	603,222	15.7
Diversified Growth Funds		360,928	9.7	368,177	9.6
Index Linked securities : Public Sector		433,798	11.6	238,962	6.2
Pooled investment vehicles :-					
- Property : Unit Trusts		132,549	3.6	111,753	2.9
: Unitised Insurance		62,554	1.7	57,075	1.5
: Other Managed Funds		171,811	4.6	146,839	3.8
Property Pooled Investment Vehicles		<u>366,914</u>		<u>315,667</u>	
- Non Property : Unitised Insurance		710,765	19.0	903,760	23.5
: Other Managed Funds		1,099,271	29.4	1,202,443	31.3
Non Property Pooled Investment Vehicles		<u>1,810,036</u>		<u>2,106,203</u>	
Cash deposits		209,518	5.6	94,416	2.4
Other Investment balances		3,748	0.1	4,805	0.1
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		(40,415)	(1.1)	1,874	0.1
Derivative Contracts: FTSE Futures		(44)	0.0	152	0.0
Other Investment balances		(394)	(0.0)	(5,281)	(0.1)
TOTAL INVESTMENT ASSETS	10	<u>3,742,432</u>		<u>3,839,872</u>	
Net Current Assets					
Current Assets	12	7,679	0.2	10,592	0.3
Current Liabilities	12	(13,181)	(0.4)	(15,672)	(0.2)
Net assets of the scheme available to fund benefits at the period end		<u>3,736,930</u>	100	<u>3,834,792</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2016.

Notes to the Accounts - Year Ended 31 March 2016

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 scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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 24.

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 Regulations 2013.

2, MEMBERSHIP

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

	31 March 2016	31 March 2015
Employed Members	37,899	34,765
Pensioners	28,079	26,006
Members entitled to Deferred Benefits	40,711	35,714
TOTAL	106,689	96,485

A further estimated 770 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:-

	2015/16 £'000		2014/15 £'000	
Employers' normal contributions				
Scheduled Bodies	63,792		58,507	
Administering Authority	8,008		7,704	
Admission Bodies	7,508	79,308	7,784	73,995
Employers' deficit Funding				
Scheduled Bodies	12,336		67,052	
Administering Authority	-		14,042	
Admission Bodies	11,406	23,742	3,496	84,590
Total Employer's normal & deficit funding	103,050		158,585	
Employers' contributions- Augmentation				
Scheduled Bodies	2,071		5,446	
Administering Authority	319		489	
Admission Bodies	178	2,568	138	6,073
Members' normal contributions				
Scheduled Bodies	30,374		29,491	
Administering Authority	3,981		3,798	
Admission Bodies	2,984	37,339	3,313	36,602
Members' contributions towards additional benefits				
Scheduled Bodies	463		685	
Administering Authority	82		123	
Admission Bodies	76	621	32	840
Total	143,578		202,100	

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. In 2014/15 the deficit funding contributions included £73,947k 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 18.

5, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2015/16 £'000	2014/15 £'000
Retirement Pensions	126,126	121,095
Commutation of pensions and Lump Sum Retirement Benefits	26,158	32,246
Lump Sum Death Benefits	3,026	3,815
	<u>155,310</u>	<u>157,156</u>

Analysis of Benefits Payable by Employing Body:-

	2015/16 £'000	2014/15 £'000
Scheduled & Designating Bodies	127,949	132,416
Administering Authority	15,026	14,342
Admission Bodies	12,335	10,398
	<u>155,310</u>	<u>157,156</u>

6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2015/16 £'000	2014/15 £'000
Leavers		
Refunds to members leaving service	672	543
Individual Cash Transfer Values to other schemes	4,628	4,458
Group Transfers	2,561	-
	<u>7,861</u>	<u>5,001</u>

7, MANAGEMENT EXPENSES

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

	2015/16 £'000	2014/15 £'000
Administrative Costs	1,540	1,609
Investment Management Expenses	18,779	19,157
Oversight & Governance Costs	1,015	1,044
	21,334	21,810
Further Analysis of Management Expenses:-		
Administrative Costs		
Management costs	959	1,010
Administration and Processing	502	415
Service from Administrating Body	352	383
Fees and Income	(273)	(200)
	1,540	1,608
Investment Management Expenses		
Fund Manager Base Fees	15,017	15,384
Fund Manager Performance Fees	1,964	1,802
Investment Transaction Costs	1,690	1,905
Global custody	108	66
	18,779	19,157
Oversight & Governance Costs		
Management costs	469	473
Specialist advice and Governance	713	831
Actuarial recharges	(204)	(296)
Audit fees	37	37
	1,015	1,045
	21,334	21,810

The table above replaces previous years' notes 5,8 &9 for Other Income, Administration Expenses & Investment Expenses.

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account.

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. 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.

Investment transaction costs do not include the underlying transaction costs within pooled funds.

Management costs in Oversight & Governance Costs include actuarial and accounting staff.

8, INVESTMENT INCOME

	2015/16 £'000	2014/15 £'000
Interest from fixed interest securities	1,754	3,482
Dividends from equities	15,890	16,628
Income from Index Linked securities	2,461	3,019
Income from pooled investment vehicles	3,822	4,521
Interest on cash deposits	330	405
Other - Stock lending	142	49
	<u>24,399</u>	<u>28,104</u>

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 2016 was £7.3 million (31 March 2015 £14.57m), comprising of equities and sovereign debt. This was secured by collateral worth £7.8 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

9, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments			Change in		Value at 31/03/16 £'000
	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Market Value £'000	
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	-
Equities	603,222	360,901	(353,625)	(12,154)	598,344
Index linked Securities	238,961	222,236	(29,813)	2,414	433,798
Pooled Investments -					
- Property	315,668	100,975	(83,810)	34,081	366,914
- Non Property	2,474,380	421,380	(682,111)	(42,686)	2,170,963
Derivatives	2,026	188,758	(157,550)	(73,693)	(40,459)
	3,745,932	1,304,658	(1,427,184)	(93,846)	3,529,560
Cash Deposits	94,416	559,331	(441,664)	(2,565)	209,518
Net Purchases & Sales		1,863,989	(1,868,848)	(4,859)	
Investment Debtors & Creditors	(476)			3,830	3,354
<u>Total Investment Assets</u>	3,839,872				3,742,432
Current Assets	(5,080)			(422)	(5,502)
Less Net Revenue of Fund				12,358	
Total Net Assets	3,834,792			(85,504)	3,736,930

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 2014/15

Change in Market Value of Investments			Change in		
	Value at 31/03/14 £'000	Purchases at Cost £'000	Sales Proceeds £'000	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)
<u>Total Investment Assets</u>	3,331,206				3,839,872
Current Assets	15,005			(20,085)	(5,080)
Less Net Revenue of Fund				(51,031)	
Total Net Assets	3,346,211			437,550	3,834,792

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account and now included in the Net Revenue of Fund as specified below:

Investment Transaction Costs.

2015/16					2014/15			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,020	5	-	1,025	1,069	4	-	1,073
Commission	328	329	8	665	408	416	8	832
TOTAL	1,348	334	8	1,690	1,477	420	8	1,905

10, INVESTMENT ASSETS

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

	31 March 2016		31 March 2015	
	£'000		£'000	
UK Equities				
Quoted	313,922		320,758	
Pooled Investments	171,812		232,321	
FTSE Futures	(44)	485,690	152	553,231
Diversified Growth Funds				
Pooled Investments	360,928	<u>360,928</u>	368,177	<u>368,177</u>
Overseas Equities				
Quoted	284,421		282,464	
Pooled Investments	1,087,924	<u>1,372,345</u>	1,265,573	<u>1,548,037</u>
UK Fixed Interest Gilts				
Quoted	-		111,675	
Pooled Investments	-	<u>-</u>	-	<u>111,675</u>
UK Index Linked Gilts				
Quoted	433,798	<u>433,798</u>	238,961	<u>238,961</u>
Sterling Bonds (excluding Gilts)				
Pooled Investments	358,029	<u>358,029</u>	332,615	<u>332,615</u>
Non-Sterling Bonds				
Pooled Investments	-	<u>-</u>	113,325	<u>113,325</u>
Hedge Funds				
Pooled Investments	192,271	<u>192,271</u>	162,368	<u>162,368</u>
Property				
Pooled Investments	366,914	<u>366,914</u>	315,668	<u>315,668</u>
Cash Deposits				
Sterling	66,961		81,503	
Foreign Currencies	142,557	<u>209,518</u>	12,913	<u>94,416</u>
Investment Debtors/Creditors				
Investment Income	3,558		3,807	
Sales of Investments	190		998	
Foreign Exchange Hedge	(40,415)		1,874	
Purchases of Investments	(394)	<u>(37,061)</u>	(5,280)	<u>1,399</u>
TOTAL INVESTMENT ASSETS		<u>3,742,432</u>		<u>3,839,872</u>

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	80,198	EUR	(110,233)	(7,253)	
Up to one month	EUR	101,295	GBP	(76,880)		3,484
Up to one month	JPY	8,205,200	GBP	(46,237)		4,591
Up to one month	USD	157,695	GBP	(108,103)		1,606
Up to one month	GBP	44,290	JPY	(8,205,200)	(6,538)	
Up to one month	EUR	92	USD	(105)		1
Up to one month	GBP	104,014	USD	(157,695)	(5,695)	
One to six months	GBP	359,908	EUR	(492,263)	(31,503)	
One to six months	EUR	253,988	GBP	(184,992)		16,888
One to six months	JPY	19,434,300	GBP	(104,576)		15,996
One to six months	USD	257,694	GBP	(167,850)		11,357
One to six months	GBP	151,123	JPY	(27,756,300)	(21,129)	
One to six months	GBP	564,827	USD	(843,924)	(22,027)	
Six to twelve months	GBP	37,834	EUR	(47,655)	(171)	
Six to twelve months	GBP	10,362	JPY	(1,664,400)	(3)	
Six to twelve months	GBP	81,451	USD	(117,246)	(19)	
Total					(94,338)	53,923
Net forward currency contracts at 31 March 2016						(40,415)

Open forward currency contracts at 31 March 2015	(29,488)	31,362
Net forward currency contracts at 31 March 2015		1,874

Exchange Traded Derivatives held at 31 March 2016:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
FTSE equity futures	June 2016	11,309	-44

Exchange Traded Derivatives held at 31 March 2015:-

FTSE equity futures	June 2015	18,836	152

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 2016 £'000	%	31 March 2015 £'000	%
Blackrock	1,024,650	27.4	1,216,272	31.7
Standard Life	233,981	6.2	243,477	6.4
Record	(29,095)	(0.8)	20,651	0.5
Jupiter Asset Management	173,863	4.7	175,662	4.6
Genesis Investment Management	149,257	4.0	160,247	4.2
Invesco Perpetual	289,696	7.7	291,423	7.6
State Street Global Advisors	119,803	3.2	124,517	3.2
Partners Group	175,511	4.7	154,212	4.0
Royal London Asset Management	291,222	7.8	310,439	8.1
TT International	201,993	5.4	195,021	5.1
Gottex Asset Management	3,483	0.1	59,188	1.5
Stenham Asset Management	0	0.0	39,645	1.0
Signet Capital Management	1,057	0.0	63,535	1.7
IFM Investors	135,671	3.6	0	0
Pyrford International	126,947	3.4	124,700	3.2
Unigestion UK Ltd	178,118	4.8	191,725	5.0
Schroder Investment Management	449,901	12.0	434,251	11.3
JP Morgan	187,732	5.0	0	0
Bank of New York Mellon	17,603	0.5	23,362	0.6
Treasury Management	11,039	0.3	11,545	0.3
TOTAL INVESTMENT ASSETS	3,742,432	100.0	3,839,872	100.0

11, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31 st March 2016 £'000	% of Net Assets	Value at 31 st March 2015 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	291,222	7.80%	310,439	8.11%
Invesco Perpetual Global ex UK Enhanced Index Fund	289,696	7.76%	291,423	7.61%
Standard Life Global Absolute	233,980	6.27%	243,477	6.36%
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	167,793	4.50%	227,789	5.95%
MSCI Equity Index Fund B-US (BlackRock)	165,701	4.44%	219,389	5.73%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	178,118	4.77%	191,725	5.01%

12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2016. Debtors and creditors included in the accounts are analysed below:-

	31 March 2016 £'000	31 March 2015 £'000
CURRENT ASSETS		
Contributions Receivable :-		
- Employers	4,636	6,431
- Members	2,010	2,968
Transfer Values Receivable	-	-
Discretionary Early Retirement Costs	308	351
Other Debtors	725	842
	<u>7,679</u>	<u>10,592</u>
CURRENT LIABILITIES		
Management Fees	(1,249)	(1,639)
Provision for Performance Fees	(8,422)	(5,510)
Transfer Values Payable	-	(1)
Lump Sum Retirement Benefits	(1,692)	(1,447)
Other Creditors	(1,818)	(7,075)
	<u>(13,181)</u>	<u>(15,672)</u>
NET CURRENT ASSETS	<u>(5,502)</u>	<u>(5,080)</u>

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. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2016		31 March 2015
	£'000		£'000
CURRENT ASSETS			
Local Authorities	3,007		6,920
NHS Bodies	1		11
Other Public Bodies	2,117		2,794
Non Public Sector	2,554	7,679	867
			10,592
CURRENT LIABILITIES			
Local Authorities	(10)		(5,313)
Other Public Bodies	(1,569)		(1,512)
Non Public Sector	(11,602)	(13,181)	(8,847)
			(15,672)
NET CURRENT ASSETS		(5,502)	(5,080)

13, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2016. (March 2015 = NIL).

14, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2016 that require any adjustment to these accounts.

Since 31 March 2016 a particular non-adjusting post balance sheet event i.e. not requiring values to be altered in the accounts, is the impact of the vote to leave the EU on 24 June 2016. This may affect the value of the Pension Fund's balances held in investments and other liabilities held at fair value resulting in them being significantly lower, or possibly higher, than the position reported at 31 March 2016. However the long term impact of this decision is not yet clear.

15, 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 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2016	31 March 2015
Rate of return on investments (discount rate)	3.6% per annum	3.3% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% per annum versus 3.3% per annum). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £5,315 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£366 million. Adding interest over the year increases the liabilities by c£176 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£34 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 2016 is £5,159 million.

16, TRANSFERS IN

During the year ending 31 March 2016 there were no group transfers in to the fund.

17, AGENCY SERVICES

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.

	2015/16	2014/15
	£'000	£'000
Benefits Paid and Recharged	6,193	6,312

The Fund also administers £23.4m (*£22.4m in 2014/15*) pension payments on behalf of the Fire Service and the Teacher's pension schemes. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teacher's employers also pay for the cost of providing this service.

18, 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 2015/16 were £131 (2014/15 - £274). Additional Voluntary Contributions received from employees and paid to Friends Life during 2015/16 were £308,237 (2014/15 - £371,799).

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

	31 March 2016	31 March 2015
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	384	417
Unit Linked Retirement Benefits	171	271
Building Society Benefits	171	195
	<u>726</u>	<u>883</u>
Death in Service Benefit	<u>82</u>	<u>82</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	115	123
Unit Linked Retirement Benefits	4,349	3,762
Cash Fund	385	315
	<u>4,849</u>	<u>4,200</u>

AVC investments are not included in the Fund's financial statements in accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

19, RELATED PARTIES

Committee Member Related:-

In 2015/16 £34,176 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,516 in 2014/15). Four voting members and one non- voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2015/2016. *(Eight voting members and no non-voting member in 2014/2015, including five B&NES Councillor Members)*

Independent Member Related:-

Two Independent Members were paid allowances of £9,631 and £12,074 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2015/16 the Fund paid B&NES Council £287,848 for administrative services (£309,649 in 2014/15) and B&NES Council paid the Fund £28,266 for administrative services (£25,341 in 2014/15). Various Employers paid the fund a total of £222,662 for pension related services including pension's payroll and compiling data for submission to the actuary (£166,848 in 2014/15).

Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2015/16 £5,446 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board. Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2015/2016.

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.

20, OUTSTANDING COMMITMENTS

As at the 31 March 2016 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £149,355,935 (31st March 2015 £151,284,981).

A further outstanding commitment of \$US105,000,000 (31st March 2015 \$US300,000,000) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

21, 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 Head of Business Finance and Pensions salary, fees and allowances £50,167 (2014/15 £16,948) and their employer's pension contributions £9,498 (2014/15 £3,552).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2014/15 £33,523) and their employer's pension contributions £1,835 (2014/15 £7,017).

22, FINANCIAL INSTRUMENTS

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

2015/16	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Index Linked securities	433,799		
Equities	598,344		
Diversified Growth Funds	360,928		
Pooled investments	2,176,949		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
<u>Financial liabilities</u>			
Derivative contracts	- 40,460		
Other investment balances	-394		
Creditors			-13,181
	3,532,914	217,197	-13,181

2014/15	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Fixed Interest securities	111,675		
Index Linked securities	238,962		
Equities	603,222		
Diversified Growth Funds	368,177		
Pooled investments	2,421,870		
Derivative contracts	2,026		
Cash		94,416	
Other investment balances	4,805		
Debtors		10,592	
<u>Financial liabilities</u>			
Other investment balances	- 5,281		
Creditors			- 15,672
	3,745,456	105,008	- 15,672

23, 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 set 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 2016. These movements in market prices have been judged as possible for the 2015/16 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 2016:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	485,690	10.3%	536,007	435,373
Overseas Equities	1,150,636	9.7%	1,262,133	1,039,139
Global inc. UK	221,710	10.4%	244,857	198,563
UK Bonds	358,029	7.2%	383,700	332,358
Index Linked Gilts	433,798	9.3%	474,228	393,368
Pooled Multi Asset	360,928	4.2%	376,015	345,841
Property	366,914	1.6%	372,711	361,117
Alternatives	192,271	3.4%	198,731	185,811
Cash	209,518	0.0%	209,539	209,497
Total Assets	3,779,494	6.3%	4,019,114	3,539,874

The analysis for the year ending 31 March 2015 is shown below:

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

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 2016	31 March 2015
	£'000	£'000
Cash and Cash Equivalents	209,518	94,416
Bonds	791,827	796,576
Total	1,001,345	890,992

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 Bonds as at 31 March 2016 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.

As at 31 March 2016	Value	Change in net assets	
	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	209,518	-	-
Bonds	791,827	(114,472)	114,472
Total	1,001,345	(114,472)	114,472

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 2015 is shown below:

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

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, overseas property and hedge funds (where the shares are denominated in US dollars). 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 passive 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 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 2016 £'000	Asset value as at 31 March 2015 £'000
Overseas Equities	1,372,345	1,548,037
Overseas Fixed Income	0	113,325
Overseas Property	171,811	154,212
Alternatives	192,271	0

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 passive hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2016 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	1,372,345	3.8%	1,424,583	1,320,107
Overseas Property	171,811	3.8%	178,351	165,271
Alternatives	192,271	3.8%	199,590	184,952

The same analysis for the year ending 31 March 2015 is shown below:

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

(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 through 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 2016 was £28.6m. This was held with the following institutions:

	31 March 2016		31 March 2015	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	17,591	AAA	23,361
Bank Call Accounts				
Handelsbanken	AA-	5,090	AA-	0
Bank of Scotland Corporate Deposit Account	A+	500	A	2,950
Goldman Sachs Global Treasury Fund	AAA	4,710	AAA	8,230
NatWest Special Interest Bearing Account	BBB+	710	BBB+	300
Bank Current Accounts				
NatWest	BBB+	8	BBB+	6

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 2016 the value of the illiquid assets was £793.2m, which represented 21% of the total Fund assets (31 March 2015: £722m 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 2016.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344			598,344
Bonds - Quoted	433,798			433,798
Pooled Investment Vehicles		1,617,764		1,617,764
Fund of Hedge Funds			192,271	192,271
Diversified Growth Funds		126,947	233,981	360,928
Property			366,914	366,914
Cash	209,518			209,518
Derivatives: Forward FX	-40,415			-40,415
Derivatives: Futures	-44			-44
Investment Debtors /Creditors	3,354			3,354
	<u>1,204,555</u>	<u>1,744,711</u>	<u>793,165</u>	<u>3,742,432</u>

The fair value hierarchy as at 31 March 2015 was:

	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
	<u>1,049,825</u>	<u>2,068,534</u>	<u>721,513</u>	<u>3,839,872</u>

24, EMPLOYING BODIES

As at 31 March 2016 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

Bath College

City of Bristol 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 Free School Trust

Bristol Futures Trust

Bristol Technology & Engineering Academy

Broadlands Academy

Broadoak Mathematics & Computing College

Cabot Learning Federation

Callicroft Primary Academy

Castle School Education Trust

Cathedral School Trust

Charborough Road Primary School

Charfield Primary School

Chew Stoke Church School

Christ Church C of E Primary School

City Academy

Churchill Academy

Clevedon School Academy

Clutton Primary School Academy

Colston Girl's School Trust

Colston's Primary School Academy

IKB Studio School

Ilminster Avenue E-ACT Academy

Kingshill Academy

Kings Oak Academy

Little Mead Primary School

Mangotsfield 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

Oasis Academy Marksbury Road

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

Cotham School Academy
 Court de Wyck
 Digitech Studio School
 Diocese of Bristol Academies Trust
 Downend School
 Dundry C of E Primary
 Easton C of E Academy
 Elmlea Junior School Academy
 Fairfield School
 Fairlawn School
 Filton Avenue Primary School Academy
 Fishponds Church of England Academy
 Four Acres Primary School
 Fosseyway School
 Frome Vale Academy
 Gordano School Academy
 Greenfield Primary School Academy
 Hanham Woods 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

Designating Bodies

Almondsbury Parish Council
 Backwell Parish Council
 Bath Tourism Plus
 Bristol Waste Company
 Bradley Stoke Town Council
 Charter Trustees of the City of Bath
 Clevedon Town Council
 Congresbury Parish 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

Community Admission Bodies

Alliance Homes
 Ashley House Hostel
 Bristol Disability Equality Forum

St Johns CEVC Primary School
 St. Nicholas of Tolentine Catholic Primary School
 St. Patrick's Academy
 St. Teresa's Catholic Primary School
 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
 Trinity Primary
 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
 Woodlands Academy
 Writhlington School Academy
 Yeo Moor Primary School

Nailsea Town Council
 Oldland Parish Council
 Patchway Town Council
 Paulton Parish Council
 Peasedown St John Parish Council
 Pill & Easton in Gordano Parish Council
 Portishead Town Council
 Radstock Town Council
 Saltford Parish Council
 Stoke Gifford Parish Council
 Thornbury Town Council
 Westerleigh Parish Council
 Westfield Parish Council
 Weston Super Mare Town Council
 Whitchurch Parish Council
 Winterbourne Parish Council
 Yate Town Council
 Yatton Parish Council

Sirona Care & Health CIC (B&NES)
 Sirona Care & Health CIC
 Southwest Grid for Learning Trust

Bristol Music Trust
 Clifton Suspension Bridge Trust
 Holburne Museum of Art
 Learning Partnership West Limited
 Merlin Housing Society (SG)
 Merlin Housing Society Ltd

The Care Quality Commission
 The Park Community Trust
 University of Bath
 Vision North Somerset
 West of England Sport Trust
 Writhlington Trust

Transferees Admitted Bodies

Action For Children
 Active Community Engagement Ltd
 Agilisys
 Agilisys 2015
 ARAMARK
 Aspens (CLF – Hanham Woods)
 Aspens (CLF – Kings Oak)
 Aspens (CLF - Begbrook)
 Aspens (CLF - Summerhill)
 Aspens (CLF – Frome Vale)
 Aspens (CLF – Minerva)
 BAM Construct UK Ltd
 Caterlink
 Churchill Contract Services Ltd (South Gloucestershire and Stroud College)
 Churchill Contract Services Ltd (BCC)
 Churchill Contract Services Ltd (Milton Park)
 Churchill Contract Services Ltd (Westhaven)
 Circadian Trust
 Circadian Trust No 2
 Creative Youth Networks (Lot 4)
 Eden Food Services
 Fit For Sport (Trinity School)

Fit For Sport NSC (St Peters Primary)
 Greenwich Leisure Ltd
 HCT Group
 ISS Mediclean (CLF)
 ISS Mediclean (Bristol)
 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 Rashleigh Westerfoil
 SLM Community Leisure
 SLM Fitness & Health
 Sodexo
 The Brandon Trust
 Tone Leisure (Trust) Limited

The Audit Findings for the Avon Pension Fund

Year ended 31 March 2016

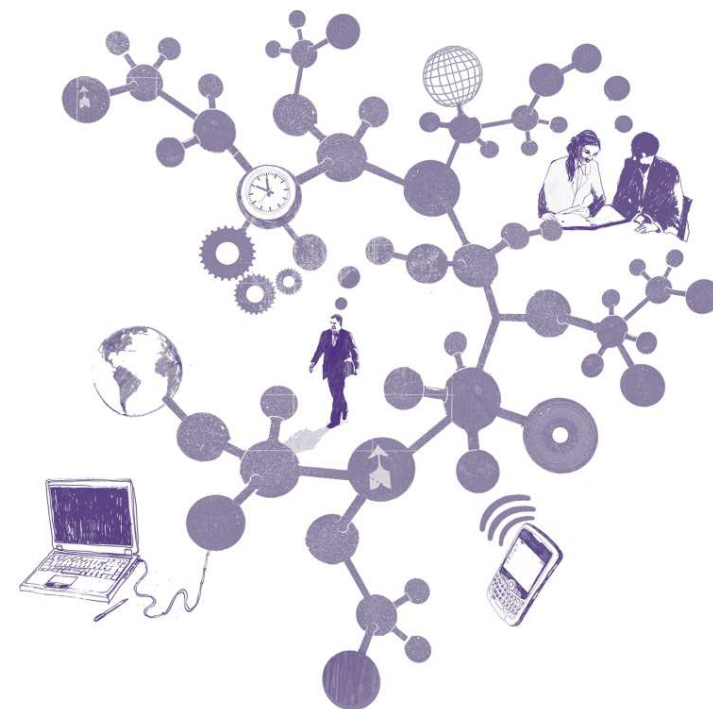
12 September 2016

Barrie Morris
Engagement Lead
T +44 (0)117 305 7708
E barrie.morris@uk.gt.com

Richard Lawson
Audit Manager
T +44 (0)7766 442 038
E richard.lawson@uk.gt.com

Julie Masci
Associate Director
T +44 (0)2920 347506
E julie.masci@uk.gt.com

Megan Gibson
In-charge auditor
T +44 (0)117 305 7681
E megan.gibson@uk.gt.com



Avon Pension Fund
Floor 3 South Riverside,
Temple Street,
Keynsham,
Avon,
Bristol
BS31 1LA

Grant Thornton UK LLP
Hartwell House
55 – 61 Victoria Street
Bristol BS1 6FT

T +44 (0)117 305 7600

www.grant-thornton.co.uk

12 September 2016

Dear Sirs'

Audit Findings for Avon Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Avon Pension Fund, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the pensions team and other staff during our audit.

Yours sincerely

Barrie Morris
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

Page 66

01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of the Avon Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 18 February 2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements and Pension Fund Annual Report;
- review of cash confirmation letters from Bank of Scotland, Goldman Sachs and Handelsbanken;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Following certification a number of small changes were made to the draft financial statements which were provided to us on 12 August 2016, these were trivial and had no impact upon our planned audit work.

We would like to extend our thanks to the Pension Fund officers who responded to our queries in a timely manner and who made themselves available during our on-site visit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements. We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £3.736bn; the audited financial statements show the same figure.

The key messages arising from our audit of the Fund's financial statements are:

- the quality of the working papers and documents supporting the balances within the financial statements were of a reasonable standard;
- we continued to receive good co-operation and support during the course of our audit; and
- we have recommended minor adjustments to improve the presentation of the financial statements that the Fund has corrected in the revised set of financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

We draw your attention in particular to a control issue identified in relation to journal controls. It is our understanding that points raised in 2014-15 Audit Findings Report regarding the separation of Bath and North East Somerset Council and Avon Pension Fund journals will be implemented from 1 April 2016. Therefore, for the period covered by our audit work, the previous control weaknesses in relation to the segregation of journals remains relevant, although we recognise that action has now been taken to address the issue for future periods.

Further details are provided within section two of this report.

Other statutory powers and duties

We received one item of correspondence from a member of the public that we were required to consider as part of our audit. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit have been discussed with the finance team.

We have made one recommendation, which is set out in the action plan at Appendix A. The recommendations has been discussed and agreed with the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit Findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan presented to the Pensions Committee and the Pensions Board. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £38.4m (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.9m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Revenue recognition Page 71	The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
Journals	Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	In the 2014-15 audit a controls weakness was identified whereby it was difficult to separate the Avon Pension Fund journals from B&NES journals as some account codes contained entries for both organisations. This made extracting a complete journals listing for the Avon Pension fund problematic. This issue remained for the 2015-16 audit, however it is our understanding that from 1 April 2016 a separate document type has been set-up which is to be used solely for Avon Pension Fund journals to address this issue. A further control issue was identified when performing our journals testing. A pensions officer was able to post into period 14 accounting period. Our discussions confirmed that systems controls should prevent this however, there was an isolated instance where this control failed. We have subsequently verified this was an isolated incident by downloading a complete schedule of journals processed in the year and confirming this was the only inappropriate journal in period 14.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Level 3 Investments – Valuation is incorrect Page 72	Investments portfolio Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of controls. • We have performed a triangulation exercise to confirm amounts reported in the financial statements to the custodian and fund manager confirmations. • For further assurance over Level 3 of investments, we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual Level 3 investments and agreed these to the valuations used in the financial statements and used by the custodian. Where audited accounts were for a period ending before 31 March 2016 we have reconciled those values to the values at 31 March with reference to known movements in the intervening period. Where audited accounts were unavailable we have confirmed valuations to an independent external price source. • We have reviewed the service auditor reports for Fund Managers and the custodian to provide assurance over the control environment at the service organisation.	Our audit work has not identified any material issues in respect of the valuation of Level 3 investments: - Our walkthrough of controls and review of service auditor control reports did not identify any control weaknesses which required additional work. - Our triangulation exercise did not identify any significant differences between the valuations for investments in the financial statements, confirmations received directly from the Fund Managers, and confirmations received from the custodian. - Our independent price verification exercise for pooled investment vehicles did not note any significant differences between prices confirmed to audited financial statements; independent price sources for the investment funds and prices on which the financial statement valuations have been based.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances • Completed a predictive analytical review for different types of investments	Our audit work has not identified any material issues in respect of investment income.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances	Our audit work has not identified any material issues in respect of investment purchases/ sales.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments Page 74	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. . • Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices • We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • Received direct confirmation from the custodian including obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date. • Received direct confirmation from all non-segregated investment managers and reviewed the reconciliation of the units of unitised pooled investment vehicles.	Our audit work has not identified any material issues in respect of Valuation of Level 2 investments.
Contributions	Recorded contributions not correct (Occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any material issues in respect of contributions.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over, completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any material issues in respect of benefits payable.
Member Data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data made during the year to source documentation.	Our audit work has not identified any material issues in respect of member data.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Pension Fund's policy for Contribution and Investment income is set out in Note 3 a-c Fund Account – Revenue Recognition.	- The policy used is appropriate and in line with the accounting framework (CIPFA Code of Practice on Local Authority Accounting) - The accounting policy is adequately disclosed.	 Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: - the actuary's valuation of future promised benefits - Valuation of Level 3 investments	- The key estimates are appropriate. - The accounting policies are adequately disclosed. - From the work undertaken the judgements and estimates made are reasonable.	 Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessments and are satisfied with their assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green

Assessment

● **Red** Marginal accounting policy which could potentially attract attention from regulators
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● **Amber** Accounting policy appropriate but scope for improved disclosure

● **Green** Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice on Local Authority Accounting. The accounting policies are appropriate and consistent with previous years.	● Green

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A standard letter of representation has been requested for the Fund.
5. Page 78	Confirmation requests from third parties	We requested from management permission to send confirmation requests to fund managers, custodian and the bank. This permission was granted and the requests were sent and were returned with positive confirmation.
6.	Disclosures	We reviewed disclosures against the CIPFA Local Government Pension Scheme disclosure checklist. Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have reviewed a draft of the Pension Fund Annual Report and found it to be consistent with the financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 11 to 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1	● Amber	As part of our testing of journals it was not possible to extract a journals listing which contained only journals relating to the Pension Fund and did not include journals relating to B&NES Council. In order to compile a list which contains only pension fund journals, manual adjustment of the journals listing is required. This increases the risk of journals being omitted from the listing provided to audit, due to fraud or error.	It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances. It is our understanding that this recommendation will have been fully implemented for the 2016-17 audit.
2	● Amber	The fund's bank reconciliation is being completed on a regular and accurate basis. However the presentation of the reconciliation is complex. A clearer presentation of the reconciliation would be of benefit to users and reduce the risk of any error or misunderstanding. This matter was also raised in the 2014-15 audit findings report.	It is recommended that the presentation of the year end bank reconciliation is updated to permit an easier understanding of any differences between the Fund's bank balances and the balances on the Agresso general ledger.

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Assessment

- Red Significant deficiency – risk of significant misstatement
- Amber Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

There are no adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Presentation and disclosure	N/a	N/a	Our review of the accounts highlighted some minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit.
	Presentation and disclosure	N/a	N/a	We have suggested the inclusion of a non-adjusting post balance sheet event for the consequences of the UK's vote to leave the European Union and the possible effect on the pension fund' assets and liabilities. This has been processed by management.

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Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	28,805	28,805
Agreed fee variation – IAS 19 *	-	1,311
Total audit fees (excluding VAT)	28,805	28,805

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

* Fee variation – there has been an agreed variation to the fee to reflect the additional work that we are required to undertake on behalf of other employers that contribute into Avon Pension Fund. This fee variation has been approved by PSAA.

Independence and ethics

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

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

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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

Appendices

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Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 Page 87	From prior year - It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances.	Medium	This has been implemented from 1 April 2016. A separate document type is now used for all pension fund journals.	April 2016.
2	It is recommended that for increased ease of use the presentation of the year end bank reconciliation between the Agresso general ledger balance and the Fund's bank statements is updated.	Low	We will review the presentation of the Fund's bank reconciliation to make this more user friendly.	October 2016

Appendix B: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

We have audited the pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Signature to be added

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House, 55-61 Victoria Street, Bristol, BS1 6FT

Date to be added

Appendix C: Proposed audit opinion on the annual report

We anticipate we will provide the Fund with an unmodified audit report

Independent auditor's report to the members of Bath and North East Somerset Council on the consistency of the pension fund financial statements included in the pension fund annual report

The accompanying pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated September 2016. The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 5(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chief Finance Officer's responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House, 55-61 Victoria Street, Bristol, BS1 6FT

Date to be added



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Avon Pension Fund

Annual Report 2015/2016

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CHAIRMAN'S FOREWORD

As Chairman of the Avon Pension Fund Committee, I am delighted to present the Fund's Annual Report and Financial Statement for the year ending 31 March 2016.

Before I mention the Fund's achievements over the last year, I would like to welcome all those new members who joined the Avon Pension Fund Committee in 2015. All committee members are committed to ensuring that we have a successful and efficiently managed Fund for our stakeholders.

Major developments in the Fund's governance and management took place during the year.

The local Pension Board, which provides an oversight role to ensure the Fund complies with its legislative obligations, held five formal meetings since its establishment in April 2015. The Board's first year was a developmental one and it set good foundations to assist in delivering an effective and efficient scheme. The Board's first annual report is included with this report.

Within pensions administration significant work took place to meet the Pension Regulator's (TPR) Code of Practice requirements on maintaining accurate member data. The Fund undertook a detailed review of its data and processes and is implementing a two-year data improvement plan. We continue to make positive steps with digital delivery of services to members and stakeholders.

Following the Government's announcement that the assets of the LGPS funds are to be pooled in order to reduce costs, the Fund is participating in the Brunel Pension Partnership (BPP). The BPP is a collaboration of ten like-minded funds with around £23 billion of assets. BPP's proposal to create a company to implement the investment strategy of each fund is being developed and has been submitted to government.

2015/16 was a challenging year for the Fund with an investment return of -2.1% (the first negative return since the financial crisis of 2008/09). The Fund's return over the last three years was 5.8% per annum. This year's return was mainly due to weak equity markets which account for 50% of the fund assets. In addition the Fund hedges its foreign currency exposure which detracted from the overall return as sterling depreciated.

During the year the value of the Fund's assets decreased by £98 million from £3,840 million at 31 March 2015 to £3,742 million at 31 March 2016.

Finally on behalf of the Committee, I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.

Councillor David Veal
Chairman of Avon Pension Fund Committee
Bath and North East Somerset Council

REVIEW OF THE YEAR

INVESTMENTS

During the year the value of the Fund's assets decreased by £98 million from £3,840 million at 31 March 2015 to £3,742 million at 31 March 2016. The investment return was -2.1%. This was the first negative return since the financial crisis of 2008/09. The return over the last three years was 5.8% per annum.

The 2015/16 investment return was primarily driven by the fall in equity markets which account for 50% of the fund assets and the impact of hedging the foreign currency exposure within the portfolio during a period when sterling depreciated. Excluding the foreign currency hedge the returns were -0.2% over one year and 6.1% per annum over three years. Most equity markets declined in local currency terms with the US market as the main exception. Bonds overall generated a positive return albeit more subdued than the previous year. Property produced positive returns as did hedge funds and diversified growth funds to a lesser extent.

There were no significant changes to the investment strategy during the year. A review of the currency hedging strategy concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. Strategically the Fund is now focussing using the investment portfolio to manage the liability risks more effectively to provide greater protection against changes in the values of the liabilities.

The Investment Strategy will be review in 2017/18 following the 2016 actuarial valuation. The review will include an assessment of the longer term implications on investment opportunities of the UK leaving the European Union.

Pooling of Assets

In 2015 the government announced that the assets of the LGPS funds would be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure. They asked the 89 LGPS funds in England and Wales to put forward their proposals to achieve this by February 2016. Avon Pension Fund is participating in the Brunel Pension Partnership (BPP), a collaboration of other like-minded funds from the south west (Cornwall, Devon, Dorset, Environment agency, Gloucestershire, Somerset, and Wiltshire) and additionally Buckinghamshire and Oxfordshire. BPP will have around £23 billion of assets under management.

The local funds such as the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The pool will create a company to implement the investment strategy for each fund within the pool whose responsibility will be to appoint and monitor the investment managers. By pooling the assets it is anticipated there will be savings from lower investment management fee rates and also the potential for enhanced performance.

The initial proposal was approved by the Minister for Local Government in March 2016. The proposal has developed and an interim proposal was submitted in July. The full business case is expected to be approved by each administering authority later in 2016/17 with the new arrangements to be in place by 1 April 2018.

Investment Regulations

The government issued a long awaited consultation on the LGPS (Investment and Management of Funds) Regulations 2009 with the intention of revoking them and introducing a deregulated approach based on a "prudential framework" for managing investment risk. As this approach is essentially deregulated (as existing investment restrictions are being abolished), powers are included to give the regulator (the Secretary of State) power to intervene. The new regulations will require all funds to publish an Investment Strategy Statement which will set out how the Fund has determined its investment strategy and that it appropriately takes account of risk. In addition, it will underpin the requirement for funds to pool their assets.

At the time of publishing this report, we are still waiting for the revised regulations to become effective.

FUNDING STRATEGY

The funding level at 31 March 2016 is estimated to be 83% (from 78% a year earlier) and the deficit to have narrowed to £750 million from £1.1 billion a year earlier. This improvement reflects the change in the discount rate, partially offset by the negative return on assets.

Given that gilt yields have fallen to very low levels, there is a risk that a discount rate based on gilt yields will build too much prudence into the actuarial valuation. Therefore in the 2016 valuation the funding level will be calculated with reference to inflation (CPI) as the benefits are inflation linked rather than gilt yields.

The 2016 valuation will be struck as at 31 March 2016. This will set the contribution rates for the three years commencing 1 April 2017.

PENSIONS ADMINISTRATION

Service Plan and Budget

The forward looking three year Service Plan 2016/19 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main focus of the plan is:

- To fully engage in the development of pooled funds in the interest of the Avon Pension Fund
- To strengthen the resources available to cope with future demand pressures and manage risk and compliance
- To continue implementation of the ICT strategy to achieve a digital step change in service delivery and to mitigate service demand growth
- To deliver the triennial valuation and revised funding strategy
- To continue work on Liability Driven Investment and undertake an asset liability review to ensure the Fund manages its cashflows effectively
- To continue to support the introduction of Pension Boards

The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.

The Pensions Regulator – Code of Practice 14

The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions. The Fund has undertaken a detailed review of its core data and processes and assessed its level of compliance with regulation requirements in respect of:

- Scheme record keeping
- Maintaining contributions
- Providing information to members

The regulations require 100% completeness of data across a number of core areas. In all, the Fund tested 102,000 membership records through a series of analytical reports and measured the overall level of completeness of data accuracy at 92%. A data improvement plan has been produced to address the issues identified over a two year period.

To ensure compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP). Additionally, the fund has implemented a Breaches Procedure to enable reporting to be undertaken in situations whereby the failure to comply with TPR is likely to be

of material significance or in which a legal duty which is relevant to the administration of the scheme has not been complied with.

Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

Budget

During the year to 31 March 2016, total administration costs (excluding governance and investment management costs) were £1.5 million, a saving of £0.3m (16%) on the budget.

Total costs including Investment Management, custody and governance costs, but excluding transaction costs deducted at source, were £19.6 million, £1.9million below budget. Investment management fees were lower than expected due to the fall in asset values during the year. Governance costs were also slightly lower than expected due to the lower than anticipated expenditure on investment advice. The investment management and custody fees of £17 million equates to 0.45% of the Fund's assets.

GOVERNANCE

Pension Board

The Pension Board has been established since 1 April 2015 within which time it has held five formal meetings through to July 2016. This period has been a developmental one with the initial focus being on:

- Establishing its terms of reference, policies and procedures to ensure that its governance complies LGPS regulations and best practice guidance issued by the national LGPS Advisory Board;
- Supporting development of board members skills and knowledge through formal and informal training and agreeing a training plan so the members can discharge their duties
- Developing and starting to implement a rolling work programme to fulfil its statutory duties
- Understanding the legislative framework within public sector pensions, compliance standards and significant new developments which may affect future governance such as 'pooling'.

The first Annual Report of the Pension Board can be found on page **XX**.

GOVERNANCE AND MANAGEMENT STRUCTURE (as at 31 March 2016)

Administering Authority:

Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Councillor David Veale (Chair)	Bath & North East Somerset Council
Councillor Christopher Pearce (Vice-Chair)	Bath & North East Somerset Council
Councillor Paul Myers	Bath & North East Somerset Council
Councillor Cherry Beath	Bath & North East Somerset Council
Councillor Shaun Stephenson-McGall	Bath & North East Somerset Council
Councillor Steve Pearce	Bristol City Council
Councillor Mary Blatchford	North Somerset Council
Councillor Mike Drew	South Gloucestershire Council
William Liew	University of the West of England
Richard Orton	Trade Unions
Ann Berresford	Independent Trustee
Shirley Marsh	Independent Trustee

Non-voting Members:

Cheryl Kirby	Parish & Town Councils
Steve Paines	Unite
Wendy Weston	Unite the Union

Independent Investment Advisor:

Tony Earnshaw

Council Officers:

Tim Richens	Divisional Director of Business Support
Tony Bartlett	Head of Business Finance & Pensions
Liz Woodyard	Investments Manager
Geoff Cleak	Pensions Manager
Maria Lucas	Head of Legal and Democratic Services

Investment Managers:



Actuary:



Legal Advisor:



Bankers:



AVC Providers:



Investment Consultant: Global Custodian:



FUND GOVERNANCE

Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council (“the Council”), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations.

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.

The Committee meets formally each quarter. In 2015-16 an extra committee meeting was held to consider the submission to government for the pooling of investment assets. In addition to these meetings, the Committee held four workshops during the year:

- An introduction to the pension fund
- Benefits administration training including TPR requirements
- Actuarial valuations and the 2015 Interim Valuation
- Liability Driven Investing and the Funding Strategy Statement

Table 1: Committee structure

Voting members (12):	• 5 elected members from Bath & North East Somerset Council • 2 independent members • 3 elected members nominated from the other West of England unitary councils • 1 nominated from the Higher/Further Education bodies • 1 nominated by the Trades Unions
Non-voting members (4):	• 1 nominated from the Parish Councils • 3 nominated from the Trades Unions

Investment Panel

The Committee is supported by an Investment Panel which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions; strategic issues are referred to the Committee. The Panel consists of up to six voting members of the Committee.

The Panel met formally three times during the year and met with selected managers at a dedicated workshop where managers presented on their performance and outlook for their portfolio. In addition Panel members attended a training session on investment strategy.

The Committee is supported by a number of external advisors; Mercer Limited advised on all actuarial and investment aspects of the fund (under separate contracts); Osborne Clarke provided legal advice on investment and funding issues.

The Committee, Fund Officers, external advisors, fund managers and administrators all operate in accordance with the relevant regulations namely the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, CIPFA Code and the Pensions Regulator Codes of Practice.

Table 2: Committee and Panel membership and attendance record (as at 31 March 2016)

Number of Meetings during year	Committee Meetings	Workshops	Investment Panel Meetings
Voting Members	5	4	5
Councillor David Veale (Chair)	5	4	5
Councillor Christopher Pearce	5	3	4
Councillor Paul Myers	5	1	N/A
Councillor Cherry Beath	4	3	4
Councillor Shaun Stephenson-McGall	4	2	N/A
Councillor Steve Pearce	4	2	N/A
Councillor Mary Blatchford	5	4	4
Councillor Mike Drew	4	2	N/A
William Liew	4	4	N/A
Richard Orton	5	4	N/A
Ann Berresford	5	4	5
Shirley Marsh	5	4	3
Non-voting members			
Cheryl Kirby	1	1	N/A
Steve Paines	2	2	N/A
Wendy Weston	3	4	N/A

Training

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. Training is provided to ensure committee members and staff possess an appropriate level of knowledge, skill and understanding to carry out their duties.

Specifically 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 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 formal training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. The Divisional Director - Business Support is responsible for ensuring that training is implemented.

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. Much of the training is delivered through detailed committee reports and workshops where the topic is explored greater in detail.

In addition, Committee members and staff are encouraged to attend seminars and conferences which broadens their understanding of investments and topics of relevance to the LGPS. New committee members are encouraged to attend the Fundamentals Training Courses offered by the Local Government Pension Committee and induction sessions arranged by officers. Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

Table 3: Training provided in 2015/16

Topic	Delivered by:
Governance	
Legal responsibility of Committee and Officers Governance & assurance framework Administration Strategy Investment Regulations	Committee reports monitoring administration performance of Fund and employers Committee reports for audited accounts and governance External conferences/training courses Committee reports on pooling of assets and response to government consultation Committee reports on investment regulations and response to government consultation Workshops covering an introduction to the fund, benefits administration and TPR requirements Review of responsible investing policy – Scope MIFID II - Implications for LGPS funds Internal disputes resolution process Breaches procedure
Employer and Funding risks	
Admitted bodies Employer risks Funding level/solvency	Committee reports cover funding position and 2015 interim valuation Workshops covering the valuation model, 2015 interim Valuation and 2016 Funding Strategy Statement
Investment Strategy	
Asset Allocation Performance monitoring Investment manager monitoring Stewardship activities Responsible investing policy	Quarterly Committee & Panel reports review investment strategy and performance Annual report on Responsible Investing and voting activity External conferences Manager meetings with the Investment Panel Workshop on Liability Driven Investing

Table 4: Training provided externally

Training	Attendees
LGPS Fundamentals Training Course	David Veale, Cherry Beath, Shaun McGall
National Association of Pension Funds LGPS conference 2015	Shirley Marsh, Ann Berresford
LGC LGPS Investment Summit	David Veale, William Liew
Local Authority Pension Fund Forum meetings	Mike Drew (attended 3 meetings) Steve Pearce (attended 1 meeting) Richard Orton (attended 1 meeting)

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2016. The statement shows a high level of compliance with best practice and is summarised in Table 5.

The latest Governance Compliance Statement is included as Appendix B and can also be obtained from the Fund's website [www. avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Governance Compliance Statement).

Table 5: Governance Compliance

Principle	Compliance status	Comment
<i>Governance structure</i>	Compliant	The decision-making structure is clearly defined
<i>Representation</i>	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admitted bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
<i>Selection / Role of lay members</i>	Compliant	The role and responsibilities of all members are set out in a Job Description.
<i>Voting</i>	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
<i>Training / Facility time / Expenses</i>	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
<i>Meetings</i>	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
<i>Access</i>	Compliant	All members have equal access to meeting papers and advice.
<i>Scope</i>	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
<i>Publicity</i>	Compliant	All statutory documents are made available to the public.

RISK MANAGEMENT

The Avon Pension Fund Committee is responsible for ensuring that there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The Investment Panel strengthens the risk management process with regard to investment issues.

The Fund's approach to risk management is to manage risk rather than eliminate it entirely. Risk is identified and managed as follows:

1 The Risk Register: The Fund's Risk Register identifies the governance, operational, funding and investment risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk.

The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 6 shows the Top 10 material risks from the Risk Register.

2 Internal Control Framework: Internal controls and processes are in place to manage administration, financial and other operational risks. The Council's Internal Audit annually assesses the processes in place within the Fund in order to provide independent assurance that adequate controls are in place. The findings of all internal audits are reported to the Committee.

During the year Internal Audit completed one audit of the Fund's internal processes as follows:

Audit	Assurance level
Pension Administration (Contributions / Members records)	4 = Good

This covered the accuracy and timing of the receipt of contributions and member information and the holding and provision of member information in compliance with Data Protection, the relevant regulations and the Pensions Regulator's Code of Practice.

The Internal Control Report of each 3rd party supplier is reviewed annually to ensure their operational control environment is adequate, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are also reviewed annually.

3 Financial Management Risk: The Fund operates within the Council's financial framework with segregation of duties to ensure an effective control structure. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly and late payers are reported to the Committee.

The Fund has a separate bank account from the Council's to ensure transparency and accountability of the banking arrangements. Management of the Fund's cash balance is delegated to the Council's Treasury Management Team who manages the cash separately from the Council's cash. The Fund has its own Treasury Management Policy.

4 Investment Risk: The investment decision-making process, supported by expert advice, is designed to ensure investment risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. The Statement of Investment Principles sets out the investment strategy and how investment risks are considered and managed. The Statement of Accounts includes a disclosure on Financial Risk Management with particular reference to the investment strategy.

Investments by their very nature expose the Fund to varying degrees of risk, including market, interest rate, foreign currency, credit and liquidity risks. Such risks are managed through the diversification of assets, how the assets are invested and by managers. The Investment Strategy is reviewed periodically after the triennial valuation. The next review is due in 2017.

In between strategic reviews, the Committee and Investment Panel monitor the performance of the investment strategy, providing flexibility to alter the strategy if required. A robust manager selection process assesses the risks of the investment approach and the manager will pose to the Fund.

The provision of expert advice is a key element of the risk management process. The Fund has appointed investment consultants to provide strategic investment advice as well as advising on managers' performance and manager selection. Other expert or specialist advice, such as tax or legal advice, is commissioned as required.

Much of the investment management process is outsourced to investment managers and the global custodian. This arrangement provides a clear segregation of duties within the Fund, with the in-house Investments Team closely monitoring performance and compliance with regulations and mandates.

Table 6: Summary of Risk Register

Risk	Management action
Increasing political pressure to reform scheme structure and governance frameworks and to direct investment decisions. Specifically government asked LGPS funds to pool their investment assets. If fund does not have robust plan for change, government may legislate to enforce change: this could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, with consistent message. Exploring options for pooling assets with other likeminded funds.
The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy against the funding position and strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee. Ensure specialist advice is taken prior to any investment decisions are made to ensure decisions are in line with Statement of Investment Principles and contribute to investment objective.
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 rates.	Covenant assessment monitoring process in place for assessment of financial standing of all employers in the Fund. Includes review of all employers to identify whether guarantee arrangements are adequate. Explore options for obtaining guarantee, bond or contingent assets if appropriate. Fund policy is to only admit Admission bodies where the pension liabilities are guaranteed by a scheme employer. Exit and termination policies in place to ensure financial risk to the Fund is minimised when scheme employers cease to be active employers.

Risk of Fund retaining incorrect pension liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	Manage resource requirements over timeframe. Develop project plan to manage data reconciliation process and outcomes including volume metrics. Monitor and report progress and actions taken. Communicate with HMRC and members regarding actions undertaken (ongoing).
The Fund is a participating fund in the Brunel Pension Partnership (BPP) for pooling its assets. There is a risk that the government rejects BPP proposal; that there are delays to finalising the proposal; that a participating fund committee rejects the proposal; that key resources become unavailable. Any of the above could seriously impact the Fund's ability to meet the government's agenda.	Established governance arrangements for BPP in shadow form. Detailed workplan managed and co-ordinated by Project manager. Committee and other stakeholder engagement on-going. Added resource to Investment team to support Investments manager through project.
Pension 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 it matures the fund more quickly than assumed in the 2013 valuation. Cash flow could become more negative due to transfers out.	Work with actuary to understand potential consequences on maturity profile of fund, funding of liabilities and understand the basis for valuing the transferring pension "pots". Incorporate into 2016 valuation. Initial report prepared by actuary in June 2015. Ongoing review as experience develops.
Lack of continuity and knowledge within Avon Pension Fund Committee. (This risk arises mainly because some members face re-election simultaneously). Until the new members are fully trained, there may be a delay in decision-making.	Wide representation on Committee including two Independent Members not subject to electoral cycle. Training made available to new members. Hold workshops for committee to explore aspects of the fund in more detail to facilitate decision making. Periodically assess training needs and have training plan in place that is reported to committee quarterly.
Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and employee members, and TPR code	Ensure all information is provided to employers in an accessible and timely manner. Training tailored for employers' staff is provided for all new employers and refresher sessions for existing employers. Enforce penalties allowed under Administration Strategy for repetitive non-compliance with obligations / disproportionate work. Employer training obligations are set out in the Administration Strategy. TPR improvement plan highlights areas of employer failure.
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 & managing the performance of the managers is delegated to the Panel. The RAG performance monitoring framework is 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. The impact of underperformance by any individual manager is limited given diversification within investment management structure.

Non-compliance with Data Protection Act (DPA) and The Pension Regulators Code of Practice 14. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended or adverse publicity.	The Pension Manager is responsible for DPA. Confidentiality agreements are in place with the Fund's agents. Ongoing monitoring of the Fund's compliance with the Council's DP policies. All personal data is transmitted from the Fund through secure portals. Members including pensioner members are informed regularly (via payslips and newsletters) that data is provided to third parties for the detection/prevention of fraud through the National Fraud Initiative. Ongoing training of employers in their TPR obligations.

5 Funding Risk: The Funding Strategy Statement sets out the funding strategy and policies for the Fund and it is reviewed at least every three years as it forms the basis for the actuarial valuation.

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk. The regulations now require all bodies that wish to be admitted to the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise.

A key risk for employers is that the employer contribution rate is incorrectly calculated due to inaccurate membership information held by Fund. The Data Quality Team reconciles the membership data to identify and resolve data queries with employers.

Some funding risks can be mitigated by the investment strategy. The funding and investment strategies focus on the expected real returns from the assets, thus slightly mitigating the effect of inflation on the value of the pension liabilities. During 2015-16 the Committee began an assessment of a liability management framework which would increase the liability "protection" within the investment strategy.

6 Benefits Administration Risk: These risks relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. The main risks are:

- non- or late payment of members' benefits
- incorrect calculation of benefits
- breach of Data Protection Regulations
- non-compliance with TPR codes
- failure to comply with Freedom of Information Act requests and Disclosure of Information requirements.

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks, as identified in the Risk Register.

7 Training: As the body responsible for the Fund, Committee members are required to attain a level of knowledge about pensions, investment and funding strategies sufficient to carry out their duties effectively. Specifically they must be able to challenge and understand the advice provided when making decisions or scrutinising processes. To facilitate this, training is provided to members based on the Committee's workplan. An Independent Advisor supports the Committee and Investment Panel members on investment issues.

8 Business Continuity: A Business Continuity Plan is in place primarily to deal with “disaster recovery” and includes contingency measures. The plan identifies critical activities whose failure would lead to an unacceptable loss of service and member records. It sets out measures to minimise the risk of disruption to service and specifies what “triggers” the contingency measures coming into effect. The Disaster Recovery process is tested annually.

PENSIONS ADMINISTRATION AND COMMUNICATIONS

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.

The strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. The tables overleaf show how the Fund's employer and membership base has changed over time.

The Fund revised its Administration Strategy in 2015 to include a more detailed ICT Strategy and also to ensure the governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and Employers.

The key objectives of this Strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners.
- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner
- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maintain costs at below or average levels

The Pensions Administration Strategy is available on the website www.avonpensionfund.org.uk and included as Appendix F.

Greater use of technology

The Fund utilises technology to improve the accuracy and flow of data across all aspects of the Fund and to improve communications with members. One of the administration strategy's objectives is for all data to be received and sent electronically between the Fund and employers.

Pensions software developments: The pensions software provided by Heywood has self-service modules which have been introduced for both members and employers as follows:

Employer Self-Service (ESS)

This web-based self-service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs. ESS has an interactive facility and the Fund has introduced a revised training programme to enable employers to input member data changes securely via ESS for automatic upload to the pension member

database. This has been rolled out to existing employers and is an requirement for any new employers to the Fund. By April 2016 60% of scheme employers were submitting data to the Fund electronically, representing 76% of active membership. The number of employers continues to rise. During the year 15 new employers joined the scheme taking the number of active scheme employers to 230.

Member Self-Service (MSS)

This web-based member self-service facility introduced in 2010 allows members access to their personal pension information with the facility to perform “what if” calculations. It also provides an opportunity for the Fund to develop as a vehicle for electronic communication to members.

At 31 March 2016 there are 11,500 registered members representing 13% of available membership. Development of this facility and encouraging greater take-up continues to be a key part of the work programme for the next year. A new more user friendly version of MSS will be introduced in early 2017.

Electronic delivery to members

The postal delivery costs of hard-copy documents sent to members have been rising steeply in recent years. Greater use of technology can reduce these costs significantly. The Fund’s main communication costs arise from the active and pensioner member newsletters (normally twice a year) and Annual Benefit Statements which, in total, requires sending circa 150,000 printed documents at a significant annual cost. The ICT and Communications strategies both look to deliver more electronic communications, through development of MSS and online services.

Active members’ newsletters

Newsletters are posted to individual members. With the MSS facility now available, in the future the Fund intends to distribute newsletters electronically where possible. As legislation allows information to be distributed electronically, we continue to promote MSS as the preferred channel of communication. Cost savings to the Fund have already been achieved by combining postal communications. For example the Pensioner newsletter is posted with the annual P60 and one of the active member newsletters is posted with the Annual Benefit Statements.

Websites

The Fund has two websites - one for members (www.avonpensionfund.org.uk) and one for employers (www.apfemployers.org.uk). Both are key access point for information and for self-service facilities.

The member website was fundamentally re-designed in 2015, with a far more member-focus to it. Launched in March 2016 the new website provides members with content and navigation that is relevant to them. It provides a better platform for self-service functionality going forward. The website was a finalist in the Professional Pensions Pension of the Year Awards 2016.

The employers’ website is also undergoing a fundamental redesign and will be relaunched in 2017.

Chartered Institute of Public Finance & Accountancy (CIPFA) Benchmarking (Benefits Administration) Awaiting CIPFA Results

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”.

The Fund takes part in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.

This year's report identifies the cost per member for the Fund as £xx.xx compared with £16.55 in 2014/15. This is significantly less than the cost for the average fund which is £xx.xx per member. The Fund's own performance targets are set out in the SLAs it has in place with employers, covering over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits. Table 9 shows the Fund's performance in meeting LGPC standard targets compared with the Club average.

Key staffing indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pension service is split into three areas: Investment & Accounting, Benefits Administration (including Data Management & Quality Control) and Systems Support & Pension Payments. The total number of staff in the pension service was xx in 2015/16. Of these xx are involved in benefits administration. Table 10 shows an analysis of staff-based data from the CIPFA Benchmarking Club 2016 Report.

The benefits administration team has been restructured to include a Data Management & Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection and to ensure compliance with TPR Codes of Practice. The team will focus on member data, ensuring compliance to regulator standards, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the remaining administration team to service members more efficiently.

Pension Communications

The Fund's communication aims are to:

- provide clear, relevant, accurate, accessible and timely information to all our audiences and stakeholders
- listen and respond appropriately to feedback we receive
- use plain language and avoid unnecessary jargon
- use communication channels which best fit the audience and the information being passed on
- be a more electronic communication-based Fund, utilising new communication technology (web, email, social media)
- support members to enable them to make informed decisions about their pensions by making information available
- be compliant with all legislative requirements with regard to communicating with members, such as the Pensions Regulator and Pensions Board

The Communications Policy outlines the communications we provide to various audiences (our stakeholders, audiences and interested parties). The Fund's Communications Policy was updated in 2015 is available on the website www.avonpensionfund.org.uk and included as Appendix D.

Table 7: Number of active employers in the fund (2015/16)

	Active	Ceased	Total
Scheduled body	169	2	171
Admitted body	61	8	69
Total	230	10	240

Table 8: Number of members in fund 2012-2016

	2016	2015	2014	2013	2012
Active Members	37,899	34,765	34,846	33,648	33,737
Deferred Members	40,711	35,714	35,321	31,754	28,812
Pensioners	28,079	26,006	25,985	24,574	23,631
Total Membership	106,689	96,485	96,152	89,976	86,180

Table 9: Performance Indicators 2015/16

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	Awaiting CIPFA results	
Letter detailing transfer out quote	10 days		
Process and pay refund	5 days		
Letter notifying estimates of retirement benefits	10 days		
Letter notifying actual retirement benefits	5 days		
Initial Letter acknowledging death of member	5 days		
Letter notifying amount of dependant's benefits	5 days		
Calculate and notify deferred benefits	10 days		

Table 10: Key staffing indicators 2015/16

	2015/16	CIPFA club average	2014/15	CIPFA club average
Number of staff administering the LGPS scheme			20.7	
Fund Member / Staff ratio			5,049	4,230

INVESTMENT REPORT

1. Investment Regulations

(a) Investment Limits

The Avon Pension Fund is a funded scheme which means that the contributions and fund monies not currently needed to meet pension and benefit payments are invested and the Fund receives income from these investments. The Fund's objective is to meet the future pension payments of both past and current members.

The LGPS regulations provide a framework for the investment strategy. A wide range of investments are permitted but certain limits are set to ensure diversification and reduce risk.

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- no more than 35% of the Fund may be invested in any one insurance contract;
- no more than 2% of the Fund may be invested in a single partnership;
- no more than 15% of the Fund may be invested in partnerships

(b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles.

Key elements include:

- investment objective
- management of investment risk
- social, environmental and ethical considerations
- exercise of voting rights
- compliance with the Myners principles for effective decision making.

The SIP was revised during the year to reflect the new investment managers appointed, changes to the bond allocations and changes to the currency hedging mandate from an active to a passive approach to hedging.

The latest version of the SIP was approved by the Avon Pension Fund Committee at its meeting in December 2015. The statement is included as Appendix C and can also be obtained from the website www.avonpensionfund.org.uk (search Statement of Investment Principles).

The Fund publishes a statement showing how it complies with the Financial Reporting Council (FRC) Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. Compliance with the Code will be reviewed during 2016/17 and the statement revised as needed.

The Fund's latest statement of compliance can be found on the website www.avonpensionfund.org.uk (search FRC Stewardship Code).

The Fund is a member of the Local Authority Pension Fund Forum (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. Both committee members and officers regularly attend the quarterly LAPFF meetings.

Compliance with the Myners Principles

The Myners Principles codify a model of best practice in decision making for investors. As part of the SIP, funds are required to state how they comply with each principle and explain where they do not comply.

The Fund's current compliance with the principles is summarised in Table 11 (a full explanation can be found in the SIP).

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required to fund the pension liabilities over time and to recover any funding deficit as set out in the funding strategy. Specifically the investment strategy is designed to produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy reflects the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Avon Pension Fund Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

A review of the currency hedging strategy during the year concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. However, implementation was altered from an active to a passive approach to ensure more effective hedging of the currency risk.

In addition the Committee has begun to explore ways in which the investment portfolio can be used to manage the liability risks more effectively. The current investment strategy only provides limited protection against changes in the value of the liabilities. The Committee is considering how this level of protection could be increased and any decision will be made in 2016/17. As an initial step the allocation to UK government bonds is now invested entirely in index linked gilts that closely match the fund's inflation linked cash outflows.

Table 12 shows the Fund's actual asset allocation at 31 March 2016 against the strategic allocation benchmark. The allocation to infrastructure was not vested at 31 March 2016 but a partial investment was made on 1 April 2016. The Fund is currently overweight in equities which will be used to fund the investment in infrastructure. The table also shows the returns from each asset class over one and three years to 31 March 2016.

The Fund's assets are managed by external investment managers. The investment management structure and amount of assets managed by each manager as at 31 March 2016 is set out in Chart 1. There were no new investment managers appointed during the year; the hedge fund mandate managed by JPMorgan was fully vested during the year using proceeds from terminating the hedge fund mandates managed by Gottex, Signet and Stenham.

Responsible Investing

The Fund seeks to integrate a Responsible Investment (RI) approach across the entire investments portfolio, recognising the differing characteristics of asset classes. A copy of the policy can be obtained from the website www.avonpensionfund.org.uk (search Responsible Investment Policy).

The fund sought to manage Responsible Investment (RI) and Environmental, Social and Corporate Governance (ESG) risks during the year as follows:

- Following through with issues identified throughout the year by the Committee and Investment Panel.
- Communicating the Fund's focus on the Living Wage, Climate Change and Board Diversity to its Investment Managers, with additional communication surrounding funding of terrorist organisations through international financial systems.
- Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
- Reviewing whether engagement activity of managers was in line with their stated policies.
- Continuing to publicly support shareholder resolutions for greater disclosure on carbon management strategies – this year at Anglo American and Glencore
- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and Committee members attended three business meetings during the year.

- Independent analysis undertaken by the Fund shows that the Fund's managers are more active in expressing concerns through their votes than the average shareholder.

3. Investment Performance

(i) 2015/16 performance

During the year the value of the Fund's assets decreased by £98 million to £3,742 million at 31 March 2016. The investment return of -2.1% was driven primarily by the impact of hedging the foreign currency exposure during a period when sterling depreciated and the fall in equity markets across the world. Property and bonds produced positive returns as did hedge funds and diversified growth funds. However, with the exception of property most returns were subdued compared to the previous year and the strategic benchmark return (which assumes the investment portfolio achieves index returns) of 1.5% was well below the longer term return expectations for the underlying assets of c. 6.9% p.a.

Over the year, the Fund underperformed its strategic benchmark of 1.5%. Excluding the currency hedge the Fund's return of -0.2% was 1.7% behind the benchmark. At the strategic level, asset allocation detracted 0.7% and active portfolio management detracted 1.0%. Currency hedging detracted a further 1.9% from the Fund's return. Against their mandate specific benchmarks the managers detracted 0.6% from overall returns.

The Fund underperformed the average WM Local Authority Fund universe return of 0.2% over the year (the average local authority pension fund return as calculated by WM Company).

The investment return impacts the funding or solvency level of the Fund. The strategic benchmark represents a portfolio that, using the long term return expectations, should generate a real return of +3.5% above inflation, 50% of the time (i.e. it is the best estimate return generated from the investment strategy). Achieving a real return is important as the pension benefits are linked to inflation. During the year the funding level will have deteriorated, everything else being equal.

Financial markets suffered from volatility over the year, with sharp sell offs in the summer of 2015 and the beginning of 2016 due to concerns over slow global economic growth and fears of interest rates rising in the USA. Global equities generally posted disappointing returns over the year, with the FTSE All World returning -0.5% in sterling terms and -4.2% in local currency terms (as sterling depreciated). At a regional level, most major equity markets recorded negative returns in sterling terms with the US market bucking the trend mainly due to the strengthening of the US dollar relative to sterling. Emerging markets performed disappointingly, down 8.9% due to the strength of the dollar and falling oil prices.

With global inflation remaining subdued and interest rates remaining at very low levels historically, yields on government and corporate bonds continued to fall albeit not as significantly as in previous years.

ii. Longer term performance

The longer term performance of the Fund is shown in Chart 2 (the returns are annualised). The Fund's benchmark return is included in the chart together with the return of the WM Local Authority Fund Average. The Fund return is inclusive of currency hedging whereas the benchmark return excludes currency hedging.

Over three years the Fund's return of 6.1% per annum (excluding currency) is behind the strategic benchmark return of 6.3% per annum with asset allocation adding 0.4% per annum and active portfolio management detracting 0.4%. Over five years the investment return of 7.2% per annum compares favourably to the benchmark return of 6.8% per annum.

Over the three years, returns from UK and emerging market equities have fallen below the long term expectations; overseas equities remain ahead mainly due to the depreciation of sterling. UK bonds

and property remain ahead of the long term return expectations and hedge funds lagged their long term expected returns.

As sterling has depreciated against most currencies over the last three years the currency hedge has detracted slightly from the overall return.

The annualised contribution to performance by asset class and stock selection over longer periods can be seen in Table 13. This excludes the impact of currency hedging.

Table 15 shows how each of the investment managers have contributed to performance. It shows their performance against their specific benchmarks over one year, three years and five years. Jupiter, TT, Genesis, Unigestion, and State Street had good performances relative to their benchmarks during 2015/16; Partners, Standard Life and Pyrford lagged their benchmarks. The performance of the global property portfolio managed by Partners is impacted by the dilution effect of investing monies during the investment phase of the portfolio. Over three years, eight of the eleven managers in place for three years or more have met their performance targets.

The managers in aggregate have contributed -0.1% and 0.0% respectively to overall return over three and five years (against their mandate specific benchmarks).

4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2016 are shown in Table 14.

5. Investment Administration

The Fund's custodian is responsible for the safe-keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

The Fund has a separate bank account which provides transparency and accountability of the Fund's and Council's banking arrangements. In addition the Fund has a separate Treasury Management Policy which ensures the investment of the Fund's cash is consistent with the risk parameters of the Fund. The management of the pension fund's investment cash is delegated to the Council.

Table 11: How the Avon Pension Fund achieves compliance with the Myners Principles

1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓
2 Clear Objectives	Compliance
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	✓
A customised benchmark reflecting the Fund's own liability profile	✓
Consideration of different asset classes and their impact on return and risk	✓
Individual performance targets for the investment managers, monitored by the Committee	✓
Expert advice when considering its investment objective and strategy	✓
	Compliance

3 Risk and Liabilities

Investment objective and strategy reflects the specific liability profile of the scheme members
Covenant of the employer and their ability to pay contributions is taken into account
Risk management process in place to ensure risks are identified and mitigating action is taken where possible

✓

✓

✓

Compliance

4 Performance Assessment

Fund's performance measured against investment objective, investment managers performance measured against their benchmarks
Contracts with advisors assessed on an ongoing basis
Performance of decision-making bodies assessed by external auditors

✓

✓

✓

Compliance

5 Responsible Ownership

Managers adopt the Institutional Shareholders' Committee Statement of Principles
Policy on responsible ownership is included in Statement of Investment Principles

✓

✓

Compliance

6 Transparency and Reporting

Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders

✓

✓

Table 12: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	31 March 2016 Allocation	Strategic Allocation	Range	Asset Class Returns	
				1 Year	3 Years (p.a.)
UK Equities	14.8%	15%	35-45%	-3.9%	3.7%
Developed Overseas Equities	25.9%	25%		0.2%	10.1%
Emerging Market Equities	9.3%	10%	5-15%	-9.1%	-2.4%
Diversified Growth Funds	9.7%	10%	5-15%	4.6%	4.6%
Infrastructure	0%	5%	0-7.5%	-	-
Index Linked Gilts	11.7%	12%	9-15%	1.8%	5.6%
Fixed Interest Gilts	0%	0%	0-10%	-	-
UK Corporate Bonds	9.5%	8%	4-20%	0.4%	5.0%
Other Bonds	0%	0%	0-5%	-	-
Fund of Hedge Funds	5.2%	5%	0-7.5%	4.6%	4.6%

Property	9.8%	10%	5-15%	15.1%	13.0%
Cash	4.3%	0%	0-5%	-	-

Chart 1: Asset allocation by Manager 31 March 2016

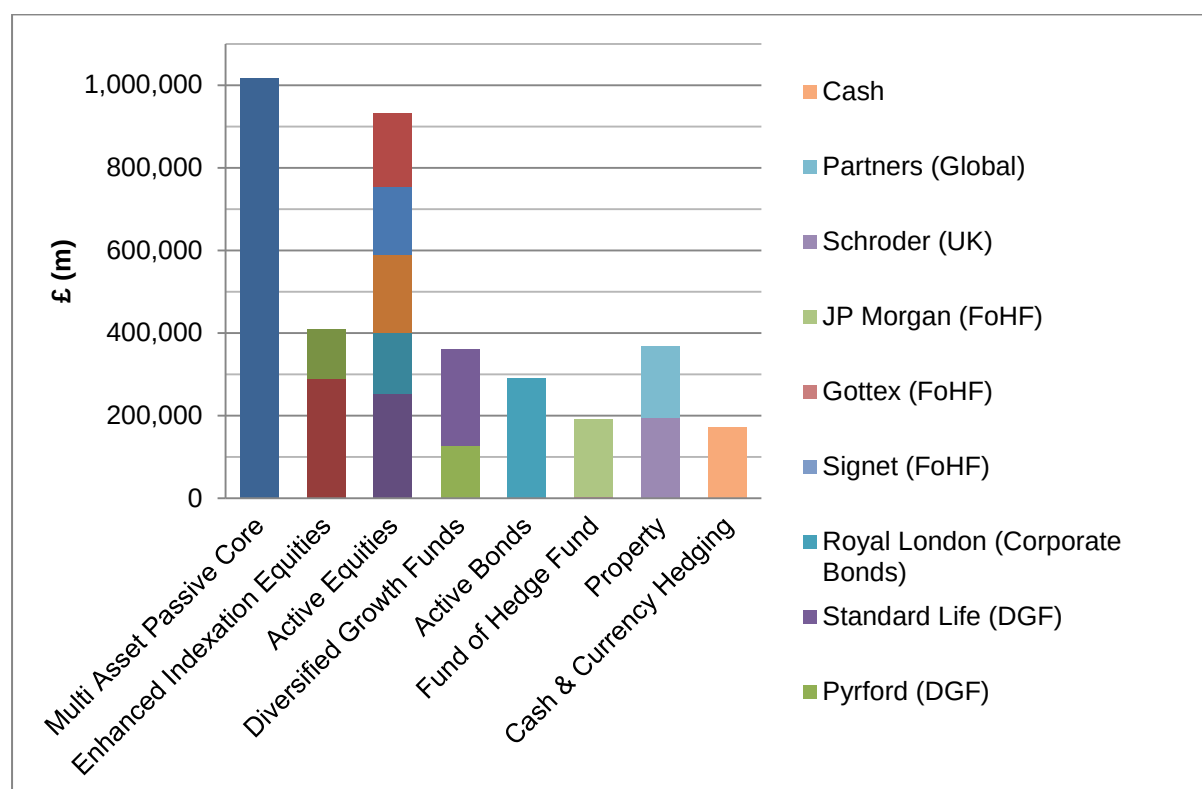


Chart 2: Long Term Performance

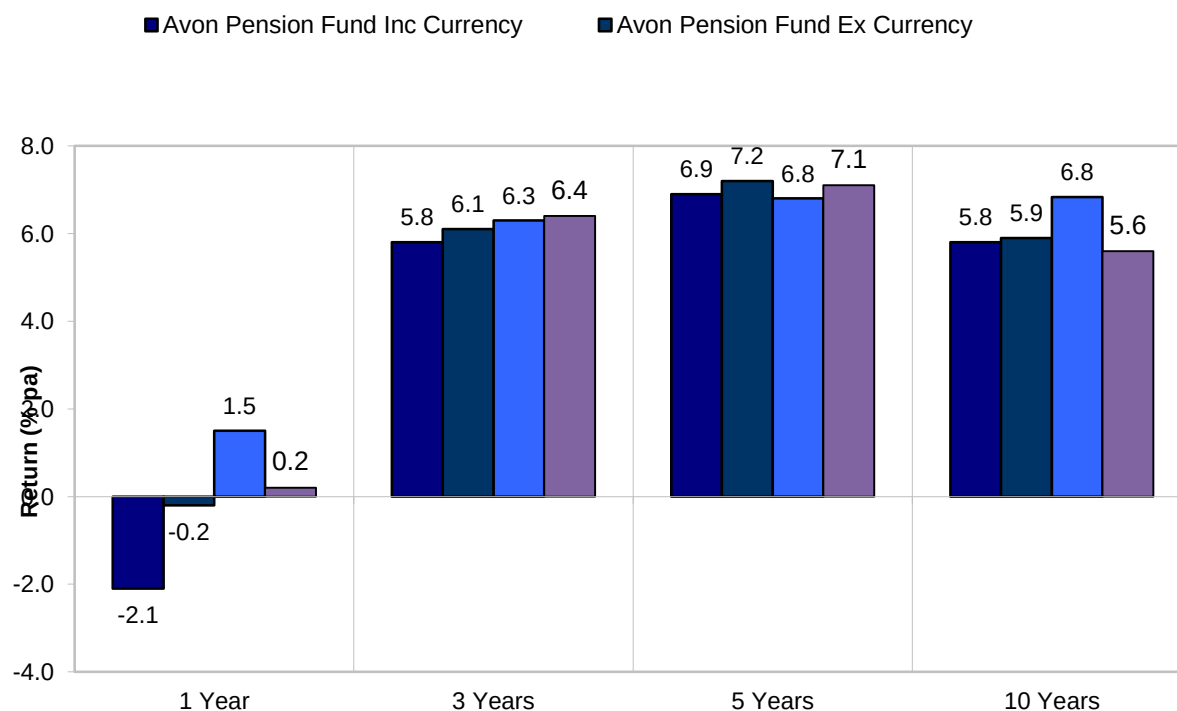


Table 13: Attribution to performance from asset allocation and stock selection

	Asset Allocation Impact p.a.		Stock Selection Impact p.a.	
Asset Class	3 Years	5 Years	3 Years	5 Years
Equities	0.2%	0.1%	0.2%	0.4%
Bonds	0.0%	0.1%	0.1%	0.1%
Multi-asset	0.0%	0.0%	0.0%	0.0%
Property	0.0%	0.0%	-0.4%	-0.2%
Hedge Funds	0.1%	0.1%	-0.1%	0.0%
Cash	-0.1%	-0.1%	0.0%	0.0%
	0.4%	0.3%	-0.4%	0.1%

Source: The WM Company. Note: Columns do not add due to rounding.

Table 14: Top 10 Largest Investment Holdings at 31 March 2016

Holdings	£'000s	% of Fund
Royal London Corporate Bond Fund	291,222	7.8%
Invesco Perpetual Global ex UK Enhanced Index Fund	289,696	7.7%
Standard Life Global Absolute Return Fund	233,981	6.3%
Uni-Global Equity Emerging Markets Fund (Unigestion)	178,118	4.8%
Blackrock Advisors (Aquila Life UK Equity Index Fund)	167,793	4.5%
MSCI Equity Index Fund B – US Equity (Blackrock)	165,701	4.4%
Genesis Emerging Markets Investment Fund	149,257	4.0%
Pyrford Global Total Return Fund	126,947	3.4%
Blackrock Europe ex UK Index Fund	118,086	3.2%
SSGA Managed Pension Fund Asia Pacific Equity Enhanced Indexation	77,158	2.1%

Table 15: Contribution to performance – relative returns of investment managers

Manager	1 Year Relative Return	3 Year Relative Return	5 Year Relative Return
BlackRock	0.1%	0.2%	0.1%
Genesis	2.5%	0.5%	2.1%
Invesco	-0.8%	0.5%	0.7%
JPMorgan	4.2% ¹		
Jupiter	2.6%	3.4%	3.6%
Partners	-3.8%	-4.5%	-2.2%
Pyrford	-4.5%		
RLAM	0.0%	0.9%	1.1%
Schroder Equity	-0.9%	-0.1%	
Schroders Property	-0.1%	0.5%	1.1%
SSgA - Europe	1.1%	1.2%	1.2%
SSgA - Asia Pacific	0.4%	0.7%	1.0%
Standard Life	-9.6%		
TT	7.6%	3.5%	2.9%
Unigestion	2.2%		

Note: ¹ partial period return

FUNDING STRATEGY

Funding Position

In line with the LGPS regulations, the Fund's actuarial position is reviewed every three years. The latest triennial valuation based on membership data and asset values as at 31 March 2013, set the employer contribution rates for the period from 1 April 2014 to 31 March 2017. The 2016 valuation using membership and asset data at 31 March 2016 will set the contribution rates from 1 April 2017 onwards.

The 2013 valuation produced a funding level (the coverage of liabilities by the assets) of 78% which was slightly lower than the funding level of 82% at the previous valuation in 2010. However, in monetary terms the deficit increased from £552 million in 2010 to £876 million in 2013. The fall in the funding level and rise in the deficit was due to the fall in gilt yields to near historic lows in March 2013. As the future value of the pension liabilities are calculated using a discount rate based on gilt yields, if gilt yields fall, the value of the liabilities will rise.

The historical funding level and asset allocation for the last five valuations is shown in the table below:

Valuation result	2001	2004	2007	2010	2013
Value of Assets £m	1,563	1,474	2,184	2,459	3,146
Value of Liabilities £m	1,572	1,841	2,643	3,011	4,023
Funding level	99%	80%	83%	82%	78%
Asset Allocation %	2001	2004	2007	2010	2013
Equities	75%	74%	77%	63%	63%
Bonds	25%	24%	21%	22%	20%
Property	-	-	-	4%	7%
Hedge Funds	-	-	-	9%	7%
Cash	-	2%	2%	2%	3%

The funding level will vary over time. The value of the assets and liabilities will vary due to changes in market prices. The non-financial assumptions that determine the liabilities will also change over time, such as longevity or the length of time it is assumed pensions will be paid over the retirement age.

Between the triennial valuations the Committee monitors the funding position each quarter. In addition, an interim valuation was undertaken as at 31 March 2015 to provide employers with an indication of the potential impact of the 2016 valuation on their budget to help them plan accordingly.

The key assumption which drives the value of the pension liabilities (the future benefit payments) and therefore the deficit is the discount rate which needs to reflect the overall investment return which the investment assets are expected to achieve over the long term with a suitable allowance for prudence.

Historically the discount rate has been derived as gilts plus a fixed asset out performance to arrive at the overall expected return. However, the significant fall in gilt yields over the last three years results in a far higher value of the liabilities than at the 2013 valuation (despite the expected return on assets remaining broadly unchanged). The impact of this is to build in too much "prudence" into the funding strategy given the long term objectives of the Fund. As a result the Actuary is advising the Fund uses a discount rate for the 2016 valuation that reflects the real expected asset return above the CPI when assessing the long term solvency target (the same level of real return above CPI as that used in 2013 valuation to have consistency in the level of prudence built into the 2016 valuation).

On this revised funding basis, the estimated funding level at 31 March 2016 was 83% and the deficit had narrowed to £750 million from £1.1 billion a year earlier. This improvement reflects the change in the discount rate, partially offset by the negative return on assets.

The pension fund is maturing gradually and the investment and funding strategies takes this into account. As monthly pensions paid to pensioners exceed contributions received from employers and members, the Fund uses investment income to pay the pensions. The cash flow forecast is included in the Fund's Service Plan which is revised annually. Actual cash flow is monitored against the forecast to manage cash requirements on a monthly basis.

Funding Strategy Statement (FSS)

The FSS is revised each valuation to set the parameters for that valuation. As the 2013 valuation was completed during a particularly difficult time for public sector bodies due to the contraction in public sector funding, the 2013 FSS reflected the need to balance the long term solvency of the Fund with cashflow pressures faced by the scheme employers over the three year valuation period (to 2016/17).

The regulations in force in 2013 provided that the FSS must:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

Using the flexibility provided within this framework, in 2013 the Fund kept increases in employer contribution rates to a minimum. The fall in gilt yields translated into a lower discount rate used to value both past service and future service pension liabilities and this led to increases in contribution rates for most employers. However, as the driver of the higher costs was the fall in gilt yields, the Actuary took into account an improvement in gilt yields in the period following the valuation when setting deficit recovery payment plans with individual employers in order to address affordability.

The period over which the deficit is recovered from each employer was reduced in the 2013 FSS to a maximum of 27 years from 30 years (in the 2010 FSS). For most employers the deficit recovery period contracted by three years and overall, and the Fund's overall deficit recovery period decreased from 23 years to 20 years. When setting contribution rates and deficit recovery periods for individual employers or groups of employers, the Actuary takes into account as assessment of financial strength and funding sources undertaken by the Fund.

The Future Service Rate (the on-going cost of one year's pension accrual) is expressed as a percentage of pensionable pay. However, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract during the valuation period, deficit recovery contributions (or past service contributions) are expressed in annual monetary amounts.

The number of employers in the Fund continued to increase due to the creation of academies and the outsourcing of services by scheme employers. As schedule bodies, academies have an automatic right to join the scheme. Employers outsourcing services to an admitted body are required to guarantee the liabilities of the admitted body.

The FSS will be reviewed as part of the 2016 valuation and will be consulted on with scheme employers before being published later in 2016.

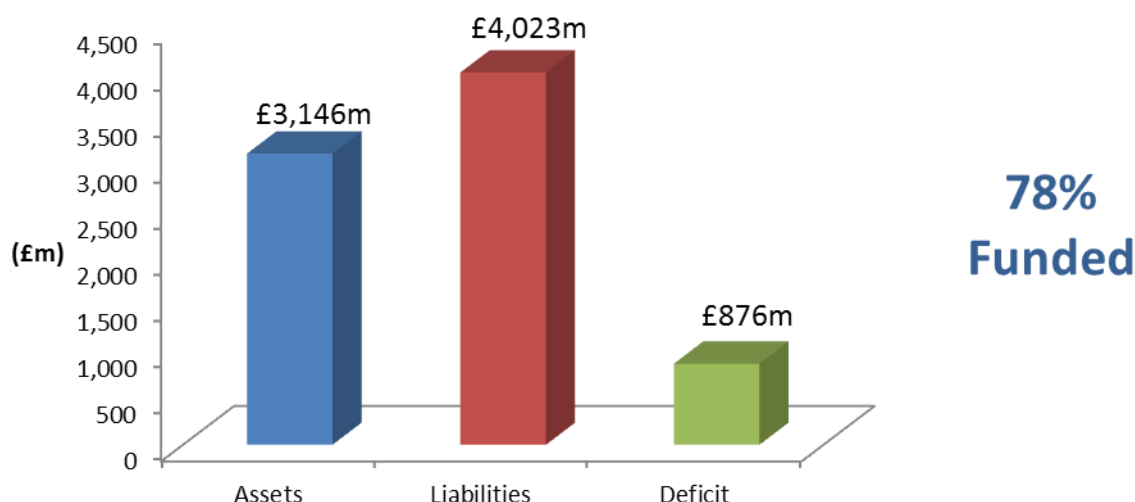
The 2013 Funding Strategy Statement is in Appendix E and can be obtained from the website www.avonpensionfund.org.uk (search *Funding Strategy Statement*).

STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £3,146 million represented 78% of the Fund's past service liabilities of £4,023 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £876 million.



The valuation also showed that a common rate of contribution of 13.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 83% with a resulting deficit of £650 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £34m per annum increasing at 4.1% per annum (equivalent to approximately 6.0% of projected Pensionable Pay at the valuation date) for 20 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to bespoke funding strategies, the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2016

EMPLOYER CONTRIBUTION RATES

Employer Contribution Rates				
Year Ended 31 March 2016	2015/2016		2014/15	
	%	plus Deficit /	%	plus Deficit /
	of pay	(surplus) amount	of pay	(surplus) amount
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire Brigade	12.7	£304,100	11.8	£272,800
Bath & North East Somerset Council	13.2	-	13.2	£14,042,300
City of Bristol Council	13.2	-	12.5	£41,493,600
North Somerset Council	13.0	£5,198,600	13.0	£4,992,800
South Gloucestershire Council	13.7	-	12.9	£16,533,800
Further & Higher Education Establishments				
Bath Spa University College	12.8	£515,700	12.0	£457,300
City of Bath College	12.6	£90,500	11.9	£81,600
City of Bristol College	13.4	£497,600	12.4	£475,600
South Gloucestershire & Stroud College	11.9	£400,900	11.2	£383,300
St. Brendan's College	13.0	£34,400	12.2	£30,400
University of the West of England	13.0	£1,965,700	12.0	£1,748,175
Weston College	11.8	£229,800	11.1	£194,900
Academies and Schools				
Abbeywood Community School Academy	13.6	£40,900	12.7	£38,700
Academy of Trinity Cof E	13.5	£7,100	13.0	£6,500
Ann Harris Academy Trust	16.2	£20,200	16.2	£19,400
Aspire Academy	14.6	£35,800	14.6	£34,400
Backwell School	15.3	£104,600	14.5	£89,200
Bannerman Road Community Academy	11.7	£19,200	10.7	£19,200
Barton Hill Academy	11.9	£23,300	11.9	£13,100
Bath Community Academy	13.4	£22,200	12.9	£18,600
Bedminster Down School Academy	15.2	£31,200	14.3	£30,300
Beechen Cliff School Academy	14.2	£35,100	13.3	£31,400
Begbrook Primary Academy	14.5	£18,500	13.5	£18,000
Birdwell Primary School Academy	14.8	£17,400	13.7	£14,700
Bradley Stoke Community School	12.3	£62,200	11.6	£55,400
Bridge Learning Campus Foundation	12.9	£60,800	12.3	£57,400
Cathedral Schools Trust	13.9	£1,400	13.9	
Bristol Free School Trust	15.0	£100	14.2	£100
Bristol Futures Trust	15.0			
Bristol Technology & Engineering Academy	13.4		13.4	
Broadlands Academy	13.1	£37,500	12.1	£36,800
Broadoak Mathematics & Computing College	13.6	£67,700	12.6	£64,000

Cabot Learning Federation	12.4	£22,000	11.6	£10,800
Callicroft Primary Academy	17.6	£9,700		
Castle School Education Trust	15.0	£69,700	14.0	£68,900
Charborough Road Primary School	15.5	£18,600	15.5	£4,500
Charfield Primary School	16.6	£6,700	15.4	£5,600
Chew Stoke Church School	14.2	£5,200	13.1	£5,200
Christ Church C of E Primary School	14.2	£10,900	13.2	£10,300
City Academy	12.1	£21,200	11.3	£17,900
Churchill Academy	14.2	£92,500	13.6	£84,900
Clevedon School Academy	13.3	£54,600	12.7	£52,600
Clutton Primary School Academy	22.9	£6,800	22.9	£500
Colston Girl's School Trust	16.2	-£1,200	15.2	-£900
Colston's Primary School Academy	11.9	£6,600	11.4	£6,100
Cotham School Academy	13.1	£67,900	12.4	£59,400
Court de Wyck	20.0			
Digitech Studio School	20.0			
Diocese of Bristol Academies Trust	21.3		21.3	
Downend School	14.3	£40,100	13.3	£40,100
Dundry COE Primary	26.4	£1,200		
Easton C of E Academy	14.8	£45,700	14.8	£25,600
Elmlea Junior School Academy	14.4	£11,000	13.4	£9,700
Fairfield School	15.4	£58,400	15.4	£9,400
Fairlawn School	20.0			
Filton Avenue Primary School Academy	12.2	£18,500	11.5	£17,800
Fishponds Church of England Academy	13.8	£22,600	12.9	£22,000
Four Acres Primary School	13.4	£27,500	13.4	£4,400
Fosseway School	11.8	£56,100	11.0	£49,000
Frome Vale Academy	12.6	£11,000	11.8	£10,700
Gordano School Academy	14.5	£106,100	13.5	£94,100
Greenfield Primary School Academy	14.4	£15,800	13.3	£14,500
Hanham Woods School	17.3	£61,700	17.3	£34,600
Hans Price Academy	13.1	£72,300	12.6	£61,700
Hareclive Academy	13.0	£19,700	12.2	£18,200
Hayesfield Girls School Academy	14.5	£36,200	13.7	£33,400
Henbury Court School	13.2	£21,300	12.3	£18,700
Henbury School Academy	13.5	£33,300	12.7	£32,000
Henleaze Junior School Academy	14.2	£11,100	13.2	£9,500
Heron's Moor Community School	12.7	£22,400	12.1	£21,500
High Littleton C of E Primary	18.7	£6,700	18.7	£4,800
Hotwells	15.2	£13,600	15.2	£13,100
IKB Studio School	20.0			
Ilminster Avenue Academy	14.4	£10,600	14.4	£8,900
Kingshill Academy	13.5	£11,700	12.9	£11,100
Kings Oak Academy	15.1	£33,200	14.2	£29,700

Little Mead Primary School	11.7	£18,500	11.2	£17,500
Mangotsfield School	16.3	£40,100		
Marlwood School	16.4	£46,000	16.4	£18,400
Meadow Brook Primary School	15.2	£25,600	15.2	£6,200
Merchant's Academy	13.2	£8,100	12.2	£4,000
Midsomer Norton School Partnership	14.1	£99,100	13.1	£89,400
Minerva Primary Academy	14.3	£10,900	13.5	£10,600
Nailsea School Academy	15.4	£54,400	14.4	£53,100
North Somerset Learning and Technology College	20.0		20.0	
Oasis Academy Bank Leaze	10.9	£10,900	10.4	£10,700
Oasis Academy Brightstowe	12.6	£6,800	12.1	£3,300
Oasis Academy Connaught	13.2	£11,900	13.2	£10,400
Oasis Academy John Williams	13.2	£2,600	12.6	£1,300
Oasis Academy Long Cross	15.0	£38,300	15.0	£36,800
Oasis Academy New Oak	11.6	£16,100	10.9	£15,300
Oasis Academy Brislington Enterprise College	20.0		20.0	
Oasis Academy Marksbury Road	13.4			
Oldfield School Academy Trust	14.9	£15,200	14.4	£13,300
Orchard Academy	14.1	£46,000	13.1	£44,900
Parson Street Primary School	15.6	£20,100	14.4	£20,100
Patchway Community College	16.4	£50,600	15.1	£42,600
Priory Community School Academy	13.3	£105,900	12.6	£94,500
Ralph Allen Academy	15.4	£41,600	14.4	£41,200
Redland Green School Academy	11.7	£74,800	11.1	£71,600
Redfield Educate Together	9.8		9.8	
Severn Beach Primary School	21.1	£7,700	21.1	£4,300
Sir Bernard Lovell	14.8	£66,800	20.0	
Steiner Academy	13.0		13.0	
St Bedes School Academy	13.1	£35,700	12.5	£30,600
St Johns CEVC Primary School	17.0	£5,400		
St. Nicholas of Tolentine Catholic Primary School	14.4	£12,100	13.5	£11,600
St. Patrick's Academy	15.6	£10,000	14.5	£9,700
St. Teresa's Catholic Primary School	13.5	£12,100	12.7	£11,700
St. Ursula's Academy	14.6	-£200	13.2	-£100
Stoke Bishop C of E Primary School	15.5	£20,000	14.5	£17,300
Stoke Lodge Academy	14.8	£20,200	13.8	£16,900
Summerhill Academy	15.1	£9,500	14.1	£8,900
The Bath Studio Academy	20.0		20.0	
The Dolphin Academy	8.9	£100	8.9	£100
The Kingfisher School	14.0	£10,600	13.0	£9,200
The Ridings Federation Winterbourne	13.8	-£12,800	12.8	-£17,200
The Ridings Federation Yate	13.4	£1,500	12.4	
Threeways School	10.6	£49,100	10.1	£46,500
Tickenham Primary School	9.7	£700	9.7	£200

Trinity Primary	20.0			
Trust in Learning	21.7	£4,000	20.7	£3,500
Walls court Farm Academy	16.9		16.9	
Waycroft School Academy	14.9	£25,700	13.9	£23,600
Wellsway School Academy	14.0	£44,700	13.0	£41,700
West Town Lane Primary School	14.8	£21,000	14.8	£17,300
Westbury Park Primary School Academy	16.4	£15,500	15.1	£14,700
Westbury-on-Trym C of E Academy	14.3	£17,700	13.3	£16,700
Wicklea Academy	17.0	£11,000	17.0	£900
Woodlands Academy	20.0			
Writhlington School Academy	12.0	£66,600	11.5	£59,400
Yeo Moor Primary School	18.2	£19,300	18.2	£4,600
Designating Bodies				
Almondsbury Parish Council	14.5	£100	14.5	£100
Backwell Parish Council	16.6	£1,600	15.3	£1,400
Bath Tourism Plus	16.1	£5,000	15.1	£2,500
Bristol Waste Company	22.6	£0		
Bradley Stoke Town Council	16.0	£8,200	14.7	£7,600
Charter Trustees of the City of Bath	18.3	£3,800	16.3	£3,700
Congresbury Parish Council	20.0		20.0	
Clevedon Town Council	16.1	£100	14.7	£100
Destination Bristol	12.0	£17,500	12.0	£12,500
Dodington Parish Council	17.0	£1,400	15.9	£1,200
Downend and Bromley Heath Parish Council	13.5	£105	12.5	£105.00
Filton Town Council	12.2	£1,600	11.2	£1,400
Frampton Cotterell Parish Council	18.0	£1,500	16.0	£1,300
Hanham Abbots Parish Council	11.6	£100	10.8	£100
Hanham Parish Council	15.0	£3,200	14.0	£3,100
Keynsham Town Council	16.3	£13,500	15.4	£12,700
Emersons Green Town Council	14.0	£2,000	12.4	£1,800
Midsomer Norton Town Council	12.8	£8,100	11.8	£7,600
Nailsea Town Council	17.6	£4,300	15.8	£3,800
Oldland Parish Council	14.0	£400	12.8	£400
Patchway Town Council	14.0	£6,500	13.0	£6,500
Paulton Parish Council	15.4	£1,800	14.4	£1,800
Peasedown St John Parish Council	11.3	£500	11.3	£500
Pill & Easton in Gordano Parish Council	14.9	£100	13.9	£100
Portishead Town Council	14.8	£3,700	14.8	£3,200
Radstock Town Council	9.5	£3,800	8.5	£3,600
Saltford Parish Council	17.8	£400	15.8	£400
Stoke Gifford Parish Council	15.4	£6,500	15.4	£6,500
Thornbury Town Council	19.1	£12,900	18.1	£12,200

Westerleigh Parish Council	14.1	-£800	13.0	-£800
Westfield Parish Council	20.6	£4,700	19.5	£4,200
Weston Super Mare Town Council	12.6	£6,600	11.6	£5,700
Whitchurch Parish Council	14.7	£105	13.5	£105
Winterbourne Parish Council	21.9	£600	19.6	£400
Yate Town Council	13.3	£11,200	12.3	£10,500
Yatton Parish Council	18.4	£400	16.2	£200
Community Admission Bodies				
Alliance Homes	15.8	£84,800	14.7	£78,400
Ashley House Hostel	19.6	£7,600	17.1	£6,000
Bristol Disability Equality Forum	21.3	-£100	19.4	-£100
Bristol Music Trust	16.7	£6,200	15.7	£3,000
Clifton Suspension Bridge Trust	18.3	£3,900	17.1	£3,300
Holburne Museum of Art	13.4	£18,100	11.7	£16,700
Learning Partnership West Limited	20.5		26.3	£225,000
Merlin Housing Society (SG)	16.2	£10,300	15.2	£9,900
Merlin Housing Society Ltd	20.3	£38,100	18.1	£18,700
Sirona Care & Health CIC (B&NES)	17.2		16.0	
Sirona Care & Health CIC	20.0		20.0	
Southwest Grid for Learning Trust	11.2	£26,800	11.2	£25,900
The Care Quality Commission	18.9	£48,700	17.8	£42,300
The Park Community Trust	16.2	-£600	15.2	-£600
University of Bath	13.6	-	12.6	£1,835,600
Vision North Somerset	16.9	£11,700	16.2	£10,400
West of England Sport Trust	16.2	£27,000	15.0	£20,200
Writhlington Trust				
Transferees Admitted Bodies				
Action For Children	15.1		15.1	
Active Community Engagement Ltd	19.0	-£5,800	19.0	-£5,600
Agilisys	18.0	-£900	18.0	-£900
Agilisys 2015	18.0		18.0	
ARAMARK	15.6		15.6	
Aspens (CLF - Hanham Woods)	19.0			
Aspens (CLF - Kings Oak)	23.8			
Aspens (CLF - Begbrook)	19.9			
Aspens (CLF - Summerhill)	24.0			
Aspens (CLF - Frome Vale)	21.1			
Aspens (CLF - Minerva)	23.4			
BAM Construct UK Ltd	22.4	-£2,900	22.4	-£2,800
Caterlink				

Churchill Contract Services (BCC)	21.1	-£100	21.1	-£100
Churchill Contract Services (Milton Park)	24.2			
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)	21.3		21.3	
Churchill Contract Services (Westhaven)	22.7			
Circadian Trust	12.7	£58,600	11.1	£44,900
Circadian Trust No 2	11.6	£200	10.4	£100
Creative Youth Networks (Lot 4)	16.5	-£2,500	16.5	-£2,400
Eden Food Services	18.7	£104,900	18.7	£100,800
Fit For Sport (Trinity School)	15.7		15.7	
Fit For Sport NSC (St Peters Primary)	18.5		18.5	
GLL (Greenwich Leisure Ltd)	14.9			
HCT Group	23.5	-£20,900	23.5	-£20,100
ISS Mediclean (CLF)	23.8	-£300	23.8	-£300
ISS Mediclean (Bristol City Council)	16.5	-£700	16.5	-£700
Kier Facilities Services	19.3	-£1,100	19.3	-£1,900
Learning Partnership West (Lot 1)	24.8	-£10,400	24.8	-£10,000
Learning Partnership West (Lot 2)	12.5	-£9,300	12.5	-£8,900
Learning Partnership West (Lot 3)	17.5	-£12,100	17.5	-£11,600
Learning Partnership West (Lot 7)	7.0	-£1,100	7.0	-£1,100
Liberata UK Ltd	19.5	£33,500	19.5	£32,200
Prestige	21.3		21.3	
Ridgecrest Cleaning Limited	19.1	600	19.1	600
Shaw Healthcare (North Somerset) Ltd (Petersfield)	18.1	£25,300	16.8	£24,300
Shaw Healthcare (North Somerset) Ltd (The Granary)	19.1	£8,200	17.3	£7,900
SITA Holdings UK Ltd	30.2	£63,500	30.2	£61,000
Skanska Rashleigh Westerfoil	15.9	£300	15.9	£300
SLM Community Leisure	17.5	£6,900	17.5	£6,600
SLM Fitness & Health	15.5	£5,900	15.5	£5,700
Sodexo	22.6	-£3,200	22.6	-£7,800
The Brandon Trust	17.8	£14,600	16.5	£14,000
Tone Leisure (Trust) Limited	18.4	£9,600	18.4	£9,200

STATEMENT OF ACCOUNTS 2015/16

To follow

STATEMENT OF RESPONSIBILITIES FOR THE AVON PENSION FUND ACCOUNTS

Bath & North East Somerset Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Avon Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Divisional Director of Finance responsible for financial administration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year

Divisional Director of Finance responsibilities

The Divisional Director of Finance is responsible for the preparation of the Avon Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Divisional Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements which were reasonable and prudent;
- complied with the Code of Practice.

The Divisional Director of Finance has also:

- Kept proper and up-to-date accounting records;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2016.

Tim Richens

Divisional Director of Finance
(S151 Officer)
September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL ON THE CONSISTENCY OF THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

The accompanying pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated September 2016. The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chief Finance Officer's responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House, 55-61 Victoria Street, Bristol, BS1 6FT

Date to be added

SUMMARY OF FINANCIAL STATISTICS

Year Ended 31 March	2012	2013	2014	2015	2016
Revenue Account	£'m	£'m	£'m	£m	£m
Income					
Net Contributions	138.0	134.9	143.2	202.1	143.6
Investment Income	27.7	29.0	29.1	28.1	24.4
Net Cash Transfer	1.7	2.1	11.9	- 0.2	- 3.7
Total	167.4	166.0	184.2	230.0	164.3
Expenditure					
Pension & Benefits	129.2	136.7	149.8	157.1	155.3
Investment Management Expenses	10.8	11.4	17.9	19.2	18.8
Administration Costs	2.0	2.1	2.4	2.7	2.6
Total	142.0	150.2	170.1	179.0	176.7
Surplus for the Year	25.4	15.8	14.1	51.0	- 12.4
Revaluation of Investments	72.8	363.6	186.4	437.6	- 85.5
Change in Fund Value	98.2	379.4	200.5	488.6	- 97.9
Total Fund Value	2,766.3	3,145.7	3,346.2	3,834.8	3,736.9
Investment management Expenses and the Revaluation of Investments have been restated to include transaction costs in compliance with the CIPFA's Accounting for local Government Pension Scheme Costs.					

<i>Analysis of Fund's Assets</i>				
	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	520.1	1,085.8	252.2	1,858.1
Bonds	791.8			791.8
Property (direct holdings)	195.1		171.8	366.9
Alternatives			512.7	512.7
Cash	70.3	142.6		212.9
Total	1,577.3	1,228.4	936.7	3,742.4

<i>Analysis of Investment income accrued during the reporting period</i>				
	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	10.5	0.2	4.3	14.9
Bonds	4.2			4.2
Property (direct holdings)	4.9			4.9
Alternatives				-
Cash	0.3			0.3
Total	19.9	0.2	4.3	24.4

Costs to the Fund

BUDGET v OUTTURN REPORT ON THE COSTS TO THE FUND					
	Budget	Actual	Budget	Actual	Budget
	2014/15	2014/15	2015/16	2015/16	2016/17
	£m	£m	£m	£m	£m
Administrative Costs					
Management Costs	1,128	1,010	1,113	959	1,315
Administration and Processing	473	415	585	502	524
Service from Administering Body	377	383	354	352	323
Fees and income	143	200	222	273	-214
	1,835	1,609	1,830	1,540	1,948
Investment Management Expenses					
Fund Manager Base Fees	16,005	17,186	18,558	16,981	17,255
Custody & Transaction costs	83	66	84	108	88
	16,087	17,252	18,642	17,089	17,342
Oversight and Governance costs					
Management Costs	444	473	483	470	614
Specialist advice and Governance	681	831	856	713	1,258
Actuarial recharges	-191	-296	-250	-204	-250
Audit fees	38	37	38	37	37
	973	1,045	1,127	1,015	1,659
	18,896	19,905	21,599	19,643	20,949
Figures do not include investment transaction costs that are deducted at source or performance fees that are not yet due for payment. The rise in the Oversight and Governance Management Costs budget in 2016/17 reflects the permanent strengthening of the actuarial team and the temporary need for extra resources to manage the pooling of investments.					

Fund cash flow

- FUND CASH FLOW	FULL YEAR 2015/16	
	Forecast Per Service Plan	Out-turn
	£'000	£'000
- Outflows		
Benefits Pensions	(123,869)	(129,104)
Lump sums	(33,890)	(26,155)
Administration costs	(5,765)	(11,068)
Total Outflows	(163,524)	(166,326)
- Inflows		
Deficit recovery	7,278	23,678
Future service Contributions	116,784	117,855
Total Contributions	124,062	141,532
Net Cash Flow (excluding Investment Income and Transfers)	(39,462)	(24,794)
Net Transfers In & Out (budgetted as zero)	-	(3,928)
Investment income received as cash	15,243	14,746
Net Cash In-Flow (Out-Flow)	(24,219)	(13,977)
Deficit recovery receipts were above forecast due to a large termination payment. Administration costs cash outflows include invoiced Investment Manager fees. Administration costs cash outflow was above forecast as more Investment managers than forecast invoiced their fees as opposed to deducting them at source.		

Late payers

<u>Timeliness Analysis of Contributions Payments</u>	
	£'000
Total Contributions due in year	£143,578
Total contributions received late by:	£'000
1 day	99
2 days	30
3 days	4
Over 3 days	42
	175
Percentage of contributions received late	0.12%
Regulations permit the Fund to charge interest on contributions that are paid more than one month late at 1% above base rate. No such interest was charged during the year.	

PENSION INCREASE

Increases in pensions (excluding the State Guaranteed Minimum Pension) are based on the change in the published Consumer Price Index (CPI) for the 12 months to 30 September of the previous year. Prior to April 2011, these increases were based on the change to the published Retail Price Index (RPI). Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began.

All pensions are subject to the increase with the exception of those pensions awarded for non ill-health retirements where the recipient is under the age of 55 years. These pensions are subject to the accrued increase rate payable from the recipient's 55th birthday.

The table shows the rate of increases that have applied during recent years.

Year Beginning April	Rate of Increase %	Index
2000	1.1	RPI
2001	3.3	RPI
2002	1.7	RPI
2003	1.7	RPI
2004	2.8	RPI
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI
2014	2.7	CPI
2015	1.2	CPI
2016	0.0	CPI

The Fund is not responsible for any increases in the State Guaranteed Minimum Pension accrued before April 1988. These increases are paid by the State as part of the State Pension.

The Fund is responsible for increases in the State Guaranteed Minimum Pension accrued between April 1988 and March 1997 up to a maximum of 3% per annum (or the rate of inflation if less). Any increase above 3% is the responsibility of the State.

The increases shown above also apply to deferred pensions.

As a result of the new Single State Pension, from April 2016 there will no longer be a second state pension and contracting-out will cease. How this is to be achieved and the implications, for the LGPS, have not been fully decided. There are two working parties covering all public sector pension schemes currently involved with HM Treasury to decide on the way forward.

As an interim measure any scheme member who reaches state pension age from 6 April 2016 to 5 December 2018 all increases are to be paid from the Fund.

A reconciliation exercise is currently being carried out with HMRC to confirm each scheme's responsibilities as at Dec 2018.

CONTACTS

For further information on investments, accounts, benefits and administration of the Avon Pension Fund email us at: *avonpensionfund@bathnes.gov.uk*

Or you can write to us at:
Avon Pension Fund,
Bath and North East Somerset Council
Lewis House
Manvers Street
Bath
BA1 1JG

Telephone: 01225 477000
Fax: 01225 395258

General information about the Avon Pension Fund can be found at:
www.avonpensionfund.org.uk

GLOSSARY OF TERMS

Actuary An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The Actuary produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Active Investing An investment strategy whereby the manager deviates from an index or benchmark through stock selection or asset allocation in order to generate a rate of return in excess of the index or benchmark.

Assumed Pensionable Pay An average pay figure used to calculate pension in cases of reduced contractual pay or no pay as a result of sickness or injury, during relevant child-related leave or whilst on reserve forces service leave.

Career Average Revalued Earnings (CARE) Pension Scheme A pension scheme that provides a pension calculated as a proportion of a member's average pay depending on the length of membership in the scheme. In CARE schemes such as the LGPS, pension is built up each year based on a member's actual earnings in that year and is revalued so that the pension keeps up with the cost of living.

Civil Partnership A civil partnership is a relationship between two people of the same sex which is formed when they register as civil partners of each other.

Cohabiting Partner To be eligible to receive a survivor's pension in the event of a member's death, a cohabiting partner of the member, providing that for a continuous period of at least two years prior to the date of death -

- they have been able to marry or form a civil partnership;
- they have lived together as if they were husband and wife or civil partners;
- neither the member or their cohabiting partner have been living with someone else as if they were husband and wife or civil partners;
- their financial affairs have been interdependent (or the cohabiting partner has been financially dependent upon the scheme member).

Consumer Price Index (CPI) CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and Retail Price Index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and Council Tax, and includes other items not used in RPI.

Community Admission Bodies Bodies, which either have sufficient links with a Scheme employer, and provides a public service in the United Kingdom otherwise than for the purposes of gain or are approved by the Secretary of State for the purposes of admission to the Scheme; a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes. Such a body can become a member of the Avon Pension Fund subject to Pension Committee approval.

Corporate Bonds Fixed interest securities and index-linked securities issued by companies registered either in the UK or overseas. They represent 'loans' to the companies which are repayable on a stated future date (for definitions of "fixed interest" and "index-linked" see 'Fixed Interest Government Securities' and 'Index-linked Government Securities'). In the annual accounts, these are included in 'Sterling Bonds' and 'Non-Sterling Bonds'.

Deferred Pension The pension benefit held in the Fund for a member who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age. A deferred pension may be claimed at any time between the ages of 55 and 75, but will be reduced if paid before the member's Normal Pension Age or increased if paid after.

Designation Body body, listed in Part 2 of Schedule 2 of the LGPS Regulations 2013, whose employees can only be eligible for membership of the Scheme, if designated by that body.

Discretionary Compensatory Added Years Until 1 April 2007, employers could award an additional period of service under discretionary regulations up to a maximum of 10 added years. Since this date, this provision has been withdrawn. Employers who have awarded additional service are recharged for any payments made in respect of them exercising such a discretion.

Equities Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Salary Scheme A pension scheme that provides a pension and in some cases a lump sum benefit, calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed Interest Government Securities Investments in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Fund Benchmark The Fund benchmark reflects the asset mix determined by the Fund. It is expressed in terms of asset proportions and market indices (e.g. 45% UK Equities invested in the FTSE-Actuaries All Share Index). On this basis a benchmark return can be calculated. The significance of this benchmark is that it represents "normal fund policy".

Hedge Funds Otherwise known as "absolute return funds", these funds have as their objective a performance target expressed as a margin above the return which can be achieved on cash deposits. The advantage of these funds is that they should achieve a positive return even if the stock market falls.

Independent Members Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the Committee, appointed principally because of the financial/investment expertise which they have acquired in the course of their professional careers.

Indexed-Linked Government Securities Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the government are adjusted to allow for inflation. Investments in government which are repayable on a stated future date.

Market Value The price at which an investment can be bought or sold at a given date.

Myners Principles A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so.

Normal Pension Age (NPA) A member's NPA for pension benefits accrued after 31 March 2014 is now linked to their individual State Pension Age or age 65, whichever is later. For benefits accrued up to 31 March 2014 NPA is still age 65 for both men and women but a small number of members who retain Rule of 85 protections may retire earlier with no actuarial reduction.

Passive Investing (Indexation) An investment strategy whereby the manager replicates an index in order to generate a rate of return in line with the index. The manager has no discretion over stock selection within the index. If it is a multi-asset portfolio, the asset proportions are prescribed within the mandate.

Pooled Funds Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units. These include Managed Funds which are a form of unit trust whereby the Fund makes payments under an insurance policy and is allocated units in an Investment Fund by way of benefits. In certain circumstances this form of unit trust can have tax advantages compared with a conventional unit trust.

Retail Price Index (RPI) A measure of the general level of inflation based on the change in the price of a fixed basket of goods and services, such as food, energy, petrol, travelling costs, mortgage interest payments and Council Tax.

Rule of 85 Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65. If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced. However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule. The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill-health, where benefits are paid without reduction.

Transferee Admission Bodies (Scope Body) A body that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer transferring, must act as guarantor for such bodies.

Unlisted Securities Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

WM Local Authority Average The average local authority pension fund investment return as calculated by The WM Company. The universe comprises approximately 100 local authority funds.

APPENDICES

Appendix A - Terms of Reference for the Avon Pension Fund Committee and Investment Panel
<http://www.avonpensionfund.org.uk/financeandinvestments/annualreport/AppendixA-TermsOfReference.pdf>

Appendix B - Governance Compliance Statement
<http://www.avonpensionfund.org.uk/governance/GovernanceComplianceStatement-20130621.pdf>

Appendix C - Statement of Investment principles
<http://www.avonpensionfund.org.uk/financeandinvestments/principles.htm>

Appendix D - Communications Policy
<http://www.avonpensionfund.org.uk/governance/Communications-Policy-Statement-20150601.pdf>

Appendix E - Funding Strategy Statement
<http://www.avonpensionfund.org.uk/financeandinvestments/fss.htm>

Appendix F - Administration Strategy 2015
<http://www.avonpensionfund.org.uk/governance/AS-20150601.pdf>

Appendix G - Service Plan 2016 – 2019
<http://www.avonpensionfund.org.uk/sites/default/files/ServicePlan2016-2019.pdf>

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER
TITLE:	FUNDING STRATEGY STATEMENT 2016	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Funding Strategy Statement Appendix 2 – Comments from Employing Bodies		

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Administering Authority. The Committee approved a draft FSS at its meeting on 24 June 2016 which has been circulated to the employing bodies for comment. The deadline for receipt of comments was 23 August 2016.
- 1.2 An updated draft FSS is attached as Appendix 1 which, after consideration by Fund Officers and the Actuary, takes into account the comments received from the employing bodies following the consultation period. The comments received are summarised in Appendix 2. The actuary will attend the meeting to discuss the changes to the draft FSS.
- 1.3 Individual employer results will be disseminated in October and November. An Investment Forum to explain the outcome at the whole Fund level to employers will be arranged for 4Q16.

2 RECOMMENDATION

The Committee:

- 2.1 **Notes the feedback responses received, and the proposed modifications to the draft FSS.**
- 2.2 **Approves the Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, for general publication and distribution to the Fund's employing bodies.**
- 2.3 **Delegates the refinement and finalisation of the draft FSS to Fund Officers, with assistance of Fund Actuary.**

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2016 actuarial valuation fee and is provided for in the 2016/17 budget.

4 BACKGROUND

4.1 The LGPS regulations require each administering authority to prepare and publish a FSS. The key points of the regulation for the FSS are as follows:-

- After consultation with all employing bodies, the administering authority must prepare and publish their funding strategy
- In preparing the FSS, the administering authority must have regard to:
 - (i) Guidance issued by CIPFA for this purpose
 - (ii) The Statement of Investment Principles¹ (or Investment Strategy Statement (ISS) under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2016 if this is published within this time period)
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles/ISS.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

¹ The LGPS (Management and Investment of Funds) Regulations 2016, which require funds to have an ISS, have yet to be published hence the Statement of Investment Principles is still the statutory document.

4.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund.

4.3 Procedurally, the Fund's actuary cannot finalise the valuation until the FSS has been approved by the Committee.

4.4 It is not anticipated that, unless there is a significant change in the Fund's investment policy, the management of employing bodies, to the structure of the LGPS or regulations, the FSS will be materially revised until the next actuarial valuation in 2019.

4.5 The draft FSS attached as Appendix 1, estimates certain information that can only be confirmed once the valuation and associated analysis has been completed. The known financial and demographic assumptions are included in this updated draft.

4.6 The draft FSS was circulated to the employing bodies with comments required by 23 August 2016. Those comments which have been received are summarised in Appendix 2.

4.7 In light of some of the comments received via the consultation, some changes to the draft have been proposed. Details of the changes are set out in the next section.

5 COMMENTS ON RESPONSES FROM EMPLOYING BODIES

5.1 There were no responses that required action prior to the valuation being undertaken. In general the respondents are supportive of the approach being taken in the FSS, with most responding to highlight concerns about affordability given the funding environment and their own budgeting for short and long term salary progression. Affordability will be taken into consideration when setting individual employer plans.

5.2 The consultation asked specifically for comments about:

- (1) The appropriateness of the assumptions and in particular those that relate to them e.g. the pay increases you expect to award over the next few years?
- (2) The requirement from employers to at least maintain the same level of deficit recovery contributions as per the 2013 valuation where a deficit remains for an employer
- (3) In relation to the affordability of contributions and in particular whether there is any particular year over 2017/2020 which will be more challenging. This will help us form a view on any further flexibility required.
- (4) Whether the level of detail was sufficient and whether they need anything further in terms of information / meeting etc. to understand the content and implications
- (5) Whether they would be interested in ill health insurance
- (6) If they were a Multi academy trust whether they had any comments on pooling of future service rates
- (7) Invited any other comments.

5.3 In light of the responses received, and after further discussion with the Fund Actuary, it is proposed to modify the draft FSS, such that

- (1) the application of the following two basic requirements will be at the ultimate discretion of the Fund for bodies with strong covenant and on affordability grounds:
 - a) At least maintain the same level of deficit recovery contributions (indexing in real terms) as per the 2013 valuation,
 - b) Shorten the deficit recovery period by at least 3 years.
- (2) An ability to propose an “employer specific” short term pay assumption, subject to it being reasonable and practical. Employers will be informed that to the extent experience differs from this assumption; the effects will emerge at the 2019 actuarial valuation.
- (3) The medium term recovery period target will be held as 15 years rather than reduced to 12 years. This will be reviewed again at the 2019 actuarial valuation.

5.4 A number of smaller employers are supportive of the Fund exploring the option of insuring ill-health costs which the Fund is currently considering. If such an arrangement is implemented the relevant employer contribution rates will be adjusted accordingly.

5.5 Following confirmation from the DfE that the departmental guarantee applies to both single and multi-academy trusts (MATs), the Fund is willing to allow a combined funding position and average contribution requirements to apply to MATs.

Notwithstanding this, the Fund will continue to track the constituent academies separately in the interests of transparency and clarity around entry and exit of individual academies to the MAT in future. There were few responses regarding pooling; however MATs will be given the option as part of the contribution rate setting exercise.

6 PRELIMINARY WHOLE FUND RESULT

- 6.1 The final actuarial outcome will be reported to Committee at December 2016 meeting, however preliminary whole Fund results (based on the proposed assumptions to assess solvency and future service plus updated demographic assumptions) are set out below:

	£m
Assets	3,737
Liabilities	4,334
Deficit	597
Funding Level	86.2%
Employer future service contribution rate*	15.3% p.a.

** no allowance for 50/50 take-up.*

7 RISK MANAGEMENT

- 7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8 EQUALITIES

- 8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

- 9.1 This is reporting the outcome of a consultation process.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

- 10.1 Are contained in the report.

11 ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with actuary Responses to FSS from employing bodies
Please contact the report author if you need to access this report in an alternative format	

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DRAFT - POST CONSULTATION

FUNDING STRATEGY STATEMENT

AVON PENSION FUND

SEPTEMBER 2016

BATH AND NORTH EAST SOMERSET COUNCIL

This Funding Strategy Statement has been prepared by Bath and North East Somerset Council (the Administering Authority) to set out the funding strategy for the Avon Pension Fund (“the Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).



EXECUTIVE SUMMARY

Ensuring that the Avon Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (**BATH AND NORTH EAST SOMERSET COUNCIL**). The Funding Strategy adopted by the Avon Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Avon Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Avon Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.



THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.



DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is [tbc%] at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The medium term objective is to recover any deficit over an average period of 15 years, and this will be periodically reviewed with a view to reducing this in a reasonable manner. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The average recovery period for the Fund as a whole is [17] years at this valuation which is [3] years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by [3] years at this valuation.

Where there is an increase in contributions required at this valuation the employer will be able to step-up contributions over a period of [3] years. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.



ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in Appendix to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.2% per annum and for determining the future service (“primary”) contribution rates is 2.75% per annum.

For certain employers with a weaker covenant their asset share is linked to corporate bond investment assets. In these circumstances the discount rate is directly linked to the yields on corporate bonds of appropriate duration.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.



EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund’s approach and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer’s financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers’ covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer’s funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt employer any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund and the risk management policy for existing and new employers applied is set out in Appendix E.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

3. New academy conversions and multi-academy trusts

Current Fund policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil.

In cases where numerous academies which participate in the Fund are in the same Multi-Academy Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply. Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis, in the interests of transparency and clarity around entry and exit of individual academies to the Trust in future.

The full policy is shown in Appendix D.

4. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to corporate bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

5. Insurance arrangements

The Fund is currently considering whether ill health retirement costs can be insured either through a third party insurer or by setting up an internal captive insurance arrangement which pools these risks for eligible employers. If such an arrangement is implemented it will be operated as per the objectives set out in Appendix G and the relevant employer contribution rates will be adjusted accordingly.

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- A - ACTUARIAL METHOD AND ASSUMPTIONS
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1

INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Avon Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Avon Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Avon Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5

SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in Appendix B.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B). This has resulted in an average recovery period of [17] years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 15 year period in line with the medium term recovery period target for the whole Fund, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).
- The employer contributions will be expressed and certified as two separate elements:
 - a percentage of pensionable payroll in respect of the future accrual of benefit (the “primary rate”)
 - a schedule of lump sum amounts over 2017/20 in respect of the deficit (the “secondary rate”)
 - both elements are subject to review from April 2020 based on the results of the 2019 actuarial valuation.
- Where increases (or decrease) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum.
- For employers that do not have a financial year end of 31 March 2017 (e.g. 31 July 2017), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2017 in this case).

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. The termination policy is summarised set out in Appendix C.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 86% covered by the current assets, with the funding deficit of 14% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

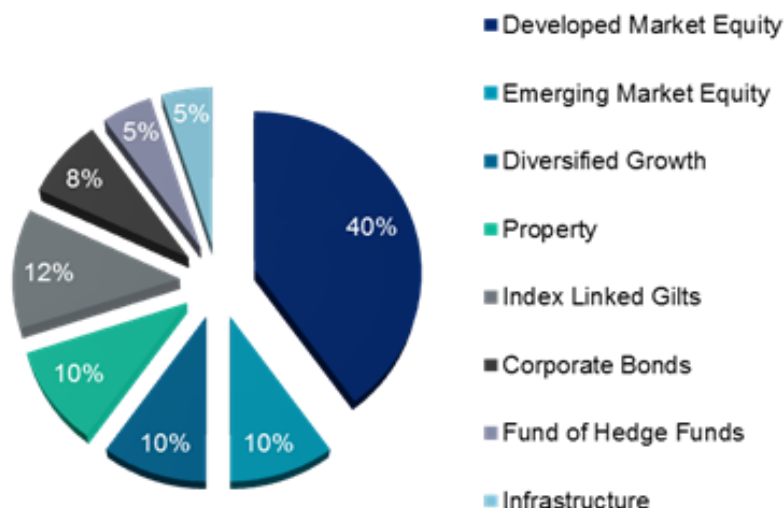
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [xx]%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 3.5% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority is implementing a risk management framework, using liability driven investment techniques. The principal aim of this risk management strategy is to effectively look to provide more certainty of real investment returns vs CPI inflation. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. This could have implications on future actuarial valuations and the assumption adopted but does not impact on the 2016 valuation approach. Full details of the framework are shown in the separate ISS.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

The information below illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation.

[Information will be inserted on the quantum of financial risk once the valuation has been completed]

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition the implementation of the risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.** Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. More detail on how the Fund is considering insurance of ill health costs is set out in Appendix G.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the academies guarantee from the Department for Education is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee's meeting on 24th June 2016 and finalised on 23 September 2016 after the Fund received feedback from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level

- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

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MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.2% per annum above CPI inflation i.e. a real return of 2.2% per annum i.e. a total discount rate of 4.4% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

For those employers who are funding on a corporate bond based the discount rate used will be linked directly to the yields available of corporate bond assets of an appropriate duration. An example discount rate used at the valuation date is 3.6% per annum.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public

sector employers this results in a total salary increase of 1% per annum to 2019/20 in line with Government policy.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the 2019 actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.75% per annum for males and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of [ill health retirements, withdrawal rates and the proportions married/civil partnership assumption] have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 5% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This

addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR
CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE
“PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	93% S2PMA_CMI_2015[1.75%] / 85% S2PFA_CMI_2015[1.5%]
	Dependant	115% S2PMA_CMI_2015[1.75%] / 96% S2DFA_CMI_2015[1.5%]
	Ill Health	93% S2PMA_CMI_2015[1.75%] + 3 yrs / 85% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	94% S2PMA_CMI_2015[1.75%] / 81% S2PFA_CMI_2015[1.5%]
	Ill Health	94% S2PMA_CMI_2015[1.75%] + 4 yrs / 81% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	120% S2PMA_CMI_2015[1.75%] / 93% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	102% S2PMA_CMI_2015[1.75%] / 92% S2DFA_CMI_2015[1.5%]

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable. **The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.**

The determination of the recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period	Derivation
Unitary Authority Councils	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Other Tax-raising Scheduled and Designating Bodies (except Bath Tourism Plus and Destination Bristol)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Academies and Multi-Academy Trusts	[x] years	In line with their original LEA schools groups i.e. the UA councils
Higher Education Bodies (Universities)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Further Education Bodies (Colleges)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	[x] years	Subject to agreement with guarantor but will be no longer than the recovery period of the guarantor
Community Admission Bodies (with no guarantee), Bath Tourism Plus and	[x] years	Determined on a case-by-case basis

Destination Bristol		based on reasonable affordability
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	[x] years	Deficit recovery period to be agreed with the letting scheme employer but will be no longer than the letting scheme employer recovery period

The medium term objective is to recover any deficit over a maximum of 15 years, and this will be reviewed at each valuation. Subject to affordability and covenant considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Only after the medium term target period has been achieved (subject to employer specific circumstances), will any reductions in employer contribution rates be considered.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ADMISSION AND TERMINATION POLICY

ENTRY TO THE FUND

SCHEDULED BODIES

All scheduled bodies are entitled to join the scheme under the regulations. Academies are scheduled bodies under the regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the regulations to provide a guarantee. These bodies usually have tax raising powers.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide an service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund’s policy is that the assets and liabilities of the admission body will in all cases revert to the outsourcing scheme employer or guaranteeing employer. If the outsourcing scheme employer or guaranteeing employer wishes to recover any deficit from the admission body, it is a matter between themselves and the admission body. The Fund will require appropriate instruction from the guarantor regarding any outstanding deficit to recover from the outgoing body.

Where an admission agreement involves multiple guarantors (typically under the first bullet above), who may not all be employers in the Fund, it may not be practical for any deficit on closure to be transferred to another employer in the Fund. Where this is the case, the Corporate Bond valuation basis would apply for valuing the liabilities from the outset.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are “Designating Bodies” under the regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the corporate bond funding basis for calculating the liabilities will apply to all new connected entities. In the event that a scheme employer provides a guarantee for their connected entity, the ongoing funding basis will be applied to value the liabilities.

CHILDREN’S CENTRE TRANSFER TO ACADEMY TRUSTS

Local education authorities have an obligation to provide Children’s Centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running Children’s Centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the Children’s Centre.

As the staff cannot be employed directly by an Academy or Academy Trust, the Avon Pension Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the Avon Pension Fund, the Local Education Authority of the ceding Council and the body responsible for managing the Children’s Centre (this could be an Academy Trust or private sector employer).

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARAGRAPH 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(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 (115) (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996 (116) ;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of, the admission body; or

In accordance with the above regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund actuary.

EXITING THE FUND

TERMINATION POLICY

An employer ceases to participate within the Fund when the last active member leaves the Fund, including where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation. The employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

The regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the regulations, once set this plan is fixed it cannot be adjusted at subsequent valuations.

The Fund's policy for termination payment plans is as follows:

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

- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

The corporate bond funding basis is used for assessing liabilities on termination unless the Administering Authority agrees otherwise based on the advice of the Actuary. This basis mitigates against financial market risks as an investment strategy to run off these liabilities could be constructed to minimise fluctuations due to market shifts. In the event that the corporate bond basis produces a higher discount rate than the ongoing valuation basis, the ongoing basis will be used.

The assumptions used will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date but for the corporate bond basis, the discount rate will be based on the long dated Sterling AA Corporate Bond yield of appropriate duration and allowing for any further margins the Administering Authority deems appropriate based on the advice of the Actuary. At the valuation date the discount rate used would have been [x]% per annum.

However, this does not provide against future adverse demographic experience relative to the assumptions which could emerge at future triennial valuations. This risk is managed by including a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers.

The termination basis for an outgoing employer currently includes an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from that used in the 2016 valuation for ongoing funding and contribution purposes.

CONNECTED ENTITIES

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

APPENDIX D - ACADEMIES / MULTI-ACADEMY TRUSTS

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the minimum asset share of the new academy is nil.

MULTI ACADEMY TRUSTS

Multi Academy Trusts (MATs) are groups of Academies managed and operated by one proprietor. The employer of non-teaching staff in Academies is the proprietor of the Academy Trust and not the individual Academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool.

Within a MAT all Academies are governed by one Trust and a Board of Directors. The MAT holds ultimate responsibility for all decisions regarding the running of the individual Academies, however, the governing bodies of the individual academies remain in place and the MAT will need to decide the extent to which it delegates functions to these governing bodies to enable more focused local control.

Multi-Academy Trusts are set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

APPROACH TO SETTING CONTRIBUTION RATES

The Avon Pension Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for FRS reporting where disaggregated disclosure reports are required. It should also be noted that, at the present time, the Department for Education (DfE) guarantee relates to individual academies, not MATs.

The Avon Pension Fund will explore with the actuary the possibility of having a common FS contribution rate for all the academies within the trust if the MAT is willing to settle for that approach bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool. The Fund has requested confirmation from the DfE that the guarantee extends to MATs. In the event that MATs are not guaranteed, the Fund will review any option for MATs to have a common FSR.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. The ceding local authority requires a corresponding adjustment for the share of the deficit that transfers on conversion therefore individual academy figures will be required.

Any new academies joining an existing MAT pool in the Avon Pension Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

The Avon Pension Fund's current policy is in accordance with the regulations requiring a separate admission agreement in respect of separate contracts.

Under **Schedule 2, Part 3, paragraph 5. of the 2013 Regulations**, if the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract. There are obvious advantages to this although it is not without its complications and further work will be necessary before such a facility can be put in place.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The Scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the Scheme employer i.e. the Multi Academy Trust.

If academies are to comply with "new" Fair Deal guidance, employees carrying out a service on behalf of the Academies must be allowed continued access to the LGPS. This can be achieved by entering into an Admission Agreement with the Administering Authority, Multi Academy Trust and the contractor (admitted body).

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. **Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Trust becomes responsible for the assets and liabilities standing to the account of the admitted body. A cessation valuation can be provided by the Fund actuary should the Trust request it.** In accordance with Fund policy, the academy becomes responsible for the assets and liabilities of and liabilities standing to the account of the admitted body when the admission agreement ceases.

APPENDIX E - RISK MANAGEMENT POLICY FOR NON- SCHEDULED BODIES

ADMISSION BODIES AS A RESULT OF OUTSOURCINGS

The Fund has always required bodies admitted to the Fund as a result of an outsourcing of services to be guaranteed (formerly transferee admission bodies). Therefore these employers pose less financial risk to the Fund.

The Fund's policy is that the liabilities of such an admission body will in all cases revert to the outsourcing scheme employer when the agreement ceases.

The administering authority will discuss the appropriate deficit recovery period for the admission body with the outsourcing scheme employer. If the scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the scheme employer's. Otherwise the deficit recovery period will be the length of the commercial contract left to expiry.

ADMISSION BODIES PROVIDING A SERVICE TO THE COMMUNITY

These admission bodies are a diverse group. Some are financially very secure in that they receive funding from either the government or local authorities on a quasi-permanent basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising.

The Fund's policy has been to require a guarantee from a scheme employer and for this reason they are treated in the same way as those bodies admitted due to an outsourcing.

For historical reasons those which were admitted prior to 2004 have no guarantee and, as such, constitute a potential risk to the Fund. This is because they may cease operations with insufficient residual assets to meet their pension liabilities.

The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most of these bodies have a deficit of assets relative to liabilities.

The tools available to manage these risks are limited to using a more prudent valuation basis (such as the corporate bond yield related basis) which minimises the deficit on exit; obtaining charges on assets in favour of the Fund; setting up escrow accounts and other security. The approach to agreeing the funding plans of these bodies will have regard to the financial strength of each individual body. The aim will be to achieve a balance between securing the solvency of the Fund and the sustainability of the organisation. For those with less secure income streams, the Fund will consider how it can manage contributions into the Fund in the short to medium term without compromising the financial stability of the organisation. Where there are assets or reserves, the administering authority will explore how these contingent assets could be used to assist in funding the liabilities or providing security to the Fund and its employing bodies.

Where there are no contingent assets the policy is to move over time to the corporate bond funding basis and to shorten the deficit recovery period. However, this will need to be weighed against the ability of that body to pay higher contribution rates.

CONTROLLED ENTITIES

There are employers that were “controlled entities” under the previous regulations. These do not qualify as connected entities under the new regulations and in the absence of government advice to the contrary, they remain controlled entities. As they are not guaranteed by a scheme employer, to protect the Fund, the funding basis will be moved to the corporate bond basis on a managed basis over time.

APPENDIX F – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX G – INSURANCE ARRANGEMENTS

[TO BE COMPLETED ONCE POLICY AGREED]

APPENDIX H - GLOSSARY

ACTUARIAL VALUATION: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date..

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

ADMISSION BODIES: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

BENCHMARK: a measure against which fund performance is to be judged.

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

MINIMUM RISK BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

COVENANT: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

DEFICIT: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

EMPLOYING BODIES: any organisation that participates in the LGPS, including admission bodies and scheme employers.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

FUNDING OR SOLVENCY LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

INVESTMENT STRATEGY: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

GUARANTEE / GUARANTOR: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

MINIMUM RISK FUNDING BASIS: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate

eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

MATURITY: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

MEMBERS: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PHASING/STEPPING OF CONTRIBUTIONS: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

POOLING: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be sufficiently prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

SCHEDULED BODIES: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

SCHEME EMPLOYERS: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

SECTION 13 VALUATION: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SOLVENCY FUNDING TARGET: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

VALUATION FUNDING BASIS: the financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 SCHEME: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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Responses to Funding Strategy Statement (FSS)

Employer	Comments
The Ridings MAT	- Assumptions on short term pay in line with assumptions - Affordability is difficult in 2016/17 - The level of detail in FSS is sufficient to understand content and implications - Would like to pool as one employer
Little Mead Academy Trust	- Assumptions on short term pay in line with assumptions - Agree should maintain at least same deficit contributions as per 2013 plan - Assumed 3% increases in deficit for next 5 yrs. Anything more not affordable. May have deficit budget by 2017/18
Stoke Bishop CE Primary School	- Pay increases in line with NJC - Agree should maintain at least same deficit contributions as per 2013 plan - Do not want an increase. Significant uncertainty over future income do to introduction of National Funding Formula - Could be interested in ill health insurance
Wellsway MAT	- Concerned if deficit payments increase above the 2013 levels other than due to reasonable indexation. Schools are in a state of crisis over funding and that this will only worsen over the next few years as funding decreases in real terms. Much is made of the potential of multi academy trusts to generate cost savings through economies of scale, however in reality this can take a long time to realise and we predict that our own Trust will not see significant savings for at least 2 – 3 years. - The consultation towards a national funding formula for schools is delayed and the introduction of the new formula will not happen until September 2018 at the earliest, even then it is likely to be phased in over a number of years. With uncertainty over funding in the meantime we cannot afford for any further increase in costs. I would therefore request that the repayment period should NOT be reduced at this time.
Hayesfield Academy	- Pay increases in line with NJC - Difficult to increase deficit contributions. No increase in funding but staff costs increased. Struggled to set balanced budget in 2016 /17. Had to make cuts - Could be interested in ill health insurance
Clevedon TC	- Supportive of FSS - Request caution when considering DRP to ensure smaller employers can afford the increase particularly with increased provisions from auto-enrolment
Congresbury PC	- LT pay assumption too high as only one member on top of band - increments don't apply. Follow NJC pay awards - Agree should maintain at least same deficit contributions as per 2013 plan - Increase in pressure due to phasing out of the Council Tax Support Grant over next 3 years
Frampton Cotterell PC	- As a small employer, FCPC chooses to rely upon the professional advice of the Fund Manager and the actuarial advisor. - Agree should maintain at least same deficit contributions as per 2013 plan, the Council is committed to, and has budgeted for, the same level of contributions for period 2017/20.

	• Present indications are that the Council's projected contributions are affordable. No single year in the forthcoming period is likely to be either less or more challenging than any other year. • The level of detail in the FSS is sufficient to understand content and implications • Could be interested in ill health insurance depending on premium
Whitchurch PC	• Pay increases in line with NJC • Agree should maintain at least same deficit contributions as per 2013 plan • Could be interested in ill health insurance
Yate TC	• Yate Town Council's pay increases will be in line with the National Local Government pay settlements subject to the impact of the Living Wage Foundations recommendations. • We are content with deficit recovery contributions to be at least the 2013 level while we remain in deficit. • We see no particular problem with affordability over the 2017/20 subject to government continuing with its policy of not capping Town and Parish Councils. • The level of detail is sufficient.
South Gloucestershire Council	• Agree pay increases will be no more than 1% p.a. over the period but aware Autumn Statement may change this. • Highlights implications of introducing the National Living wage over the valuation period • Agrees deficit cash amounts should not be lower than 2013 plan • Disagrees with default 3 year reduction in deficit recovery period on grounds of affordability especially as future service rate will also increase and asks for consideration to retain 2013 deficit recovery period (of 20 years at overall Fund level). • Agrees with ability to phase in increases and pay deficit contributions upfront to help manage council budget
Bath Spa University	• Agrees with salary increase assumptions • Agrees deficit cash amounts should not be lower than 2013 plan • The current level of detail is sufficient to understand what is being proposed, although at this stage it is not possible to quantify the full impact on the University's finances of a shorter deficit recovery period.
UWE	• Concerned about negative impact on affordability of the scheme & financial viability of employers if reduce the medium term DRP objective to 12 years and 17 years for the fund overall at this valuation.
Merlin Housing Association	• Supportive of assumptions for ongoing funding basis. • Queried the use of a more prudent assumption for longevity for calculating exit surplus/deficit – have clarified this is only in event of cessation and not for calculating deficits of active employers. • Maintaining same date by which deficit is recovered is not unreasonable in principle as the alternative approach of pushing out this date at every valuation just results in the deficit never being recovered. However, at this valuation given the deterioration of market conditions we've seen in recent years, there is a risk that maintaining this principle will lead to a material increase in deficit contributions for employers so I would object to the proposed principle without understanding affordability of its impact.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER
TITLE:	Government Actuary’s Department Section 13 Report on LGPS funds	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – GAD Section 13 Dry Run Report – Executive Summary		

1 THE ISSUE

- 1.1 Section 13 of the Public Service Pensions Act 2013 (PSPA2013) requires the Government Actuary (GAD) to report on the valuations of the LGPS funds. It has published a report using the 2013 valuation outcomes and is a “dry run” for actuaries and funds to understand how the GAD will report on Section 13 criteria in the future.
- 1.2 Section 13 requires GAD to report on each fund against four main aims; compliance, consistency, solvency, and long term efficiency. In this dry run report the Avon Pension Fund is evaluated as a fund that has met these aims.
- 1.3 GAD will publish its first formal report following the 2016 valuation. The actuary will discuss the implications of Section 13 on the 2016 valuation when he presents the valuation outcome to the Committee in December.
- 1.4 This report is for information only; it provides a brief overview of the GAD report and how the information relating to the Avon Pension Fund could be used to inform our funding strategy.

2 RECOMMENDATION

That the Committee:-

- 2.1 Notes the Section 13 Dry Run Report.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations in this report.

4 BACKGROUND

4.1 Section 13 of the PSPA2013 requires GAD to report on whether four main aims are achieved at each valuation for each fund in the LGPS. The four main aims are:

- (1) Compliance: whether the fund's valuation is in accordance with the regulations
- (2) Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with other valuations within the LGPS
- (3) Solvency: whether the average rate of employer contribution is set at an appropriate level to ensure the solvency of the fund
- (4) Long term cost efficiency: whether the average rate of employer contributions is set at an appropriate level to ensure long term cost efficiency of the fund.

4.2 Under Section 13 remedial action may be required by funds that do not achieve these aims.

5 DRY RUN REPORT

5.1 This report is extensive and can be accessed in full via the Avon Pension Fund website www.avonpensionfund.org.uk/finance-and-investments, section Funding Strategy Statement. The executive summary has been included in these papers to give an overview of the approach taken by GAD.

Summary of findings

5.2 All funds have complied with the regulations.

5.3 There are inconsistencies in valuation approaches by the actuarial firms in setting assumptions some of which should indeed vary to reflect the membership, risk and investment profiles of the individual funds. The valuation is about setting a reasonable pace of funding given an uncertain future. It must therefore reflect each fund's appetite for risk and a pace of funding that is appropriate. In particular a level of prudence must be built in to the plan so it can cope with adverse events and future affordability pressures. The main issue is whether the assumptions are transparent, reflect the fund's investment strategy, risk appetite and experience, and are consistent with the contributions being paid into the fund over the agreed timeframe.

5.4 Using a standardised reporting basis is helpful for comparing funds. However, it is only a comparison tool and should not be used to drive decisions as the standardised assumptions do not reflect the investment or risk profile of the Avon Pension Fund or any other Fund.

5.5 For solvency and long term cost efficiency measures, GAD has applied a RAG system. Some of the measures are very simplistic and need careful interpretation. GAD itself acknowledges the limitation of their approach in their report.

From our perspective we can use the information to better understand whether our funding strategy is fit for purpose, robust, transparent and achieving the Fund's funding objectives. It should not be used to drive decisions by benchmarking against funds in a "league table" or to consider a green flag

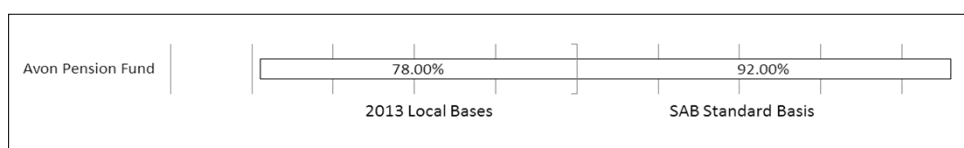
adequate in itself; decisions on funding should be based on the Fund's own experience, risk profile and long term funding and investment objectives.

- 5.6 We expect this report to evolve to improve and provide more clarity in the analysis. Going forward the actuary will assess how the fund stands against these measures as part of the valuation process.

The Published Report

- 5.7 Summaries of the main findings as far as they relate to the Avon Pension Fund are shown below:

Funding Levels: The funding level is higher when calculated by GAD who use a higher discount rate than the one used by the Fund. The GAD discount rate does not relate to the Fund's investment strategy.



Solvency Measures: Shows the rates set in the funding strategy are appropriate to ensure solvency.

Pension Fund	Maturity (Rank)	Solvency Measures					
		Risk Already Present			Emerging Risks		
		SAB Funding Level	Open Fund	Non- Statutory Employees	Liability Shock	Asset Shock	Employer Default
Avon Pension Fund	5.9 (82)	92%	YES	6%	+3%	+4%	+0%

Long Term Cost Efficiency Measures: Shows the Fund meets the criteria used by GAD to assess whether the pace/timing of contributions and return on investment assumption used is consistent with ensuring long term cost efficiency.

Pension Fund	Maturity (Rank)	Long Term Cost Efficiency Measures						
		Relative Considerations				Emerging Risks		
		Deficit Repaid	Deficit Period	Required Return	Repayment Shortfall	Return Scope	Deficit Extension	Interest Cover
Avon Pension Fund	5.9 (82)	>50%	1	2%	16%	4.3%	-3	Yes

6 IMPACT ON 2016 VALUATION

- 6.1 The actuary has previously stated (in the 2016 Funding Strategy Statement workshop) that the Section 13 analysis should not affect our funding strategy as our approach is robust (in terms of pace and level of contributions paid) and transparent. In particular the discount rate used in the actuarial valuation has a clear link with our investment strategy and risk objectives; we have introduced a covenant assessment to ensure individual employer risk to the fund is assessed and monitored on an ongoing basis; we have risk management strategies in place to manage specific liability, investment and employer risks.

7 RISK MANAGEMENT

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

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 N/a

11 ADVICE SOUGHT

11.1 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
Background papers	GAD Section 13 Dry Run Report and Appendices 2013
Please contact the report author if you need to access this report in an alternative format	



Government Actuary's Department

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

Date: July 2016
Author: Ian Boonin FIA
John Bayliss FIA



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1 Executive summary

In connection with the local fund valuations of the Local Government Pension Scheme (LGPS) from 2016, section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved:

- > compliance: whether the fund's valuation is in accordance with the scheme regulations
- > consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- > solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- > long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

We have carried out a "dry run" section 13 analysis based on the 2013 local valuations.

Compliance

We found no evidence of material non-compliance.

Consistency

We found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency

For the two closed passenger transport funds, we are not aware of any plan in place to ensure solvency. Had this not been a dry run exercise we would have engaged with the administering authorities to discuss the need for plans to be put in place.

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

Long term cost efficiency

For the following funds we would have engaged with the administering authority to investigate in more detail whether the aims of section 13 were met:

- > Royal County of Berkshire Pension Fund
- > Somerset County Council Pension Fund

We may also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

Future analysis

Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.



- 1.1 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13

- 1.2 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:
- > compliance: whether the fund's valuation is in accordance with the scheme regulations
 - > consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
 - > solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
 - > long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Purpose of the dry run

- 1.3 The Department of Communities and Local Government ("DCLG") has asked the Government Actuary's Department ("GAD") to carry out a "dry run" based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how we may have approached our analysis had section 13 applied to those valuations. This dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.
- 1.4 Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.
- 1.5 In this dry run report we make no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. We do however highlight areas for some specific funds where the aims of section 13 are potentially not being met, and where we may have then sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.



- 1.6 As part of the dry run analysis, we indicate in this report how the process following production of a draft report under section 13 might have progressed had section 13 applied in terms of engagement with administering authorities prior to finalisation of the report.
- 1.7 In some cases, the data initially provided or disclosed in the valuation report raised additional questions following our initial analysis and concerns raised were allayed following the provision of further information. This serves to highlight the importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms.

Compliance

- 1.8 We found no evidence of non-compliance with the scheme regulations.

Consistency

- 1.9 Under the heading of consistency, we have found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.
- 1.10 The primary areas GAD has analysed are:
- > Common contribution rates
 - > Average actual contributions vs common contribution rate
 - > Assumptions
- 1.11 We have viewed consistency in two ways:
- > Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as the common contribution rate ("CCR"¹) even if these are not explicitly defined in regulations.
 - > Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

¹ CCR has been replaced by primary and secondary rates in regulation 62.



- 1.12 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation, are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes “prudence” for the purposes of regulation 58 of the Local Government Pension Scheme Regulations 2013, and its reference to CIPFA guidance.
- 1.13 We are not expecting the immediate prescription of assumptions. Nevertheless readers of the reports might expect there to be consistency, and that transparent comparisons can be made between funds.
- 1.14 We are only able to conclude under section 13(4)(b) of the PSPS Act 2013 Act that ‘the valuation has been carried out in a way which is not inconsistent with other valuations’, if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.
- 1.15 We appreciate that there are significant challenges to achieving full consistency, particularly in the short term. In the longer term, we would however expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.
- 1.16 We are grateful to the SAB Cost Management and Contributions sub-committee and the SAB Secretariat for developing a standard basis and metrics to enable comparisons between funds and we recommend that the valuation results on the SAB standard basis and associated “dashboard” metrics are published in valuation reports to allow readers to make like for like comparisons.
- 1.17 We recommend that the four actuarial firms who advise administering authorities in carrying out funding valuations should seek to agree a standard way of presenting relevant disclosures in their valuation reports to better facilitate comparison.

Solvency

- 1.18 Under the heading of solvency, we found that a number of our assessment measures were triggered by the two Passenger Transport funds, West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund. These funds are both closed to new entrants. In particular we might have sought to better understand whether the relevant administering authorities had a plan in place to ensure that the fund continues to meet benefits due in an environment of no future employer contributions being available, if section 13 had applied as at 31 March 2013.
- 1.19 A number of amber flags were raised under solvency for the open funds. Had section 13 applied, we may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged. Please see table 5.2 for further detail.



- 1.20 We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board's ("SAB") standardised basis. Had section 13 applied, we may have engaged with some of these funds to better understand how they intended to improve their funding position.
- 1.21 We believe it is important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.
- 1.22 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. To help the understanding of the potential for volatility in contributions, we estimate that the aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis, is an increase in contributions of between £1.7 and £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion).
- 1.23 A more detailed description of the tests and triggers alluded to in the tables below can be found in the relevant sections of this report and are not repeated in this executive summary.

Table 1.1: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA ²	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA ¹	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Long term cost efficiency

- 1.24 For the following funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied:
- > Royal County of Berkshire Pension Fund
 - > Somerset County Council Pension Fund

² The **Employer Default** measure is shown as N/A because there are no statutory employers participating in these two closed funds.



Table 1.2: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No

- 1.25 A number of other funds have triggered flags. We do not consider that these funds are failing to meet the aims of section 13, but we may have encouraged these other funds to provide further information regarding the relevant measures. Please see table 6.2 for further details.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investment Report: Policy and Activities 2015/16		

1 THE ISSUE

- 1.1 The Fund has a Responsible Investing (RI) Policy in place to address the impact of risks arising from RI issues on the investments portfolio. The activity undertaken by the Investment Panel, officers and investment managers to implement the policy is published each year in a Responsible Investment Report.
- 1.2 Transparency and disclosure of the Fund's RI policy and activities is an important element of being a responsible investor.
- 1.3 The Responsible Investment report for 2015/16 is at Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year and incorporates the annual report on Voting Activity from Manifest in an appendix. The report at Appendix 1 will be published on the Fund's website once it has been approved by the Committee.
- 1.4 The Fund's Statement of Compliance with the Stewardship Code has been updated and is included in Section 3 of Appendix 1 for approval by Committee. Additional descriptions and evidence has been included to provide a better overview of the way in which the Fund meets the requirements of the Stewardship Code.
- 1.5 Manifest will attend the meeting to present their report.

2 RECOMMENDATION

The Committee:

- 2.1 Approves the annual Responsible Investment Report for 2015/16
- 2.2 Approves the Fund's Statement of Compliance with the Stewardship Code in Section 3 of Appendix 1.

3 FINANCIAL IMPLICATIONS

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

4 RESPONSIBLE INVESTMENT REPORT

- 4.1 This is the fourth annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The RI policy was agreed in June 2012 and is to be reviewed in Quarter 4 2016. The Fund last updated its compliance statement with the Stewardship Code in June 2013 and Appendix 1 provides an updated statement for approval in Section 3.
- 4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account and the key ways in which the Fund sought to manage these risks during the year were as follows:
- a) Embedded ESG criteria into the evaluation of the tender for the Hedge Fund mandate.
 - b) Monitored whether our investment managers implemented RI policies or approach in line with their stated policy and the Fund sought to influence where appropriate:
 - Held managers to account and queried RI / ESG factors in investment process where appropriate
 - Reviewed whether engagement activity of managers was in line with their policies
 - Highlighted key voting resolutions to investment managers where the resolution related to long term strategic ESG risks (ie; Anglo American, Glencore, Exxon and Chevron shareholder resolutions on carbon management)
 - c) Actively participated in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks. Officers and committee members attended three business meetings during the year.
- 4.3 The trends in voting by investors undertaken by Manifest suggests that there is a gradual improvement in governance standards and the level of risk in the portfolio might be at its lowest point since monitoring began. In 2015 governance concerns were lower than for previous years, although in the emerging and Far Eastern markets the standards are still below those of UK/European markets. The Fund's Managers showed support for shareholder resolutions on sustainability reporting issues and for the first time opposed management significantly more than shareholders in this area. Following the introduction of the vote on Remuneration Policy in the UK all but the most controversial policy proposals received respectable levels of support with a lot of investors adopting a "wait and see" approach with regards to policy proposals. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors. A much higher level of opposition has been seen from Avon managers on remuneration.

5 RISK MANAGEMENT

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

6 EQUALITIES

- 6.1 For information only.

7 CONSULTATION

- 7.1 For information only.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

- 8.1 For Information only.

9 ADVICE SOUGHT

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

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

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Avon Pension Fund

Responsible Investment Report: Policy and Activities 2015/16

Introduction

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

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

The report comprises the following sections:

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Sections 1 and 3 of the report reaffirms the Fund's own Responsible Investment policy and the Fund's compliance with the Financial Reporting Council's Stewardship Code. The main focus of the report is Section 2 which details the RI activity of the Fund in fulfilling its RI policy objectives. Section 2 is broken down as follows:

- A. Investment Strategy and Change to Investments Mandates: providing an overview on how the Fund integrated RI issues into decision making when implementing changes to strategy or manager structure.
- B. Investment manager activity, updates and engagement highlights: summarising the areas of engagement and collaboration undertaken by the Fund's Investment managers throughout the year, the policy updates made and surveys and initiatives partaken in.
- C. Voting analysis: Analysis of LAPFF alerts and Manifest Information Services Ltd who undertake analysis of shareholder voting at the Avon Pension Fund. Their report seeks to put Avon's fund manager voting behaviour into a comparative and wider context, this report is included at the Appendix.
- D. Engagement activity of LAPFF and the Avon Pension Fund: summarising the ESG areas which LAPFF engaged on throughout the year and the engagement of the Fund.

Executive Summary

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

Strategy

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation of the tenders for the Hedge Fund mandate.
- The Fund's R. I. Policy is to be reviewed by committee in 2016.

Manager Monitoring

- Promoted Responsible Investment / Environmental, Social and Governance by:
 - Following through with issues identified throughout the year by the Fund's Committee and Investment Panel.
 - Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
 - Reviewing whether engagement activity of managers was in line with their stated policies.

Voting Analysis

- The trends in voting by investors undertaken by Manifest suggest that there is a gradual improvement in governance standards within the portfolio and the level of governance risk in the portfolio might be at its lowest point since monitoring began.
- In 2015 governance concerns were lower than for previous years, although in the Emerging and Far Eastern markets the standards are still below those of UK/European markets. Managers showed support for shareholder resolutions on sustainability reporting issues and for the first time opposed management significantly more than average shareholders in this area.
- Following the introduction of the vote on Remuneration Policy in the UK all but the most controversial policy proposals received respectable levels of support with a lot of investors adopting a "wait and see" approach with regards to policy proposals. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors. A much higher level of opposition has been seen from Avon managers on remuneration.

Engagement and Collaboration

- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and committee members attended four business meetings during the year.

More detail on each area is provided within Section 2 of this report.

Section 1 - Responsible Investment Policy

The Fund's current RI policy is set out below. The additional blue text shows where and how the fund implemented the policy during the year.

Avon Pension Fund Responsible Investment Policy

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

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

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

Policy

	Met	Section
• The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes. This is evidenced by evaluating the following as part of the strategic investment review process: ○ The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing. ○ Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value. ○ Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund. • The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that	✓ ✓	<u>2. A - Investment Strategy and Change to Investment Mandates</u> <u>Jupiter R.I Mandate</u>

exclude or positively select investments could be appropriate for particular mandates.

- The Fund requires its active investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles (SIP). ✓ [Statement of Investment Principles \(SIP\)](#)
- When appointing external investment managers, the Fund: ✓ [2.A - Investment Strategy and Change to Investment Mandates](#)
 - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and makes use of this as an integral part of the selection process when relevant.
 - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
 - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.
- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets. ✓ [2.B.2 Manager Updates](#)
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role. ✓ [Section 3: Stewardship Code](#)
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible. ✓ [2.C - Voting Analysis](#)
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives. ✓ [2.D.2 LAPFF Engagement Activity](#)
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles. ✓ [Section 2 - Responsible Investing Activity](#)
- The Fund encourages its external investment managers to become UNPRI signatories. ✓ [2.B.2 UNPRI](#)
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a ✓ [Section 2 - Responsible Investing Activity in](#)

Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.

[2015/16](#)

- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

✓

[Executive Summary](#)

Section 2 - Responsible Investing Activity in 2015/16

The activity of the Fund is described across 4 main areas as follows:

- At the strategic level and how it incorporates assessment of RI risks in strategic decisions
- Investment manager activity – monitor, direct and influence
- Voting analysis – themes, trends and progress
- Engagement and collaboration – manager, LAPFF and Fund

The activity described within the report demonstrates the Fund's support of the UNPRI principles which are:

UNPRI Principle

APF Support

1: Incorporate ESG issues into Investment analysis and decision-making process -

[RI Policy](#)

2: Active owners, incorporate ESG issues into our ownership policies and practices

[RI Policy](#)

3: APF seeks appropriate disclosure on ESG issues by the entities in which we invest

[2.B](#)

4: Promote acceptance and implementation of the principles within the investment industry

[RI Policy, 2.B.2](#)

5: Work together to enhance our effectiveness in implementing the principles

[2.D.2](#)

6: Report on activities and progress towards implementing the principles

[2.D.3](#)

2.A - Investment Strategy and Change to Investment Mandates

The following section highlights the Investment Strategy changes for the year and summarises how RI was assessed throughout the process.

In March 2013 the Fund adopted a new Investment Strategy. While there were no changes to the strategic allocation during the year the Fund did implement the revised Hedge Fund Strategy and completed implementing the Infrastructure manager. JP Morgan, the Fund's new Hedge Fund Manager were allocated 5% in July 2015. In addition the Fund is in the process of implementing a Liability Driven Investment (LDI) strategy which will be completed in 2016/17 and covered within next year's report.

The following table summarises the Fund's evaluation of RI characteristics for the new Hedge Fund Manager and the Infrastructure Manager:

Asset Class	Can ESG Risks be Managed?	Notes
Fund of Hedge Funds (FoHF)	Limited	HF managers focus on short term investment, diversification and alpha whereas ESG analysis tends to have a medium to long-term horizon given that it can be fairly volatile short term and tends to add value over time. Due to the nature of the investment there is less scope to reflect the Fund's ESG policy through a HF investment compared to equity mandates.
Infrastructure	Partially	An investment in infrastructure can support environmental and social projects, although whether a sufficient return is achievable for risks taken on needs to be carefully considered. The risks of disposal of assets that are no longer useful must be carefully considered, as must any environmental impact of building work, both of which could have financial implications for any investment.

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

Although the scope for reflecting the Fund's ESG policy within the HF search was limited, the tender questionnaire assessed the corporate approach to incorporating ESG into their investment process of each manager as follows:

- Do they have a team responsible for corporate governance and responsible investing?
- Is the organisation a signatory to UNPRI?
- To what extent are the principles of UNPRI reflected in the product offered?

A summary of the current investment mandates and their approach to ESG can be found in Appendix 2.

2.B - Investment Managers Activity and Ongoing Monitoring

This section sets out the Avon Pension Fund's Policy on monitoring Manager activity and provides an overview on the monitoring carried out by the Investment Panel along with updates and engagement highlights from the Fund's Managers.

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

The Fund's investment managers provided a statement on how they take ESG factors into account in their investment decision making processes. These can be found in appendices to the SIP.

2.B.1 Investment Panel Monitoring Activity

The Panel met with 4 investment managers and raised the following specific RI issues.

Blackrock – at the request of the panel Blackrock presented their ESG framework as part of the investment process, in particular stressed governance and the environment.

Pyrford – discussed how MSCI specialist ESG research used during company research process. Senior management interviewed on areas of ESG controversy and ESG on agenda for monthly stock selection committee meetings.

RLAM – highlighted importance of responsible investment in their engagement and discussed how they routinely question company management, exercise voting rights and incorporate ESG risk analysis in investment process.

Unigestion – quantitative and qualitative analysis carried out and voting rights carried out using ISS's Sustainable voting policy. In response to Panel/Officer influence Unigestion are now reporting carbon exposure.

B.2 Manager Updates

Investment managers provided updates on their RI policy and activity which provides an overview of where they focused and engaged throughout the year. The key points are as follows:

- All of the Fund's Investment Managers are now signatories to the Principles for Responsible Investment (PRI) with the addition of TT in 2016.
- BlackRock, Genesis, IFM, JP Morgan, Jupiter, Partners, Pyrford, Royal London, Schroder, SSgA, Standard Life and Unigestion all submitted a 2015/16 RI Transparency Report to the PRI.
- 7 of our Investment Managers were ranked within the 2015 Share Action survey. Jupiter were ranked particularly highly (3rd). The survey is an independent assessment of the managers RI performance in the UK and seeks to identify whether these firms are behaving as responsible investors and addressing ESG

issues with companies. Fund's managers have expressed willingness to participate in the next Survey which is anticipated for 2016/17.

In addition manager specific updates as follows:

Blackrock:

- Updated their Proxy voting guidelines to give more details on the purpose of their engagement and on the topics that they wish to cover during their engagement. They have defined expectations concerning the powers of a lead independent director, stressing that he/she should be a point of contact for shareholders. Amendments were also made to the length of tenure for independent directors and the number of mandates that a board member could have at once.
- Submitted a response to the public consultation on proposed revisions to the Dutch Corporate Governance Code highlighting that there was room for greater clarity on accountability when designing methodologies to measure progress against goals and reporting, and that supervisory boards should engage with shareholders.
- Fed into the European Commission consultation on Long-term and Sustainable Investment highlighting the continued increase in demand from clients to factor ESG into the Investment process.

Invesco Perpetual:

- Invesco started a specialised engagement process regarding Terrorism Oil and Social Media in order to identify companies that are exposed to the highest level of risk in these areas.
- Invesco participated in regular ESG surveys such as FNG (Forum für nachhaltige Geldanlagen), an industry association promoting sustainable investment in Continental Europe and Partners for Sustainability (formerly Care Group) a platform and a forum for sustainability investments and issues.
- Invesco Perpetual continue to utilise EIRIS to carry out engagement in areas such as Bribery, Climate Change, Human Rights and Supply Chain Labour Standards.

Jupiter:

- Updated their UK Stewardship Code Statement in January 2016 and in June were advised that they had been awarded Tier 1 for meeting the FRC's expectations in relation to stewardship activities.
- Submitted a response to the annual UNPRI Transparency report and maintained the top-grade A+ rating.
- At the time of writing this report the Portfolio was fossil free.
- Provided feedback on FRC's UK Succession Planning paper and attended discussions on corporate culture and the role of boards.
- Jupiter provided feedback to the Investment Association (IA) on a disclosure framework which is working on transparency around the stewardship activities of asset managers.

Pyrford:

- Changed ESG provider to MSCI to provide advice and support in the area of research.
- Submitted first UNPRI verification statement after becoming a signatory in June 2014.

Royal London:

- Royal London produced quarterly responsible investment bulletins.
- Royal London has participated in a number of policy consultations with companies, particularly concerning remuneration which has been a key concentration for 2015/16.

Schroders:

- Schroder updated their statement of compliance with the UK Stewardship Code, retained their A+ rating in their PRI 2016 assessment and participated in the EUROSIF Survey.
- They responded to the UK Governments consultation on 'Investor confidence in the UK energy Sector and submitted a response to the European Securities and Markets Authority (ESMA) on the role of Proxy Voting Research Providers in Corporate Governance.
- Won Charity Times Better Society Awards for Asset Manager of the Year 2015.
- Worked with consultant Sustainable Commercial Solutions to establish an analysis framework for their property portfolios. As a result Schroders completes the GRESB (Global Real Estate Sustainability Benchmark) survey to benchmark performance in the industry.
- Head of RI within Cazenove Capital Business was elected to serve on UK Sustainable Investment and Finance Association (UKSIF) Board.
- Presented at NAPF seminars on the importance of ESG integration into investment processes.
- Produced various thematic reports which Schroder believe play an important part in integrating ESG into the investment process. Such reports covered water risk, carbon risk, sugar and the living wage.

SSgA:

- Updated their proxy voting policy in relation to director elections and board structure and also strengthened their conflicts policy.
- Participated in UN Principles for Responsible Investment and the RUC Fund Manager Voting Survey.
- Identified Debt Issuance and Borrowing Limits as an area of concern and voted against over 50% requests by companies, in comparison to ISS recommendation of 89%.
- Identified their 2016 RI priorities as: targeting Information Technology and Automotive companies as well as following up engagement with Global systemically Important Financial Institutions (SIFIs), a thematic focus on Board

composition and leadership, pay strategies, Climate change and water management.

TT:

- Became a signatory to the UN PRI.
- Identified increasing scrutiny on remuneration packages. TT has been particularly attentive to this issue and been very willing to reject resolutions on pay where the amounts were excessive and not justifiable.

Unigestion:

- Updated their Responsible Investment policy. Unigestion now exclude securities with excessive carbon emissions as well as those involved in controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons).
- Participated in OECD Survey on Investment Governance and the integration of Environmental, Social and Governance (ESG) Factors.
- Participating in a working group with PRI charged with creating a standard ESG due diligence questionnaire for Hedge Funds and in the Corporate Carbon Disclosure collaborative engagement organised by PRI with the aim of increasing the number of corporations reporting on their carbon emissions.
- Signatories of Montreal Carbon Pledge.
- Focus for coming year will be continued work of carbon disclosure and reducing footprint in equities portfolios.
- Moved from a C to an A rating in their PRI Pilot Assessment Report.

Standard Life:

- Taking part in a consultation launched by SEC on sustainable reporting
- Participated in numerous policy consultations such as providing views on the evolution of responsible investment.
- A member of EEFAMA (Europe European Fund and Asset Management Association).
- Publish Quarterly R.I reports and white papers through the year.
- Collaborate with the University of Cambridge on RI/ESG.

2. B.3 Engagement Highlights

The table below demonstrates engagement undertaken by the Fund's Investment Managers. Included in the examples are some companies that the Fund did not hold during the year, these have been included to demonstrate the range of actions undertaken by the Fund's Managers.

Manager	Company	Action	Outcome
Manager A	Glencore	Requested that management address the future of coal and carbon scenario planning	Recognised fossil fuel impacts on climate change as a business risk within its annual report (May 2015)
	BHP Billiton	1. Met with Head of Environment to discuss climate change and requested internal carbon price and scenarios 2. Wrote to the board to re-iterate the request	Company published scenario analysis and climate risk out of 2013 and disclosed internal carbon price (September 2015)
	Deutsche Bank	Encouraged disclosure of steps taken to address risk and compliance issues, in particular those addressing banking culture	Company made clear that external appointments had been made to address concerns, and gave some reassurance on compliance oversight (November 2015)
	J Sainsbury	Raised concerns regarding the company's change of policy on its customer loyalty card, which involved doubling points for fuel which is not consistent with the company's sustainability programme, and also represented a brand risk	We received a letter from the CFO confirming that Nectar points for fuel will return to only one point per pound spent on fuel, versus the previous double point system which was not aligned with the company's environmental strategy
Manager B	Arkema Group	Expressed the importance of adding a lead independent director to strengthen board leadership and oversight of management	Company subsequently introduced a new lead independent director position on the board with a clearly defined role and responsibility
Manager C	Technology & Engineering company	Lobbied for the company to make a public statement that they would not produce cluster munitions or anti-personnel land mines	Initially refused as main customer was government and felt obliged to meet their requirements. After further discussion in November 2015 wrote to commit that they would no longer produce that type of weaponry
Manager D	Sports Direct	Engaged with company on governance concerns principally, zero hour contracts and growing non-core acquisitions/partnerships	Voted against re-election of the chairman due to lack of relevant experience. In October criminal proceedings against CEO signalled that governance concerns were growing, the decision was made to "vote with our feet" and the entire holding was sold

B.4 Trends identified by our investment managers and recent market developments

This section identifies what areas our investment managers noted during the year and their awareness of the RI/ESG risks or benefits of these trends and developments.

Best Practice:

- The Financial Reporting Council announced that it would be introducing public tiering of signatories to the UK Stewardship Code to improve reporting against the principles of the code and in a bid to increase market incentive in support of engagement.

Remuneration:

- Next year will be the second in which a number of UK issuers will have to submit two remuneration-related proposals; the first being an advisory vote on the remuneration report and secondly a binding vote on future policy. This was highlighted in last year's report.

Voting Rights:

- One manager noted a continued concern for a potentially concerning trend across European markets where countries are introducing or re-enforcing the existing rules on multiple voting rights.

Environmental

- During 2015 France passed a law introducing mandatory climate change-related reporting for institutional investors.
- In December 2015 196 countries adopted the Paris agreement to reduce greenhouse gas emission increases with the aim of limiting global temperature increases to below 2oC by 2020.

Social:

- In July 2015 the government announced a compulsory national living wage which would be introduced in April 2016.
- Large companies are now required to publish a statement setting out steps taken to ensure that slavery and human trafficking are not taking place in their supply chain or any part of their business following The Modern Slavery Act receiving Royal Assent and becoming law on 26th March 2015.

2.C - Voting Analysis

Section C examines at a high level the overall voting undertaken on behalf of the Fund by its Managers, the voting themes, shareholder comparisons and conclusion. It summarises the LAPFF alerts the Fund forwarded to the relevant managers for the year and the rationale of managers when voting differed to LAPFF's recommendation.

The Fund seeks to analyse the proxy voting activity of the Fund's investment managers to understand how managers are utilising their voting rights in conjunction with their engagement activity.

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

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

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio.

Manifest's report is included in the Appendix. The key points from the 2015 report were as follows:

- It is the 5th annual report from Manifest (4th year where a full year of data was available for analysis).
- Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 3.75% of resolutions.
- Investment managers opposed management marginally more compared to 2014 which may imply a general improvement in governance standards or increased ongoing engagement practices.
- Of the 16,424 resolutions analysed in 2015; 5,977 were resolutions where the Voting Template (best practice) highlighted potential governance concerns and where fund managers supported management. This may seem like a relatively high proportion but it should be noted that not all concerns merit a vote against management, especially where managers use engagement to voice concerns and bring about change.
- The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that investment managers are increasingly not afraid to apply their own judgement on these issues.
- The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, Jupiter

incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore it should be expected that there is less reason to vote against management.

- Board balance and remuneration issues remain the most frequent concerns identified, partly because they are the substantial issues of the most frequently voted resolutions.
 - Committee independence related concerns were again prominent issues; although there are signs that companies in general are addressing these concerns. With increasing focus on ESG issues, we may be seeing an overall improvement at the same time.
- Remuneration related resolutions remain the most contentious resolutions proposed by management in 2015 and continue to have the lowest level of alignment with governance best practice analysis.
- Some regulatory developments in 2015 give a potential hint as to what issues may be of significance next year. These include incentive performance measures, climate change and auditor independence.

2.C.1 Voting Alerts

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 8 companies for which LAPFF issued a voting alert during the year; the table is split across 8 issue categories. Note that some companies appear across multiple categories.

Election of Chair / CEO / Directors	Approve / receive annual report / accounts	Special resolution: Strategic Resilience for 2035 and Beyond	Conduct an independent review of North American school bus operations
Sports Direct =	Sports Direct *	BP (SH) ✓	National Express (SH) ✓
Sports Direct *		Royal Dutch Shell (SH) ✓	
		Statoil-hydro ASA (SH) ✓	
Amendment to Company's Constitution	Report On carbon Risk	Adopt Dividend Policy	Adopt targets to reduce GHG emissions
AGL Energy (SH) ✓	Anadarko ✓	Chevron Corp ✓	Chevron Corp ✓

Colour and symbol denotes LAPFF voting recommendation SH denotes Shareholder resolution

Oppose *
Abstain =
For ✓

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

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

Company	Resolution	LAPFF	Management Recommendation	Manager 1	Manager 2	Manager 3	Manager 4
National Express	Conduct an independent review of North American school bus operations (shareholder proposal)	FOR ✓	OPPOSE ✖	OPPOSE ✖	OPPOSE ✖		
Anadarko	Report on Carbon Risk	FOR ✓	OPPOSE ✖	OPPOSE ✖			FOR ✓
Chevron Corp	Adopt dividend policy	FOR ✓	OPPOSE ✖	OPPOSE ✖			OPPOSE ✖
	Adopt targets to reduce GHG emissions	FOR ✓	OPPOSE ✖	OPPOSE ✖			OPPOSE ✖
Sports Direct	Receive annual report	OPPOSE ✖	FOR ✓	FOR ✓		FOR ✓	
	Re-elect Keith Hellawell	Abstain =	FOR ✓	FOR ✓		Abstain =	
	Re-elect Mike Ashley	OPPOSE ✖	FOR ✓	FOR ✓		FOR ✓	
AGL Energy	Amendment to Company's Constitution (shareholder proposal)	FOR ✓	OPPOSE ✖	OPPOSE ✖			

Colour and symbol denotes LAPFF voting recommendation

Oppose ✖

Abstain =

For ✓

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

National Express (shareholder resolution):

- Manager 1 engaged with both the Chairman of National Express as well as Teamsters representatives on a number of occasions. The Focus of discussions was the ongoing Labour Disputes in the US. The level of Board oversight on the issue, the actions taken by the company in response to the allegations, and the progress it had made in specific areas since the previous year were all taken into consideration when making the decision, along with assessing the shareholder proposal against the status of the investigations/case appeal that was in progress at the time.
- Manager 2 based their decision upon dialogue with the Teamsters Union and the International Transport Workers Federation as well as several engagements with the company themselves that covered the matter in detail. This dialogue included two meetings with the Chairman in the year to date as well as routine meetings with the executive management team throughout the financial calendar. The decision therefore built on the manager's extensive engagement with the company in recent years on the subject of employee relations and safety. Manager 2 has confidence that management is acting with appropriate responsibility in respect of these matters and respect the progress demonstrated in recent years.

Anadarko:

- Manager 1 stated that in our assessment of the shareholder proposal seeking a report on carbon risk, we considered, among other things: the company's published approach to risk analysis, the board's longstanding oversight of climate-related risk, the company's participation in the CDP, including reporting of

its GHG emissions data, and the potential for diversion of limited resources to additional reporting without commensurate benefit to shareholders. We determined that additional reporting was not in shareholders' best interests at the company at that time.

Chevron Corp (Adopt dividend policy):

- Manager 1 reported that they have engaged with the company a number of times to discuss its climate change risks and potential stranded assets issue. The company ensured us that its carbon cost analysis and investment decisions are based on a thorough assessment of ranges of future policy and economic growth outcomes. The company also emphasized that its management and the Board consistently discuss and oversee the climate change risk issues to better position the company against its peers for the future. We do not believe that a special dividend related to climate change risks at this time is the best use of the company's capital, while investing in more proper energy efficient projects in a potentially low carbon world or during periods of low oil prices would be more beneficial to shareholders in the long-run. As a result, we believe that such a special dividend is not necessary at this time and that Chevron's management is best situated to determine the avenue for shareholder value creation.
- Manager 4 reported that a vote against this proposal is warranted given that a policy to distribute dividends would restrict management's ability to determine where appropriate investments could be made to ensure the company's long-term viability in a changing environment.

Chevron Corp (Targets to reduce GHG Emissions):

- Manager 1 advised that according to the company, setting unilateral emissions targets would be unnecessary, an inefficient use of resources, and a potential competitive disadvantage. The board states that Chevron's CDP (formerly Carbon Disclosure Project) score for its emissions performance disclosure leads integrated oil and gas companies. The company sets yearly targets for its CO2 emissions and breaks down its GHG emissions by sector (upstream, midstream, downstream), source (combustion, flaring & venting, other), GHG type (CO2, methane, nitrous oxide, other), and "type" (direct, indirect, grid credits). Chevron also discloses quantitative metrics related to its energy consumption. We believe the company already has policies in reviewing its GHG emission issues and such corporate policy decisions are best left to the Board, absent demonstrable harm to shareholders by prior Board action or inaction. The board can be held accountable for its decisions through the election of directors.
- Manager 4 advised that the company provides sufficient information regarding its greenhouse gas emissions to allow shareholders to assess the company's management of these emissions and related performance.

Sports Direct (re-elect Mike Ashley):

- Manager 1 has had on-going dialogue with the company in recent years on a number of governance matters, and they continue to engage with the Board. Board skills and composition, including balance of independence, are areas they regularly probe with the companies with whom they meet.
- Manager 3 stated that whilst they shared some of the concerns that relate to Mike Ashley having excessive control over the board, they felt given his central role to

the company and its strategy that it wasn't in the best interests of the company's prospects to vote against his re-election.

Sports Direct (receive annual report):

- Manager 1 regards the primary purpose of this proposal to be to acknowledge that the reports were received in a timely manner and in accordance with the IFRS framework. They do not use it as a tool to signal governance concerns to the company.
- Manager 3 noted that the Forum's principal concern was regarding Mr Hellawell's qualifications for the role of Chairman. We too shared these concerns given his lack of apparent relevant experience, and as such voted to abstain from his re-election. However, given that we were abstaining from his re-election, we felt it wasn't necessary to not receive the Annual Report as well.

AGL Energy (shareholder resolution):

- Manager 1 assessed that the company has already considered these issues and provides robust disclosure on relevant policies, initiatives, oversight mechanisms, and performance and we were not convinced that adoption of this proposal was necessary as a result. We note that the company has significant exposure to climate change risks; however it has communicated information concerning its risk exposure and how it plans to mitigate these risks to shareholders. For example, the company has made a commitment to close all of its coal-fired power plants by 2050 and to not extend the operating life of any of its existing coal-fired power stations, highlighting the company's move to diversification of its power generation and supply activities.

2.C.2 Overall Voting

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

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	8,450	98.57%	97.45%	68.52%
State Street	2,457	92.90%	95.48%	69.39%
Invesco	2,426	89.90%	94.56%	39.11%
TT International	1,202	99.67%	97.21%	38.22%
Jupiter	1,101	97.64%	97.36%	70.03%
Schroder	360	96.39%	95.99%	51.94%
Genesis	258	86.89%	97.99%	54.65%
Pyrford	170	99.41%	97.47%	82.94%
Total	16,424	96.25%	96.73%	63.96%

The above table highlights the following:

- In terms of overall patterns of voting behaviour, Avon's Fund managers voted with management a high proportion of the time (96.25%), marginally behind General Shareholders (96.73%). Shareholders supported management less so in 2014 at 96.36%, Manager support has fallen slightly since 2014 from 96.44% but is still higher than support shown in 2013 94.83%
- As expected the 'Template For Management' (as a proxy for compliance with corporate governance best practice expectations) identified potential governance issues on a far higher proportion of resolutions than the fund managers chose to oppose. The companies in Pyrford, Jupiter, State Street, and BlackRock display a comparatively higher level of compliance with governance best practice.
- Jupiter's high support for management (higher than the average of Avon's managers) and relatively high 'Template For Management' data suggests as would be expected Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making as a Socially Responsible Investment mandate. Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with. In addition, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.

- State Street, Genesis and Invesco's support for management is all notably lower than general shareholder support. As overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer.

2.C.3 Voting Themes and Conclusion

The Manifest voting analysis also identifies some common themes:

- The results of the analysis show that Fund managers are voting with management marginally less than shareholders in general. The level of governance risk in the Avon portfolios might be at its lowest point since this monitoring began.
- For the first time in analysis, Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.
- Avon's fund managers are consistently much more likely to oppose approvals of related transactions. This is because related party and especially significant transactions may well entail significant potential conflicts of interest.
- When it comes to shareholder rights protections, Avon's managers are very well motivated to protect their interest and those of their clients, and much better so by comparison with the previous year.
- The proportion of resolutions where management opposed without identification of governance concerns (approximately 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that fund managers are increasingly not afraid to apply their own (investment) judgement on board related issues.
- Although the volume (in absolute terms) of the most common governance concerns that Manifest identified is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board related considerations.
- The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners.
 - 5 of the top 8 concerns identified relate to director independence and the effect that has on the functioning of the board and its committees. This is identical to the pattern of 2014.
- The second most common group of issues identified relate to remuneration, along with director elections concerns remain as prevalent today as they did 5 years ago. Remuneration related resolutions continue to be the most contentious, attracting the highest average level of dissent and high levels of opposition from Avon's Managers.
- The introduction of the vote on Remuneration Policy in the UK has had a large effect on shareholder voting. With a lot of investors adopting a "wait and see" approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it

was often at a very high level, suggesting a more targeted approach on the part of investors.

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

- By and large corporate governance risk-related issues change over the long term, rather than due to short term pressures.
- We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.
- What is more important is to understand how the fund's managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this.
- The four year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.
- The report shows evidence that governance concerns at portfolio companies during 2015 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control.
- It is anticipated that incentive performance measures will continue to be a prominent theme, climate change, auditor independence, auditor tender and audit fees may prove to be prominent themes in commentary in 2016.

2.D - Engagement and Collaboration

Section D contains details of the ESG areas LAPFF engaged on and summarises some of the outcomes achieved along with the Fund's engagement and outcome.

Engagement and collaboration activity is undertaken by the Fund's external investment managers (described in section 2.B) on the Fund's behalf and directly by the Fund through its membership of LAPFF.

2.D.1 Investment Manager Engagement

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

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

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

Manager activity is described in greater detail in section 2.B.2

2.D.2 LAPFF Engagement Activity

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Committee members and Officers attended all three LAPFF business meetings in 2015/16. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report. LAPFF groups its engagement activities within the following categories and highlights this year are discussed below.

Leadership on key campaigns:

- Board Diversity (LAPFF continues to engage with companies on this issue):
 - Attended the Sky plc AGM and raised concerns over the proportion of 21st Century Fox representatives on the sky board. The board make-up remains problematic in the face of anti-trust litigation against sky.
 - LAPFF participated in an Equality and Human Rights Commission Inquiry roundtable into the recruitment and appointment of board directors. The appointment of women to boards was of particular interest during the roundtable discussion. Cllr Mary Barnett represented LAPFF at the Inquiry.
 - LAPFF attended a roundtable inquiry hosted by the Equality and Human Right Commission (EHRC) on FTSE 350 recruitment and appointment of

board directors. Raised challenges still faced in improving representation on women on boards.

- The 30% Club Investor Group, of which LAPFF is a member, has responded to the Government Equality Office's Gender Pay Gap consultation which strongly supports publication of gender pay information to encourage employers to take action to help close this gap.
- Cluster Munitions:
 - Last year LAPFF contacted 9 companies in the aerospace and defence sectors to clarify their awareness and adherence to the Oslo convention. Outcome: Following this the forum received a letter from ST Engineering stating that the company is 'no longer in the business of designing, producing and selling anti-personnel mines and cluster munitions or any related components' and was informed that the letter had a big influence on reaching this decision.

Promoting good governance:

- Reliable Accounts:
 - Held a meeting with Barclays to discuss publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. Subsequently, Sir John has left the Barclays board.
- Executive Pay (LAPFF has taken an increasingly public approach to tackling the complexity of pay and high pay):
 - A letter was sent to Tesco's in February concerning the lack of malus provision in executive remuneration contracts. Outcome: Tesco announced provisions to claw back bonuses from its CEO and Finance Director. The move came after senior executives, who were in place during the accounting scandal, left the company with high pay outs.
- Tax Transparency
 - CTTI Corporate Tax Initiative questionnaire.
 - Tax expert, Richard Murphy, has analysed company responses to the Corporate Tax Transparency Initiative (CTTI) survey sent by LAPFF to the FTSE 100 earlier in the year. His summary report suggests a continued reluctance by many companies to engage on this issue, but there are particular areas that some major companies have identified that suggest possible ways forward to progress corporate tax transparency.
 - As part of its Corporate Tax Transparency Initiative, the Forum has written to the FTSE 100 seeking disclosure on existing tax practices, transparency, reporting, potential risks and assessment of future policy changes. This project leads out of the tax governance reform principles raised in the LAPFF led Pre-G20 Investor Statement.

Managing environment risk:

- Palm Oil:

- Building on last year's work that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. The Forum co-signed a letter pressing the Roundtable on Sustainable Palm Oil (RSPO) to adopt more stringent standards on palm oil production. This is now a 'spot tool' that investors can use to help identify sustainable producers of palm oil.
- Energy and Environmental Risk:
 - Shareholder resolutions, Co-filed by LAPFF, on strategic resilience achieved unprecedented levels of support with votes in favour of over 90% at BP and nearly 99% at Shell.
 - The Forum also supported a shareholder resolution to Chevron requesting that the board adopt a dividend policy increasing the amount authorised for distribution to shareholders in light of the growing potential for stranded assets and decreasing profitability associated with capital expenditures on high cost projects. Outcome: Resolution was opposed.
 - A voting alert on a shareholder resolution to the Anadarko general meeting supported a request for the company to address the risk of stranded assets and demand reductions for oil and gas, including analysis of long and short term financial and operational risks to the company. Outcome: Resolution was opposed.
 - In unison with other investors a letter was sent to Total asking the company for a commitment to disclose according to the five elements of the strategic resilience resolution, which includes the two degree scenario. Outcome: In March minutes were released indicating that directors had agreed to publish this information at the May AGM.
 - LAPFF has also joined other investment institutions in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.
 - LAPFF co-signed a global investor letter aiming to promote a meaningful climate change agreement at the COP in Paris. Asked for a long term global emissions goal: and submission of short to medium-term emissions pledged and country level action plans.
 - At last year's National Grid AGM LAPFF were informed that they were the first investor group to raise the issue of progress on monitoring scope 3 emissions. The issue of measurement and reporting was raised again at this year's AGM Outcome: Company announced it is likely to disclose its scope 3 emissions starting next year.
 - Carbon Tracker – international investor meeting on strategies for 2016 and beyond.

Targeting social issues:

- Employment Standards:
 - Several LAPFF funds co-filed a shareholder resolution to the National Express AGM, requesting an independent assessment of labour relations at the company's US subsidiary, Durham school services. Outcome: Almost a quarter of independent shareholders failed to back National Express, the highest level of support for a shareholder resolution on employee rights.
 - LAPFF was once again invited to attend the Nestlé roundtable where a request was made to review the company's reporting on labour rights in the supply chain so that the company is compliant with reporting requirements in the new Modern Slavery Act. Outcome: Chairman agreed to review company's reporting.
 - LAPFF members attended AGM's and queried Balfour Beatty about blacklisting and labour standards in supply chains along with Carillion and Next were questioned about second and third-tier supplier risks under Bangladesh Accord. Outcome: The representation has boosted awareness of LAPFF with these companies and with other shareholders and is helpful in securing meetings with board members.
- Social and Reputational Risks:
 - The Forum has signed on to an investor Clinical Trial Transparency Initiative which highlights the importance of clinical trials and request that companies publish complete and accurate information on trial results so that investors can make fully informed decisions.
 - LAPFF met again with Trinity Mirror Group Chairman, David Grigson, to discuss the company's strategy and progress on dealing with phone hacking claims. The Company seems to have taken LAPFF suggestions on board and is taking positive steps to resolve challenges, both in relation to strategy and hacking.

In addition:

- LAPFF wrote to all FTSE 350 companies indicating that they should disregard guidance and statements from the financial reporting council in order for directors to meet their legal obligations.
- LAPFF submitted a consultation response to the Hong Kong Stock Exchange, which is seeking to revise its environmental, social and governance (ESG) guidance to issuers. Support was voiced for the Exchange's intention to move toward comply or explain reporting for a number of ESG metrics.
- LAPFF Chairman, Kieran Quinn, listed as number 17 on Accountancy Age's financial power list for 2016. Membership has increased from 61 to 70 adding to collaboration and influence.
- LAPFF engaged 71 times with a total of 54 companies in 2015/16 through various methods which include attending meetings, attending AGM's, sending letters to and having a dialogue with the company.

2.D.3 Avon Pension Fund Activity

In addition the Fund participated in a variety of activities during the year as follows:

- Following success with BP and Royal Dutch Shell the 'Aiming for A' coalition which includes LAPFF continued this year with preparations for shareholder resolutions for Anglo American April 16, Glencore May 16 and Rio Tinto May 16.

The Fund was supportive of LAPFF's backing to the coalition. The resolution was publicly supported by the Fund, Co-filed for Rio-Tinto, and covered 5 areas:

- Ongoing operational emissions management
 - Asset portfolio resilience to post-2035 scenarios
 - Low carbon energy R&D and investment strategies
 - Strategic KPIs and executive incentives
 - Public policy interventions
 - **Outcome:** Anglo American resolution received 96.25% support, Glencore 98.07% and Rio Tinto 99.16%
- The Fund forwarded all LAPFF voting alerts to the relevant investment managers, monitored the voting outcomes and questioned the investment managers where they did not vote in line with the LAPFF voting recommendation.
 - The Fund continued to engage with its investment managers on a number of topics throughout the year, such as living wage, climate change and board diversity, which the Fund's committee and Investment Panel had identified as particular areas to address. Through this on-going communication and questioning the Fund's managers are reminded of the importance that the Fund places on the engagement activities undertaken by them.
 - The Fund sent letters to Managers surrounding Funding of Terrorists asking for Engagement and feedback on the following:
 - Gain reassurance that the underlying investments of the fund (the businesses it is invested in) are not involved in the sale or purchase of ISIS oils or in any funds settlement process associated with any such sales or purchase.
 - Engage with content providers and Internet Service Providers as to the processes they have in place to manage and monitor the user of their service by terrorist organisations, given the use of social media to spread their message and recruit new followers.
 - **Outcome:** Invesco, Jupiter and Standard Life have/are undertaking specific engagement with banks and ISPs in response to the Fund's request. RLAM and Genesis have been actively meeting with banks and management to discuss global concerns and BlackRock has rolled out annual mandatory financial crime training along with implementing a special sanctions working group. As a collective, investment managers are actively engaging with companies and monitoring investments via face to face meetings and database screenings. Along with legislation and engagement with government's, risk of underlying investment of the fund

being involved in the sale or purchase of ISIS oil or arms in any funds settlement process associated with any such sales is low.

- The Fund continued to participate in share action claims through a portfolio monitoring program operated by Robbins Gellar Rudman & Dowd LLP. Such claims arise when the court has ruled that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took receipt of recoveries for 6 claims with 13 pending. Although most monetary claims are small, this activity is important as it supports the principle of holding companies and management to account.
- The Fund continues to participate in a share action group against Royal Bank of Scotland in relation to the rights issue launched in April 2008 in which it is contended that the information in the prospectus did not reflect a fair view of the financial strength of the bank.
- As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

Section 3: Statement of Compliance with Stewardship Code

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

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

The Avon Pension Fund takes its responsibilities as a shareholder seriously and believes that by discharging Stewardship duties it can enhance and protect value to the Fund. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

The Fund's policy in this area is set out in its [Statement of Investment Principles \(SIP\)](#) and [Responsible Investment Policy](#) which highlights:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Myners Principles
- Stock lending

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

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. 12 of 15 managers have published a statement of commitment to the Stewardship Code, an additional 3 since 2013. Links to manager statements are included in the appendices to this statement. The remaining three managers make investments in infrastructure, overseas property and currency hedging where the opportunity for stewardship activity is limited. 13 managers are signatories to the UK PRI, including the Infrastructure and property managers who are also closely aligned to the UN Global Compact.

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

Further details on how the Fund monitors the activity of external managers on an ongoing basis can be found in its response to Principle 3. Its monitoring of Voting can be found in its response to Principle 6.

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

The Fund considers that conflicts of interest in relation to stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

Internal sources for conflicts of interest

Committee members and Officers may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential for the stewardship of any local investments made by the Pension Fund that could be directed to benefit wider Council policy.

The Fund seeks to address these in the following way:

Pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings in line with the council's code of conduct and interest rules. This is a standing item on every committee agenda and declarations are made public. Annually declarations should be made to the Monitoring Officer.

The Section 151 Officer has delegated responsibility of the Fund to the Head of the Pensions to separate decisions of the Council as Administering Authority and Pensions. This ensures that any stewardship decisions are made in the best interest of the Funds members and are not conflicted by the employer interests of the Administering Authority.

External sources for conflicts of interest

Third party advisors and Investment Managers tasked with representing shareholder interests may perform roles other than which they are employed for and to that extent conflicts may arise.

The Fund seeks to address these in the following way:

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Transactions should be conducted in the best interests of the client and effected on terms no less favourable to the client than if the conflict of interest did not exist. The need to avoid conflicts of interest is also highlighted in our Investment Management Agreements (IMAs) and contracts with external parties.

All investment managers have conflicts of interest policies in place, which most review annually. Several managers have Conflict of Interest Boards to monitor and investigate conflicts of interest. The third party proxy voters utilised by the Funds managers have Conflicts of Interest Boards and policies in place. Investment Managers annually review their providers voting policy to ensure it remains consistent to their approach to stewardship and that of its clients.

Where the Fund employs the expertise from Advisors and Service providers, conflicts of interest is included within the contracts and service level agreements.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund understands its Stewardship responsibilities and engages with its Investment managers via the following methods:

- Written correspondence
- Phone Calls
- One-to-one meetings

The Fund engages for the following reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of the Fund's investments in order to meet its Fiduciary duty
- To monitor developments in ESG, business strategy, financial performance and management within a company
- To enhance our analysis of risks and opportunities.

The Fund monitors its managers on a quarterly basis by looking at performance against a benchmark, developments, and the rating provided by its investment consultant. On an annual basis manager performance is included in the [Annual Report](#) and as part of the [Responsible Investment Report](#). Annually Internal control reports of all managers and custodians are reviewed.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings. The engagement activity is summarised in the Fund's Annual Responsible Investment Report.

The Fund ensures that it does not become an insider to any trading activity. The policies of the investment managers towards becoming an insider can be found in their Stewardship Statements.

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Escalation by the Fund's managers may include:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
- Promotion of UNPRI principles
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Case studies of escalated intervention and outcome will be included in the Fund's Responsible Investment report from 2016 onwards.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum. The Fund analyses its own portfolio looking at ESG risks to shareholder value and advises managers of its focus each year. Any concerns with management are escalated to the Investment Panel agenda and where appropriate investment managers will be invited to panel meetings to discuss concerns.

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

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. Each year Committee members put themselves forward to be a representative at LAPFF meetings together with Officers, contributing towards setting the engagement focus for the year, and reporting back to the Committee. Examples of collaboration in the past include supporting shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.

In addition to the above collaboration Officers meet with other pension Funds, asset managers and other organisations to discuss developments in the market. As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

The Fund's managers work collaboratively with other parties and provide details in their Responsible Investment or Stewardship reports. This collaboration is summarised in the Fund's Responsible Investment Report.

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

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

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide detailed monitoring analysis of voting activity; this is

reported on an annual basis as part of the [Responsible Investment Report](#). Aggregate voting records of managers are reported to the Committee at the quarterly meeting.

Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio and comparing the voting activity of the investment managers against aggregate voting by shareholders. The activity is benchmarked against Manifests view of best practice

Table 1: Summary of Managers vote reporting and explanation where not fully published.

Manager	Report Type	Link
Blackrock	Votes	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	Votes	https://vds.issgovernance.com/vds/#/MTcy/
Invesco	Overview	https://www.invescooperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/ Invesco believes that automatic public disclosure of its voting records may have a detrimental effect on its ability to manage its portfolios and ultimately would not be in the best interest of all clients.
JP Morgan	Votes	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	Votes	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/Voting-Records
Pyrford	Not available	We do not publicly disclose voting records as we believe that information to be confidential to our clients.
Royal London	Votes	http://www.rlam-voting.co.uk/voting/
Schroders	Votes	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/
Standard Life	Votes	http://www.standardlifeinvestments.com/governance-and-stewardship/what-is-corporate-governance/our-voting-records.html
State Street	Votes	https://www.ssga.com/eu/gb/pension-investor/en/investment-goals/environmental-social-governance-esg/vote-summary-report-2015.html

TT	Not available	Does not publicly disclose voting records, as it considers that that information belongs to the clients on whose behalf it has voted and not the general public.
Unigestion	Not available	Provided to clients on request.

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

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

The Fund reports on stewardship and voting activity in its annual [Responsible Investment Report](#). The report includes details of investment manager activity, voting analysis, LAPFF alert analysis, engagement and collaboration. Case studies will also be incorporated in the report from 2016 onwards.

The Fund also annually reviews and updates its SIP, which sets out the Fund's approach to responsible investing and assesses compliance with governance best practice. Periodically the Fund also reviews its Responsible Investment policy. The engagement activity undertaken by LAPFF is reported to the Committee on a quarterly basis. The Fund's investment managers provide a mixture of annual, bi-annual and quarterly reports detailing their activities for the year; these are summarised in the Responsible Investment Report.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers and reports its findings to the committee.

For approval by Committee on 23rd September 2016

Manager Stewardship Code Statements

Manager	Link
Blackrock	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	https://www.giml.co.uk/legal-notice.html
Invesco	https://www.invescoperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/
JP Morgan	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/UK-Stewardship-Code
Pyrford	https://www.bmo.com/pyrford/responsible-investment/content/uk-stewardship-code
Royal London	https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Stewardship%20Code%20StatementNovember%202014.pdf
Schroder	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/uk-stewardship-code/
Standard Life	http://www.standardlifeinvestments.com/governance_and_stewardship/the_uk_stewardship_code/index.html
State Street	https://www.ssga.com/investment-topics/environmental-social-governance/2015/Statement-on-the-UK-Stewardship-Code.pdf
TT	http://www.ttint.com/about-us/uk-stewardship-code.ashx
Unigestion	http://www.unigestion.com/wp-content/uploads/2014/10/Stewardship-Code-Policy.pdf

N.B. Signatories from time to time will update their policies. In the instance that the above links are no longer active the most recently submitted statements can be located on the FRC website:

<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx>

Appendix 1: Monitoring Review of Shareholder Voting 2015



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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

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

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

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

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

1.2 Voting in Context

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

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management. It should therefore be noted that investment managers may be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st January 2015 to the 31st December 2015. It represents a full year's voting.

Manifest analyses the issues at hand to provide customised voting guidance for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a Voting Template framed upon corporate governance best practice policy developed by Manifest for Avon.

Members should consider the Voting Template as a best practice framework to assess corporate governance standards for investee companies, rather than in terms of voting decisions by investors and therefore not a benchmark target for Avon's managers.

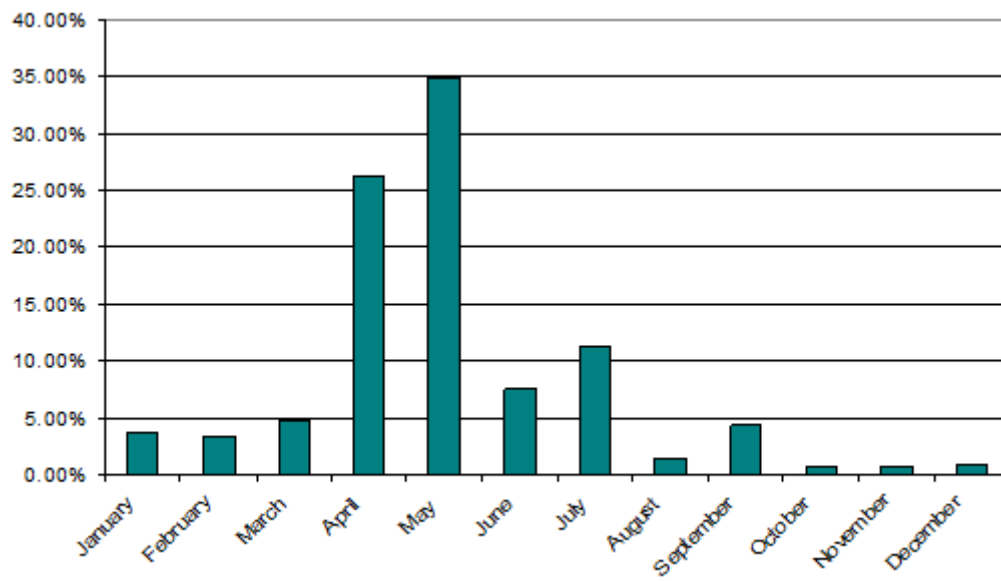
The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, Members should bear in mind that the fact the Voting Template identifies an issue of concern (i.e. suggests there may be a reason to not support management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

1.4 Peak Season Workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, there is a resultant surge in the number of annual meetings relating to that year end during quarter 2 of the calendar year, especially in April and May. Figure 1: Percentage of Total Annual Resolutions Voted Per Month below shows the percentage of total annual resolutions voted by Avon's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year, with 61% of the voting occurring during those two months, and a further 19% during June and July.

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

Figure 1: Percentage of Total Annual Resolutions Voted Per Month



2 Executive Summary

Section 3 (“Explanation of Voting Activity & Monitoring Approach”) explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It also sets out the number of meetings voted by Avon’s fund managers in 2015, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 905 meetings (1,166, in 2014), comprising a total of 13,532 resolutions (17,711, in 2014). Taking into account occurrences of more than one fund manager voting on the same resolution, in 1,053 meetings (1,401 in 2014), a total of 16,424 resolution analyses have been undertaken (21,880, in 2014).

- 8,450 were voted by BlackRock, again representing the largest proportion of the report data;
- 5,977 (7,609, in 2014) were resolutions where the Voting Template highlighted potential governance concerns and fund managers supported management;
- 613 (746, in 2014) were voted against management; and
- Management provided no recommendation on 63 resolutions; fund managers voted for 17, against 43 and abstained on 3.

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

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

Board balance and remuneration issues remain the most frequently identified concerns, partly because they are the substantial issues of the most frequently voted resolutions.

The most common specific best practice governance criteria against which Manifest found Avon's portfolio companies to fall short were:

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

These are the substantial issues on which investors should focus, rather than whether specific resolutions were opposed or otherwise. Many of these are issues which have been consistently identified in this analysis every year. In October 2013 new company law regulations came into force in the UK which has had an effect upon the way in which remuneration issues are taken into account and voted upon, with the introduction of a new separate binding vote on remuneration policy

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

By comparison with previous years, the concern of gender diversity on the board has diminished in prominence, which mirrors progress being made on the issue by companies (for example, there are now no all-male boards in the FTSE100 and only 15 in the FTSE250, a fact publicised in the Davies Review Five Year Summary Report. The report also identified that there are more women on FTSE350 boards than ever before, with representation of women more than doubling since 2011 – now at 26.1% on FTSE100 boards and 19.6% FTSE250 boards.

The next step of the analysis is to study patterns of voting behaviour, both in terms of Avon's fund managers as well as shareholders in general (Section 5 Aggregate Voting Behaviour on page 24). We also examine which types of resolution have been the most contentious (Section 6 Voting Behaviour by Resolution Category page 27). In terms of overall patterns of voting behaviour, there is slight discernible difference from last year's findings. Except from TT International and Blackrock where support to management remained at the same level as last year's, Pyrford and Schroders' level of support to management increased by 4% in absolute terms. Jupiter's support to management decreased slightly resulting in similar support to shareholders, while Invesco, State Street and Genesis supported management noticeably less than last year.

As has continued to be the case, remuneration related resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management as well as the lowest level of alignment with the governance best practice analysis. Common issues were absence of claw back and/or malus provisions in incentive pay, absence of ESG considerations in setting incentive pay, and over-generous caps on annual and long term incentive pay plans.

Overall, Avon's managers in 2015 were marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2015 stood at 3.27% on average (compared to just short of 3.64% in 2014), Avon's fund managers opposed management on 3.75% of resolutions (up from 3.56% in 2014). This is a reversal of last year's analysis where management supported management slightly more than the general shareholder; this is situated against a backdrop where shareholders in general have (on average) voted against management less, and where fewer issues of concern have been identified in the Manifest research. This suggests that the level of governance risk in the Avon portfolio might be at its lowest point since this monitoring began.

In this 2015 report, committee independence related concerns are again of high prominence, although there are also signs that companies in general are addressing board-wide independence concerns. With the increasing focus on ESG issues, we may be seeing an overall improvement at the same time. Remuneration concerns continue to remain highly represented within the top 10 most common policy concerns amongst Avon fund managers' portfolios.

In general terms this research has in the past suggested that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may come and go in line with contemporary concerns and developments. Although Avon's fund managers dissent has marginally increased, this year's report very much supports this hypothesis, with comparatively lower levels of concerns and dissent both from Avon's fund managers and shareholders in general, but many of the identified themes still very familiar.

A summary of the major developments and debates in global (and especially domestic) corporate governance and voting follows in the Hot Governance Topics, including amendments to the UK Corporate Governance Code, changes to the UK Pre-Emption Group Guidelines, progress on the EU Shareholders Rights Directive Part II, a fund manager monitoring initiative, and UK Modern Slavery Bills.

3 Explanation of Voting Activity & Monitoring Approach

This section “Explanation of Voting Activity & Monitoring Approach” explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Avon’s fund managers in 2015, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

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

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

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

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

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

3.2 Meeting Types

Manifest’s experience is that companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings (AGMs), at which there is legally defined, mandatory business (Meeting Business) which must be put to the shareholders. These items will vary from market to market and are a function of local company law.

Mandatory business typically includes:

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

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

Recently, UK and European companies in particular have begun to change the legal terminology for non-Annual General Meetings. As a consequence, some meetings during the period under review were reported as an EGM (Extra-ordinary General Meeting), whilst other meetings identical in nature were reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting (SGM) is what some companies might use to refer to an EGM, where a Special Resolution is the substance of a meeting (i.e. a resolution which requires a special (higher) level of support or turnout).

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

3.2.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,053 (1,401, in 2014) meetings in the full monitoring sample Avon Fund Managers voted at, 88.62% were AGMs (85.80% in 2014), with the majority of the rest constituting GMs 6.41% (7.64% in 2014) and EGMs 2.10% (4.28% in 2014). The remaining were nearly all Court Meetings 1.55% (1.36%), or Special General Meetings 1.22% (compared to 0.79% in 2014) and Class meetings 0.11% (0.14% during 2014), with no Ordinary General Meetings (0 in 2014). This is broken down per manager as follows. The total number of meetings voted by managers (1,053) exceeds the total number of companies (816) because of instances where more than one fund manager voted at the same meeting, and also due to 66 companies holding more than one meeting:

Table 1: Meeting types by fund manager

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	Total
BlackRock	524	511	57	11	6	-	13	598
Invesco	152	151	-	-	2	-	-	153
State Street	129	128	-	6	2	1	-	137
Jupiter	57	56	5	-	-	-	1	62
TT International	55	55	2	1	-	-	-	58
Schroders	22	21	1	1	1	-	-	24
Genesis	13	13	-	-	-	-	-	13
Pyrford	8	8	-	-	-	-	-	8
Total	816*	943	65	19	11	1	14	1,053

* Represents the total number of unique companies, not the sum total of companies or capital types voted by each manager.

Although we would expect there to be a 1:1 ratio between the number of companies voted and the number of AGMs voted (on the basis that all companies should have an AGM during the year), the small differences are likely to be explained by portfolio turnover. For example, if a fund manager sells a position in a company in June whose AGM is normally in September, replacing it with stock in a company whose AGM is in March, the fund manager will have owned two companies but had no AGMs to vote in either. However, where non-AGMs have taken place, these are still counted and therefore explain why the number of companies voted may exceed the number of AGMs voted. This is not as unlikely as it may seem – often when a company de-lists, a shareholder meeting is required, making it quite plausible that a company may have an EGM but no AGM during the year.

The very small number of meetings voted by Pyrford, Schroders and Genesis in this sample of 'full' monitored meetings means that full detailed analysis is less meaningful. This is due to the investment universe of their mandate.

3.3 Monitoring Approach

The Manifest Voting Template (Voting Template) analyses and considers best practice governance expectations in the context of company meeting business (i.e. what can be voted at a shareholder meeting). Where there are local variations to best practice questions (for example, the length of time after which an independent director may no longer be deemed independent), Manifest applies the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the Voting Template will naturally suggest supporting management.

Manifest monitors companies using this Voting Template in order to:

- Consistently identify company-specific governance policy issues, and
- Monitor and benchmark the actual voting behaviour of investment managers compared to:
 - ⇒ The average shareholder (based on meeting outcomes), and
 - ⇒ The best practice governance standards (based on regulatory and public policy standard).

The Voting Template is not a prescriptive list of mandatory voting requirements. It is understood that investment managers' actual voting behaviour will differ from the Voting Template. This is due to variances in views on governance and voting issues, investment strategy and the role of voting within on-going engagement and stewardship strategy. As such it offers the Fund a "sense check" of the stewardship approach managers are taking.

4 Common Policy Issues at Investee Companies

This section develops the themes identified in the previous chapter by examining the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for. This can be considered as a measure for governance standards at companies. By comparison with previous years, fewer concerns have been identified at portfolio companies.

4.1 Introduction

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

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

There were 5,977 (8,138, in 2014) resolution analyses where one or more concerns were identified by Manifest during 2015.

When considering the most common policy issues Manifest identified at the meetings researched in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2015. This is explained in part by there being a slightly smaller number of resolutions in the data set. However, changes in the patterns of frequency also suggest some inferences.

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

Of those which have moved up the list, many relate to board and committee structures, with some cross-over with remuneration. Whilst the highest of them strictly speaking relates to governance, the fact that some remuneration issues continue to be prominent in relative frequency underlines the importance of governance as a management issue. In this case, as in last year's report the inference is that there is a relationship between the effectiveness of remuneration committee and the level of control over incentive pay.

The substance of the remuneration-related concerns which have moved up the list includes, the level of the upper bonus cap expressed as a percentage of salary for executive directors, a lack of disclosure of performance measures used for the exercise of options or vesting of awards.

Table 2: Most Common Policy Issues

Table Position	2015	2014	Position Change	Description
1	1,310	1,713	=	Less than 50-100% of the Nomination Committee is independent of management.
2	627	725	↑ (2)	Nominee has served for more than 84-144 months on the board.
3	608	786	↓ (1)	Nominee is not considered to be independent by the Board.
4	535	724	↑ (1)	There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration.
5	494	737	↓ (2)	Less than 50-100% of the Audit Committee is independent of management.
6	468	553	↑ (1)	The (Supervisory) Board will exceed 15-21 members following the meeting.
7	407	478	↑ (1)	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent.
8	370	486	↓ (2)	The upper bonus cap for any of the executive directors as a percentage of salary exceeds 100-150% of salary.
9	344	426	=	Nominee represents a major shareholder.
10	312	343	↑ (2)	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100-250% of salary (on a market value basis, based on maximum possible vesting).
11	303	361	↓ (1)	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%.
12	296	341	↑ (2)	The resolution has been proposed by shareholders.
13	276	223	↑ (7)	The authority sought exceeds 0-50%.
14	268	375	↓ (4)	The Board does not recommend a vote For the proposal.
15	236	337	↓ (2)	There is no independent verification of the Company's ESG reporting.
16	182	279	↓ (1)	A Nomination Committee does not exist (or its membership is not disclosed).
17	178	159	NEW	Nominee is a member of the Audit Committee in cases where the non-audit fees as a percentage of the audit fees exceeded 100%.

* Resolution Category: colour coding key:

	Audit & Reporting
	Board
	Capital
	Remuneration
	Shareholder Rights

Overall, Manifest flagged 12,624 policy issues across the 16,424 resolution analyses undertaken for this report. This includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution. Some resolutions were subject to multiple issues. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the operation of best practice governance analysis

Readers should note that the Manifest voting guidance system allows for an individual governance issue to be applied to multiple resolutions. This is because, for the most part, there is not a one to one match between a policy issue and a specific resolution. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – board resolutions, and specifically, director elections.

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

4.2 Conclusions on common policy issues

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

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

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account. Similar to 2014, 5 of the top 8 concerns relate to director independence and the effect that has on the functioning of the board and its committees. Of the top 8, the only exceptions to this are the questions of board size, integration of Environmental, Social and Governance (ESG) issues into incentive remuneration setting and the level of annual bonus available to executive directors.

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

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

4.3 Audit & Reporting

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

4.3.1 Audit committee independence

We assess the independence of the audit committee, in terms of whether there is a sufficient number and/or proportion of directors deemed independent (by reference to the local best practice standards).

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

4.3.2 No independent verification of ESG reporting

The growth in importance of ESG considerations in investment heightens the profile of ESG information provided by companies and hence increases the need for its veracity. As more investors use ESG information in their investment decisions, it follows that such information should be subject to levels of verification equivalent to those of more traditional disclosures such as financial updates and governance reports.

4.3.3 No evidence to suggest ESG performance targets are used for incentive pay

Similar to the point above, the growth in importance of ESG matters for investors leads to a desire to see ESG factors feature among the targets used for determining incentive pay – a part of making executives incentivised to promote better ESG standards through the businesses they manage.

4.3.4 The number of meetings held by the non-executives without the executives present

We identify where there has been no meeting of Non-executives without Executives present disclosed by the company.

It is important for the Non-executives to meet without the Executives present in order to be able to have a free and open discussion about matters which may be more difficult to discuss with the presence of those who are running the business day to day.

4.3.5 The roles of Chairman and Chief Executive Officer are combined

We identify where the roles of Chair and Chief Executive Officer (CEO) are performed by the same person.

The over-concentration of power in one single office or person is a key potential risk factor in any organisation. Despite the fact that some markets (notably France and the US) have much more relaxed standards on this question than most others, investors increasingly expect companies to separate the roles of CEO and Chair. It is associated with the Audit & Reporting category because it is applied to consideration of the report and accounts.

4.3.6 Audit tenure

We analyse how long the audit company has retained its mandate with the company without change.

Recent legislation – including in the UK - has tightened rules relating to the length of time a company may retain the same auditor without re-tendering. The notion is that the longer an audit company (and an auditor) serves the company, the more they may have aligned interests which could affect the objectivity of the audit work they are responsible for. These regulatory developments have had the effect of establishing greater expectation on this question by investors globally, irrespective of local market traditions.

4.3.7 Auditor pay for non-audit work

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

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

4.4 Board

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 48.93% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Nomination Committee Independence

We identify where the Nomination Committee does not have a sufficient number of or proportion of independent directors by reference to the local standards within which the company operates.

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

4.4.2 Individual is non-independent member of a committee which is not suitably independent

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

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

4.4.3 Board considers the nominee is not independent

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

4.4.4 Independence criterion: Tenure

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

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

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

4.4.5 Board size

Many jurisdictions have soft or hard law provisions which determine a maximum size for the board. We therefore highlight where company boards are too large in the context of director election resolutions.

A board which is too large may be unwieldy in its decision-making, and could suffer from a lack of focus in arriving at decisions about strategic direction and in performing its oversight function effectively.

4.4.6 Independence criterion: represents a major shareholder

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

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

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

4.4.8 Percentage of female directors on the board

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

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

4.4.9 Nominee is non-executive, non-independent and the board is not sufficiently independent

We monitor whether boards' composition meets the independence criteria of the market where they operate. Where it doesn't, and the individuals who are contributing to this concern are up for (re)election, we highlight board composition as a concern in the context of their (re)election proposal.

4.4.10 Member of an Audit Committee allowing high non-audit fees

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

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

4.5 Remuneration

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

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

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

4.5.2 Consideration of ESG issues when setting performance targets

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

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

4.5.3 Lack of claw back or malus/forfeiture on incentive pay

It has become increasingly important for investors to be able to hold executives to account for adjustments to the performance figures which previously triggered the defrayal of bonuses. We therefore highlight where remuneration policies and bonus schemes do not feature such mechanisms.

This underlines the importance of having all measures which are used for the determination of bonus payments – including ESG performance measures - to be externally verified.

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

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

4.5.5 Remuneration committee independence

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

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

4.5.6 Length of the performance period used to measure attainment of long term targets

There has been some debate about what constitutes 'long term' when considering long term incentives. Local best practice codes often stipulate a minimum of three years, though some institutional investors are holding companies to a higher standard of 5 years.

4.6 Capital

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

The most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6.2 Dividends proposed to be paid to shareholders exceed profits

Also worthy of note in the context of capital related resolutions is the question of whether proposed dividends exceed profits. Companies may have a dividend policy which commits them to a certain level of dividend payment over the short to medium term. On occasion it is possible that where profits fall below the levels projected for that same time frame; the company is committed to paying a higher dividend than can be covered by profits attributable to the financial year in question. It is normal for the shortfall to be covered by reserves, but of course it is a question which deserves to be highlighted in the context of the long term financial sustainability of the company.

The other main means of returning capital to shareholders is via share buyback mechanisms.

4.7 Corporate Actions

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

However, of those times when they did come up, the two most common flags concerned were to identify that a proposal was about a profit sharing agreements, acquisitions, related party transactions and schemes of arrangement. A scheme of arrangement (or a "scheme of reconstruction") is a court-approved agreement between a company and its shareholders or creditors (e.g. lenders or debenture holders). It may effect mergers and amalgamations and may alter shareholder or creditor rights.

4.8 Shareholder Rights

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

4.9 Sustainability

4.9.1 Political donations

Under European jurisdictions, companies are required to seek approval for so-called political donations. These resolutions are not specifically for party political donations as the EU include expenditure towards the realisation of political aims such as political lobbying, trade association memberships etc.

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

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

5 Aggregate Voting Behaviour

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

With the exception of TT International and Pyrford, none of Avon's fund managers voted with management noticeably more than shareholders in general (i.e. by more than a factor of 2%), it should also be noted that Jupiter, Schroders, and BlackRock voted with management more than shareholders in general but not to the same extent as TT. State Street, Invesco and Genesis supported management noticeably less.

5.1 Fund Manager Voting Comparison

Table 3 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice Voting Template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In certain jurisdictions, provision of such information by companies is not guaranteed. However, of the 16,424 resolutions analysed, Manifest obtained poll data for 15,058 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 3: Overall Voting Patterns

Fund	Resolutions Voted	Template For Mg't	Avon Managers Supported Management	General Shareholders Supported Mg't
BlackRock	8,450	68.52%	98.57%	97.45%
State Street	2,457	69.39%	92.90%	95.48%
Invesco	2,426	39.11%	89.90%	94.56%
TT Int'l	1,202	38.22%	99.67%	97.21%
Jupiter	1,101	70.03%	97.64%	97.36%
Schroder	360	51.94%	96.39%	95.99%
Genesis	258	54.65%	86.89%	97.99%
Pyrford	170	82.94%	99.41%	97.47%
Total	16,424	63.96%	96.25%	96.73%

* "General Shareholders Supported Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where management provided no

recommendation have not been included in the calculations for fund manager support and general shareholder support.

Table 3 shows that fund managers vote with management a high proportion of the time, and that the best practice Voting Template identifies potential governance issues on a far higher proportion of resolutions than the fund managers choose to oppose.

Using the “Template For Management” data as a proxy for compliance with corporate governance best practice expectations, the companies in the Pyrford, Jupiter, State Street, and BlackRock portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of Invesco and TT International’s portfolios, which show lower levels of convergence with the voting policy template.

This continues to reflect Jupiter’s practice of accommodating a company’s governance characteristics in their investment decision-making, whereas BlackRock, for example, as an index investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder, Invesco and Genesis portfolios are global and therefore are exposed to a much higher potential variance of general governance standards; in particular this may be more marked for Genesis who invests solely in Emerging Markets. Pyrford’s active stock picking approach is perhaps also reflected by a similarly high level of compliance with governance best practice.

We can compare each fund manager’s overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the voting results data (where made available by companies)). Table 3: Overall Voting Patterns shows that, as in previous years, Avon’s fund managers oppose management to almost exactly the same degree as all shareholders in general do, although Avon’s fund managers did oppose management slightly more than shareholders in general. However, there are some variances between the respective fund managers.

As was the case in the 2012, 2013 and 2014 monitoring reports, TT have again supported management more than most shareholders, supporting management practically all the time. This also coincides with the fact that TT portfolio has the lowest level of compliance with the Manifest template. Conversely, Blackrock’s levels of support for management are slightly higher than those of shareholders in general compared to the previous year, for the third report running, in the context of generally higher levels of support by comparison to the previous year. Jupiter’s support of management is further in excess of other shareholders compared to the previous year. It is likely that Jupiter’s mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.

With regards to Pyrford, it is interesting to note that there is a high level of compliance with the corporate governance standards of the Voting Template, which is reflected in its support towards management. In comparison, Schroder's portfolio has a lower level of compliance with corporate governance standards yet Schroder have voted in support of management to a greater degree than the average shareholder.

State Street, Genesis and Invesco's support for management is notably lower than general shareholder support, though in Genesis' case especially, statistical insignificance is a concern.

At an aggregate level it is difficult to make thematic observations about why State Street, and Invesco have supported management less than shareholders in general, other than to say that as overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer.

This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

State Street, although supporting management to a lesser degree than shareholders in general, does so to a less marked extent than Genesis and Invesco. However, taking the "Template For Management" measure as a proxy, the degree to which portfolio companies display potential issues of concern is broadly comparable to those in the BlackRock portfolios, whereas the cases of Genesis and Invesco voting is notably less supportive of management, mirroring the fact that those portfolios also attract far more "Template Against Management".

6 Voting Behaviour by Resolution Category

Table 4 and Table 5 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

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

6.1 Dissent by resolution category

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

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

In respect of shareholder proposed resolutions, dissent is measured by taking into account votes cast differently to the management recommendation as described above (which may most commonly have been "Against").

Table 4: General Dissent By Resolution Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Board	8,037	7,410	2.55%
Capital	2,949	2,763	2.69%
Audit & Reporting	2,274	2,072	1.45%
Remuneration	1,634	1,507	7.57%
Shareholder Rights	1,034	866	6.88%
Corporate Actions	176	145	3.69%
Sustainability	301	288	6.79%
Other	19	7	8.66%
Total	16,424	14,209	3.27%

* "Average Dissent" calculated from general shareholder voting results where available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Table 4 above shows the most common categories of resolutions at meetings voted at by Avon's fund managers. When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions in 2015 was lower than the previous year (at 3.27 %), this pattern was also identified in 2014 (3.64% compared to 4.97% in 2013). This represents an approval rating of greater than 96% overall.

Avon's fund managers in 2015 were, on average, slightly more active in expressing concerns through votes at shareholder meetings, voting against management on 613 occasions out of 16,424 resolutions, constituting an overall average opposition level of 3.75% excluding resolutions where management provided no recommendation (up from 3.56% in 2013, following 5.17 % in 2012 and 4.65% in 2012). This shows that Avon's fund managers voted against management to a slightly higher degree compared to the prior year, the 2014 monitoring report was the first time since this analysis has been undertaken for the fund that the fund manager's oppositional votes fell compared to the prior year. Therefore this year represents a return to previous trends with managers opposing management more often than shareholders, although only to slight degree. Some more patterns within this are demonstrated and explored more fully below.

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

6.2 Dissent on shareholder proposed resolutions

Table 5: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Such Resolutions	Average Dissent
Sustainability	98	32.56%	14.30%
Board	71	0.88%	26.70%
Shareholder Rights	69	6.67%	30.63%
Remuneration	58	3.55%	14.87%
Audit & Reporting	12	0.53%	9.35%
Other	9	47.37%	8.66%
Capital	9	0.31%	5.87%
Corporate Actions	4	2.27%	26.74%
Total	330	2.01%	19.11%

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The largest single proportion of the resolutions relating to aspects of Shareholder Rights once again pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this.

Regarding Board-related resolutions (71 of the instances of shareholder proposed resolutions); Board Composition (22), Director Elections (17) and Election Rules (16) all feature prominently. The most common themes among the Election Rules resolutions – all of which were in the USA – were the enhancement of shareholder rights through allowing shareholders to make board nominations, or proposals to provide for majority or cumulative vote standards for director elections. The most common themes among the Board Composition resolutions – again, all were in the USA – were requests to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance.

In terms of Sustainability-related resolutions, as was the case in the previous three years the largest proportion were requesting disclosure of political donations, all in the US, where corporate political donations are a significant feature of the US system. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, most of which were in the extractive industries sector, again as was the case in 2014 and 2013.

The largest proportion of the Remuneration related shareholder proposals again came in the US, many requesting some sort of limit remuneration in some way, especially with regard to the use of stock options as a form of remuneration and the adoption of a policy that in an event of a change in control there shall be no accelerated vesting of equity awards. This apparent focus on the quantum of remuneration as well as the format is to be noted.

Avon's managers voted with Management on just 46.89% of all shareholder proposed resolutions (compared with 54% in 2014); with particular support shown for shareholder proposals on sustainability reporting issues and political donations (where shareholder proposals were supported over 85% of the time). It is also worth noting that Management routinely recommended voting against shareholder proposals, a vote in favour was recommended on eight proposals and no recommendation was provided on 57 proposals.

6.3 Board

Board related resolutions constitute nearly half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 6 below.

Table 6: Board Resolution Sub-Categories

Resolution Sub-Category	Number Of Resolutions	Template With Mgt	Avon Voted With Mgt	Overall S/Holder Votes With Mgt
(Re-)Elect Directors	7,606	63.62%	96.69%	97.6%
Directors Discharge	207	77.78%	96.60%	98.52%
Board Committee	118	95.76%	96.46%	97.20%
Other	36	61.11%	97.14%	92.14%
Board Size & Structure	30	96.67%	100%	99.09%
Election Rules	18	5.56%	33.33%	65.73%
Board Composition	22	0%	50.00%	72.55%
Total	8,037	64.27%	96.43%	97.45%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Nearly all of the top governance issues listed on page 12 are considerations relevant to the re-election of a director, and therefore to a very large extent explain the relatively low levels of alignment (64.27%) between the governance best practice template and company management recommendations on director elections in Table 6.

Of those resolutions where the fund managers opposed management on Director Election (251) (297 in 2014) resolutions 62 were instances where no governance issues highlighted by the Manifest. Overall, the most frequent governance issues Manifest identified on resolutions voted against management by fund managers were as follow:

Table 7: Board-related governance issues

Issues	Instances
1 (1) = Nominee is not considered to be independent by the Board	129
2 (3) ↑ Nomination Committee independence levels	89
3 (2) ↓ Nominee represents a major shareholder	62
4 (5) ↑ Nominee Tenure	39
5 (5) = Remuneration Committee independence level	32
6 (4) ↑ Overall board size	31
7 (5) ↓ No disclosure of Nomination Committee	27
8 NEW = Board does not recommend a vote FOR the proposal	26

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

The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that fund managers are increasingly not afraid to apply their own (investment) judgement on these issues.

6.4 Capital

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

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

On the two largest resolution sub-categories, Avon's fund managers voted against management less often than shareholders in general, in particular in the case of share issues and pre-emption rights.

Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business.

Furthermore, especially in the case of “income” stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed. Other means of returning capital to shareholders is through share buy-backs.

Table 8: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Issue of Shares & Pre-emption Rights	1,467	79.07%	96.46%	95.56%
Share Buybacks & Return of Capital	700	89.57%	99.57%	99.22%
Dividends	636	75.94%	100%	99.50%
Treasury Shares	70	78.87%	97.14%	97.83%
Authorised Share Capital	34	55.88%	93.94%	93.81%
Capital Structure	27	66.67%	100%	98.40%
Equity Fundraising	4	45.45%	100%	97.56%
Bonds & Debt	11	50.00%	81.82%	98.10%
Total	2,949	80.33%	97.93%	97.31%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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

The top two frequent issues on capital related resolutions where there was a voting concern highlighted (as opposed to a ‘Case by Case’ flag) was the same as in 2014 and 2013. In 2015 there were 70 treasury share related resolutions compared to 109 in 2014. Resolutions relating to share issues, share buybacks and dividends also saw a fall in the number of resolutions compared to last year. This trend is explained by the overall reduction in resolutions in this year’s dataset.

Total instances observed in 2015 are indicated by the arrows next to the figures for:

- 1 New share issue authority exceeds 5-50% of existing share capital (274↑)
- 2 Ordinary dividends exceed profits (117↑)
- 3 Authority being sought is greater than 12-60 months (52↓)

6.5 Audit & Reporting

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

Table 9: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Auditor Election	886	55.30%	95.55%	97.86%
Report & Accounts	804	22.76%	99.88%	99.28%
Auditor Remuneration	523	64.82%	99.62%	98.66%
Appropriate Profits	37	83.78%	100.00%	97.80%
Other A&R related	18	50.00%	100.00%	98.32%
Special Audit	3	100.00%	100.00%	-
Auditor Discharge	3	66.67%	100.00%	99.76%
Total	2,274	46.48%	99.69%	98.55%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

1,149 resolutions had at least one concern highlighted (not including 71 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. Besides auditor elections' resolutions which support to management was less than general shareholders, the very high degree to which Avon's fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management with their votes.

Table 10: Common Concerns Identified On Audit & Reporting Resolutions

Issues	Instances (2014)
1 (1) = Less than 50-100% of the Audit Committee are independent of management	493 (595)
2 (2) = There is no independent verification of the Company's ESG reporting	236 (337)
3 (3) = There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration	197 (269)
4 (4) = No meetings held by the non-executives without the executives present	148 (159)
5 NEW ↑ Non-audit services have been provided however the Audit Committee has not disclosed its policy in relation to the allocation of non-audit work	115 (57)
6 (8) ↑ The aggregate non-audit exceed the aggregate audit fees	105 (107)
7 (7) = The auditors have provided statutory audit services to the Company for over 10 years	95 (111)
8 (5) ↓ The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	90 (137)
9 (9) = Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	83 (97)
10 NEW The Chairman sits on the Audit Committee	77(88)

6.6 Remuneration

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

Table 11: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Remuneration Report	836	26.20%	94.14%	91.86%
Long Term Incentives	298	69.46%	91.95%	93.59%
Total Aggregate Remuneration	149	95.30%	93.96%	89.95%
Remuneration Policy	128	94.53%	92.19%	93.80%
Remuneration - Other	86	46.67%	65.88%	92.07%
Non-executive Remuneration	77	83.12%	98.70%	98.05%
Total Individual Remuneration	26	100.00%	88.46%	91.92%
Policy –Contracts	13	76.92%	84.62%	90.09%
All Employee Share Plans	10	70.00%	100.00%	99.32%
Item Individual Remuneration	9	55.56%	88.89%	94.92%
Short Term Incentives	1	100.00%	100.00%	70.27%
Policy – Other Components	1	100.00%	100.00%	99.06%
Total	1,634	51.65%	92.16%	92.43%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Readers will note the marked contrast between the proportion of all resolutions where the governance best practice template analysis raised concerns, and the proportion of all resolutions where Avon’s managers (and shareholders in general) supported management.

The introduction of the vote on Remuneration Policy in the UK has certainly had an effect on shareholder voting. With a lot of investors adopting a “wait and see” approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it was often at a very high level, suggesting a more targeted approach on the part of investors.

Also, readers will note that “Remuneration – Other” (including termination payments and provisions) have attracted a much higher level of opposition from Avon’s managers, one of the most controversial aspects of remuneration considerations, along with resolutions dealing with individual remuneration.

Table 12: Common Concerns on Remuneration Resolutions

Concerns	Instances (2014)
1 (1) = The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	370 (486)
2 (2) = No indication of consideration of ESG issues in performance targets for incentive pay	336 (455)
3 (3) = The largest aggregate LTIP award during the year exceeded 100-250% of salary of the director (on a market value basis, based on maximum possible vesting)	314 (343)
4 (6) ↑ Less than 50-100% of the remuneration committee are independent directors	108 (161)
5 NEW There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators	99 (34)
6 (8) ↑ The exercise of options/ vesting of awards is not subject to performance conditions	98 (126)
7 (9) ↑ The maximum potential severance payment exceeds 12 months' salary	93 (103)
8 (7) ↓ The minimum performance measurement or options/share awards holding period is less than 2-3 years	85 (151)
9 (4) ↓ No evidence of claw back measures in place in respect of the long-term incentives	77 (194)
10 (10) = Performance targets are not measured against a peer group or other benchmark	68 (89)

Table 12 shows the most common governance best practice concerns associated with remuneration-related resolutions by Manifest over the year. Many of these issues have been prevalent on a consistent basis over time.

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

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

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

A separate, binding forward-looking policy vote was introduced for UK companies for 2014, which had a bearing on how investors voted. This came into force in respect of AGMs applying to financial years starting on or after the 1st October 2013, thereby affecting the 2014 AGM season. The main challenge for all concerned was having the sufficient resources to manage the workload of increased engagement between companies and investors. It should be noted that not all policy votes in the UK region are actually binding.

This is largely due to companies incorporated outside the UK (e.g. in Bermuda, Jersey, Guernsey and Ireland) not being subject to the UK pay regulations, although a number of such companies may voluntarily put forward a remuneration policy. Such “voluntary” policy resolutions may not necessarily be of a binding nature. In addition, binding remuneration policy votes have been a longstanding part of meeting agenda in other markets, for example the Netherlands has provided for a binding remuneration policy shareholder vote since 2004.

6.7 Shareholder Rights

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

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

Table 13: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
General Meeting Procedures	453	94.4%	98.67%	92.83%
Other Articles of Association	363	94.49%	91.29%	95.35%
Meeting Formalities	160	99.38%	100.00%	92.25%
Shareholder Rights	48	27.08%	22.22%	68.02%
Takeover Governance	7	14.29%	85.71%	70.57%
Corporate Governance	2	100.00%	100.00%	99.73%
Anti-takeover Provision	1	100.00%	100.00%	90.83%
Total	1,034	98.16%	93.62%	93.12%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 days' notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it. Avon's fund managers have voted "For" management to a much greater extent than shareholders in general simply because foreign shareholders are more frequently opposing 14 day notice period permissions, simply because their voting mechanisms are not efficient enough to be able to vote a meeting called a less than 21 days' notice.

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

Of the 66 resolutions where fund managers opposed management on Shareholder Rights related considerations, 37 were shareholder proposed resolutions. This suggests that,

when it comes to shareholder rights protections, Avon's managers are very well motivated to protect their interests and those of their clients, and much better so by comparison with the previous year.

6.8 Corporate Actions

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

Table 14: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Significant Transactions	54	92.59%	100%	98.62%
Related Party Transactions	54	83.33%	83.33%	93.93%
Other Corporate Action	41	58.53%	97.56%	97.71%
Transactions – Other	19	21.05%	100.00%	93.90%
Change of Name	5	100.00%	100.00%	96.83%
Company Purpose & Strategy	2	100.00%	100.00%	-
Investment Trusts & Funds	1	0.00%	0.00%	73.26%
Total	176	48.30%	93.64%	96.31%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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

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

6.9 Sustainability

With the exception of political activity, charitable engagement and sustainability reports, once again virtually all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, meaningful routine categorisation of these issues is very challenging, because the specific content of proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself.

Table 15: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Political Activity	228	12.82%	88.55%	94.34%
Other ESG	24	12.50%	66.67%	88.51%
Environmental Practices	18	0.00%	83.33%	92.14%
Human Rights & Equality	14	0.00%	57.14%	83.82%
Ethical business Practices	8	25.00%	66.67%	91.97%
Sustainability Report	5	0.00%	40.00%	93.42%
Charitable Engagement	3	33.33%	100.00%	95.88%
Animal Welfare	1	0.00%	100.00%	-
Total	301	11.62%	84.07%	93.21%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Under European jurisdictions, companies are required to seek approval for "political donations", which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying. It is notable that although there is a significant gap between the low proportion of political activity resolutions the policy template implies support for and the actual (higher) proportion of resolutions where the portfolio managers supported such proposals, Avon's fund managers have opposed far more resolutions of this type than before this year. For the first time in this analysis, Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.

7 Aggregate Analyses

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

7.1 Genesis

Table 16 below shows the number of votable resolutions in each category type voted by Genesis, as well as their average support of management on each.

It shows overall a notably lower level of support for management than the fund managers in the detailed analysis above, which might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Genesis was voting.

This shows that Genesis has taken a progressively more active approach as often required in these markets, and continues to do so.

Table 16: Genesis Voting By Category

Category	Total Resolutions 2015	Voted with Management 2015	Voted with Management 2014	Voted with Management 2013
Board	145	71.72%	77.99%	77.24%
Audit & Reporting	45	100.00%	96.28%	98.01%
Capital	22	95.45%	84.08%	81.36%
Remuneration	21	90.48%	82.74%	95.97%
Corporate Actions	8	87.50%	91.84%	92.71%
Shareholder Rights	16	93.75%	79.71%	89.04%
Other	0	-	55.56%	-
Sustainability	1	100.00%	75.00%	50.00%
Total	258	83.18%	83.68%	82.17%

What is interesting is the breakdown of the average support of management by resolution category. The level of support on Audit & Reporting and Remuneration related resolutions is much lower in 2015 than in previous years. The emergence of better disclosure of remuneration issues in some of the markets in which Genesis votes may now demand a more discerning approach than was possible before.

Findings on Genesis' board related resolutions (including director elections) show a dramatic decrease in support to management when compared to 2014 and 2013. Genesis

supported management only 71.12 % of the time on the remaining Board-related resolutions, which may reflect the specific issues arising (directors in particular for Emerging Market companies) notably regarding independence.

Genesis' vote reporting data does not identify the country of each meeting.

7.2 Unigestion

Table 17: Unigestion Aggregate Resolutions Voting By Market

Country	Total Resolutions 2015	Voted With Management 2015	Voted With Management 2014
China	255	90.55%	97.14%
Taiwan	140	97.67%	92.39%
South Korea	81	93.83%	95.00%
Hong Kong	71	74.65%	83.98%
Malaysia	70	94.29%	90.63%
Thailand	66	90.91%	100.00%
India	63	93.65%	-
Cayman Islands	62	77.42%	-
Poland	51	95.56%	98.85%
Turkey	44	97.73%	78.72%
Brazil	42	89.19%	88.71%
Mexico	29	93.10%	97.50%
Bermuda	24	75.00%	-
Czech Republic	20	85.00%	90.91%
Indonesia	17	88.24%	87.50%
Philippines	14	100.00%	96.43%
South Africa	12	83.33%	88.24%
Russia	0	-	95.24%
Total	1,061	90.37%	90.67%

Not dissimilar to Genesis, caution should be used regarding the statistical significance of this data when making inferences at the market level. By comparison with the data in the BlackRock section of the report, the dissent levels towards Hong Kong and South Korean companies are broadly similar.

Unigestion's overall support level stands at around 90.37%, which is lower than the average, but again, like Genesis, it is best explained by the fact that generally governance standards are lower in many of the markets where Unigestion is voting.

Table 18: Unigestion Voting By Category

Category	Total Resolutions 2015	Voted with Management 2015	Voted With Management 2014
Board	377	88.24%	90.54%
Capital	255	86.67%	84.08%
Audit & Reporting	222	100.00%	97.11%
Corporate Actions	100	92.00%	96.04%
Remuneration	90	89.89%	82.46%
Shareholder Rights	47	76.67%	87.50%
Other	12	100.00%	-
Sustainability	2	100.00%	100.00%
Total	1,061	90.37%	90.67%

Table 18: Unigestion Voting By Category above shows the number of votable resolutions in each category type voted by Unigestion, as well as their average support of management on each. Although 1,105 resolutions were recorded in 2015, 44 were not voting resolutions. Unigestion opposes management more frequently on Shareholder Rights issues than any other, with Capital and Remuneration issues being notable in their dissent levels too. This is explained largely because many of the resolutions in those two issues touch on the question of control (either dilution of ownership in the case of Capital and in the case of Shareholder Rights the voting rights associated with capital types or resolutions of a certain type). Unigestion also opposed Board related resolutions frequently.

7.3 BlackRock

The aggregate analysis for the other fund managers includes those markets where no detailed meeting analysis was carried out. In the case of BlackRock, the total number of resolutions voted by market is shown in

Table 19 below.

The majority of the resolutions in question related to Japanese meetings. What is particularly noteworthy is the much lower average level of voting with management in all of these markets (Curacao and Liberia constituted a very small number of resolutions, so should be discounted as a statistical pattern), especially in Hong Kong, in comparison to BlackRock's average of 97% support for management in the detailed analysis. However, over the past three years, the general pattern of overall support for management by BlackRock for the aggregate analysis has increased both in the detailed and aggregate analyses.

In 2015, there was unanimous support for resolutions related to Audit & Reporting, Corporate Actions and Sustainability. These findings concur with previous years' trends; between 2013 and 2014 there was a 28.81% increase in the management support by the

fund manager for Audit & Reporting resolutions and 2.68% increase for Corporate Actions resolutions.

Table 19: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions 2015	Voted With Management 2015	Voted With Management 2014	Voted With Management 2013
Japan	6,626	92.83%	91.72%	90.55%
South Korea	752	93.88%	87.16%	73.47%
Singapore	482	91.91%	94.58%	91.48%
Hong Kong	409	79.22%	76.40%	77.99%
Panama	17	100.00%	84.21%	100.00%
Curacao	14	98.86%	100.00%	100.00%
Liberia	12	91.67%	87.50%	83.33%
Total	8,312	92.62%	89.86%	87.79%

Table 20 shows the overall patterns of support for management shown by BlackRock broken down by resolution category across all of the resolutions in the aggregate analysis.

Noteworthy in the data set is the change in the level of support for management on Audit & Reporting resolutions. Also noteworthy is the comparatively low level of support for resolutions pertaining to Shareholder Rights. This is again explained almost entirely by opposition to resolutions seeking approval of takeover defence plans (poison pills). Takeover defence mechanisms serve to artificially prevent hostile takeovers which may ultimately be in the interests of higher shareholder returns.

It is again notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form 6.7% of resolutions and 10% in the main analysis. This is strong evidence that a shareholder say on pay is much less well established in these markets, although readers will note an encouraging upward trend in these figures.

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

Table 20: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions 2015	Voted with Management 2015	Voted with Management 2014	Voted with Management 2013
Board	6,717	92.82%	91.23%	90.44%
Capital	636	77.52%	83.13%	82.02%
Remuneration	410	89.54%	83.53%	83.33%
Audit & Reporting	288	99.65%	99.13%	69.32%
Shareholder Rights	137	70.07%	69.79%	12.24%
Corporate Actions	52	100.00%	95.56%	92.88%
Sustainability	72	100.00%	100.00%	100.00%
Total	8,312	89.94%	89.86%	87.79%

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are largely proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally.

However, as was the case the previous years, a large proportion of the sustainability themed resolutions in 2015 were in Japan, which was subject to some very specific circumstances. With Japan relying so comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. These resolutions recurred again in 2015, as they had done in previous years since 2011.

This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

7.4 State Street

State Street's voting in the aggregate analysis markets is also relatively statistically significant, especially in Japan. Table 21 shows a higher level of support for management than BlackRock.

Table 21: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions 2015	Voted With Management 2015	Voted With Management 2014	Voted With Management 2013
Japan	3,113	95.28%	95.74%	94.32%
Hong Kong	252	76.33%	76.97%	74.50%
South Korea	289	94.77%	95.04%	91.35%
Singapore	175	90.29%	94.14%	89.33%
Total	3,829	89.17%	93.28%	91.27%

Similar to BlackRock, and identically to previous reports, State Street's support for management at meetings of Hong Kong companies is noticeably lower than for other resolutions from the other countries included in the analysis. Findings on Singapore are inconclusive due to low number of resolutions.

Table 22: State Street Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions 2015	Voted with Management 2015	Voted with Management 2014	Voted with Management 2013
Board	2,598	93.53%	95.71%	92.96%
Capital	285	88.47%	80.88%	81.40%
Remuneration	224	89.69%	89.58%	87.31%
Audit & Reporting	562	87.63%	98.85%	98.20%
Corporate Actions	31	63.64%	78.95%	81.25%
Sustainability	16	93.75%	94.29%	97.37%
Shareholder Rights	101	88.12%	90.63%	81.25%
Other	2	-	100.00%	57.14%
Total	3,829	86.40%	93.28%	91.22%

As is the case throughout this and previous reports, the breakdown of the resolutions voted by State Street in the aggregate analysis by category in Table 22 shows that the majority of resolutions were board-related, due to the large number of director elections especially prevalent in Far East markets.

Of those with a sufficient number of examples to draw patterns from, resolutions pertaining to share Corporate Actions as well as Capital (issue or re-issue of equity in particular) is the resolution type where the fund manager is most likely to oppose management. Given the subject matter (questions related to the issue of new capital or approve mergers/takeovers are likely to catch the eye of financial analysts), it is unsurprising that this area is characterised by higher dissent levels from the fund manager.

It should be noted that the 2015's proportion of the resolutions opposed to management by State Street is higher than in 2014 and 2013. The average support to management by State Street was below 90% which perhaps reflects that voting takes place in markets which may be thought to be characterised by higher levels of governance related risk (such as control for example) than many others.

7.5 Invesco, Jupiter, TT International & Schroder

Invesco, Jupiter and TT international did not have any events to vote in the markets for which the aggregate analysis is undertaken. Given the very small number of meetings in the Schroder voting portfolio, there was not much meaningful analysis that could be added to the detailed analysis section.

8 Conclusions

This is the 5th annual report Manifest has produced for the Avon Pension Fund (the fourth year with full year analysis). Consistent with the report on 2014 voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. As is evidenced with the example of shareholder proposed resolutions in the US, specific themes can be and are raised with companies on a campaign/ strategic basis on specific questions which, over time, contribute to positive progress (for example, proxy access and double voting rights).

We expect to see overall trends of gradual improvement in corporate governance standards continuing, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies. Additionally, developments in the governance risk profile across equity asset allocation caused by changes to investment mandates from year to year may also have an effect upon the overall picture. Consequently, although we expect trends to improve over the long term, positively identifying them year on year is much harder to do.

For this reason, readers should not expect to see a marked change in companies' governance standards from year to year. What is more important is to understand how the fund's managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this question. However, the four year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.

We anticipate that incentive performance measures will continue to be a prominent theme, climate change, auditor independence, auditor tender, audit fees may prove to be prominent themes in commentary about 2016, which will be characterised by regulatory developments in the role and rights of shareholders.

There are some key regulatory developments which come into play during 2015 that may have a bearing on next year's report. These include EU audit reform regulation. Further details on these developments may be found in the appendix, which covers:

- UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing (UK and Ireland);
- UK Corporate Governance Code (including 2016's amendments);
- UK Stewardship Code;
- OECD Principles of Corporate Governance;
- The EU Shareholders Rights Directive Part II;
- EU Transparency Directive;

- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT);
- Pre-Emption Group Guidelines;
- UK Modern Slavery Bill; and
- UK's Investor Association Updates to Executive Pay Guidelines.

In summary, this report shows evidence that governance concerns at portfolio companies during 2015 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control). Whilst governance change is a long term investment issue, signs of positive change in the short term are reason for cautious optimism that fund managers are having a constructive impact with their engagement strategy alongside use of ownership rights on behalf of the fund.

The results of the analysis show that fund managers are voting with management marginally less than shareholders in general. Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, on-going monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

Prepared By:

Sheila Stefani MSc – Stewardship Support Manager

Thomas Bolger MA – Stewardship Support Analyst

Manifest Information Services Ltd | 9 Freebournes Court |
Newland Street | Witham | Essex | CM8 2BL | Tel: 01376 503500

9 Hot Governance Topics

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2015" which is available upon request.

9.1 UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing (UK and Ireland)

In April 2016 the Financial Reporting Council (FRC) published final draft updates to the UK Corporate Governance Code its Guidance on Audit Committees and Auditing and Ethical Standards. The FRC has introduced all of the changes in a single revision to ease the process of implementation as well as to reduce costs. The FRC has committed to avoid further updates to the Code until at least 2019.

The revised Code, Guidance on Audit Committees and Auditing and Ethical Standards are expected to be effective for the audit of financial statements for periods beginning on or after 17 June 2016.

9.2 Audit and Ethical Standards

The FRC's Ethical Standard covers the independence requirements for auditors as well as reporting accountants (previously in the Ethical Standard for Reporting Accountants) and for engagements to report to the FCA on client assets. The revisions incorporate recent EU reforms and requirements set by the International Ethics Standards Board for Accountants (IESBA). The changes aim to strengthen auditor independence by applying prohibitions to a range of engagements that could result in an auditor facing a conflict of interest.

The key revisions to the Ethical Standard incorporate the EU reforms for public interest entities (PIEs) for non-audit services. There are additional changes over and above the EU reforms affecting existing rules on providing tax services to listed entities on a contingent fee basis – a term covering a listing on any exchange worldwide – as well as a general clarification of the principles relating to advocacy in respect of tax.

In addition, EU rules on capping fees for non-audit services to 70% of the average fees paid for audit services over the previous three consecutive financial years have been inserted. In regards to non-audit services, there are also changes for auditors relating to personal independence – a broadening in scope of "covered persons" and persons connected to engagement team members who cannot have certain prohibited financial, business or employment relationships, and a clarified rule on gifts and hospitality offered to or accepted by the auditor.

9.3 UK Corporate Governance Code

The proposed changes to the Corporate Governance Code are restricted to the Preface and to section C.3 of the Code, which covers the audit committee and auditors. One notable change is the deletion of the requirement for audit retendering to take place every ten years on account of the provision being superseded by the Audit Regulation and Directive and Competition & Market Authority's Remedies to avoid duplication between the Code and the regulations. The recommendation for audit committees to have at least one member with 'recent and relevant financial experience' has been amended to bring the Code in line with the EU Audit Regulation and Directive, additionally the Code calls for the audit committee as a whole to have competence relevant to the sector in which the company operates. In addition, the audit

committee report should now describe any advance notice of any plans to retender the external audit. Hence, changes to the Guidance on Audit Committees focus on both the activities of the audit committee and the disclosure in the audit committee report.

Lastly the Code now recommends that the annual report should include advance notice of external auditor retendering plans.

We summarise the main changes in the table below.

9.4 UK Governance Code – 2014-2016 Changes at a Glance

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Audit Committee Expertise C.3.1	The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has competence in accounting and/or auditing recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector in which the company operates.
Audit Tender Requirements C.3.7	The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. FTSE 350 companies should put the external audit contract out to tender at least every ten years. If the board does not accept the audit committee's recommendation on the appointment, reappointment and removal of the external auditors, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Advance Retendering Disclosure C.3.8	A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include: - the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of retendering plans; and -if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

9.5 UK Stewardship Code

Since its introduction in 2010 the UK Stewardship Code has been replicated in many countries around the world. In late 2015 the FRC announced plans to introduce public tiering of signatories to the Code in July 2016.

The tiering is intended to improve reporting against the principles of the Code as attention shifts from the quantity to the quality of signatories.

The FRC state this will help asset owners judge how well their fund manager is delivering on their commitments under the Code; help those who value engagement to choose the right manager; and in consequence provide a market incentive in support of engagement.

Signatories will be assessed as being:

- Tier 1 – meeting reporting expectations in relation to stewardship activities. Asset managers will be asked to provide evidence of the implementation of their approach to stewardship. The FRC will look particularly at conflicts of interest disclosures, evidence of engagement and approach to resourcing and integration of stewardship; or
- Tier 2 - not meeting those reporting expectations.

9.6 OECD Principles of Corporate Governance

On 5 September 2015 the G20/OECD Principles of Corporate Governance were released. The OECD principles are one of the 12 key standards for sound financial systems of the Financial Stability Board and form the basis for the corporate governance of the Report on the Observance of Standards and Codes of the World Bank Group and have long been a reference point for regulators and policymakers as well as companies and investors. The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral agreements for exchange of information. 3.1.1

The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral arrangements for exchange of information. It also states that impediments to cross-border voting by shareholders should be eliminated and shareholders should be allowed to consult each other. This is of importance as one area that has continued to be a significant area of concern for investors is the failure to appropriately address the voting chain in terms of cost, time consumption,, cross-border voting inefficiency and for issuers in many markets to know who their real owners are – the issue of shareholder identification links with the EU Transparency and the issue of cross-border voting with electronic voting.

At the same time as the Principles the OECD simultaneously also published its latest Corporate Governance Factbook (OECD, 2015c). The Factbook compiles information gathered from OECD and certain non-OECD country delegates as part of a series of thematic reviews. The thematic reviews cover major corporate governance challenges that came into focus following the 2008 crisis including; board practices (including remuneration); institutional investors; related party transactions; board member nomination and election; supervision and enforcement; and risk management.

9.7 The EU Shareholders Rights Directive Part II

In July 2015 the European Parliament voted on a number of revisions to the draft policy of the Shareholder Rights Directive (SRD) including the removal of an employees' say on pay and allowing member states to decide as to whether a shareholder vote on remuneration policy is advisory or binding. The SRD has yet to be ratified and lobbying on the final shape of the Directive will continue throughout the technical Trilogue process. Trilogue process is constituted by informal tripartite meetings attended by representatives of the European Parliament, the Council and the Commission.

This follows the steps taken in 2014 by the European Commission when commenced the process of revising and updating the Shareholders Rights Directive, which came into force in 2007.

Most significant in the context of this report is the fact that the Commission proposed measures designed to encourage better engagement with companies by institutional investors, because of a perception that the problem of short-term investment decisions is facilitating excessive risk-taking by companies.

This implies disclosure of aspects of investment mandates which encourage:

- Strategic alignment with the liabilities and duration of the investor;
- How the asset manager takes decisions based on the long term performance of a company;
- How the asset manager's performance is evaluated; and
- Information on portfolio turnover.

During the negotiations, the question of enhanced voting or dividend rights for long term shareholders has been proposed as a solution to the problem of short-termism.

However, this brings more pressure to bear on the need for better ability to identify shareholders, in order to facilitate more efficient transmission of information, the exercise of shareholders rights, and now the allocation of loyalty votes or dividends.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It initially proposed requiring shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals. However, companies across Europe have been successful in watering down many of the requirements.

The Directive is also likely seeking to address perceived concerns with what they call "proxy advisors" (i.e. companies like Manifest who provide research or voting guidance to institutional investors), relating to the transparency of methodologies used for producing voting guidance for clients and potential conflicts of interest.

9.8 EU Transparency Directive

The amended Transparency Directive entered into force on 26 November 2015 across the EU creating a common basis for disclosure and dissemination of regulated information to EU markets on a regular and on-going basis. A briefing paper has been issued by the European Securities and Markets Authority (ESMA) to ensure proper implementation across all member states.

In the UK the Transparency Directive has been adopted through amendments to the Financial Services and Markets Act which introduced new Transparency Regulations and through changes to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules. One of the key changes is that the FCA can apply to court for a voting rights suspension order against a "vote holder" of shares in a company which are admitted to trading on a regulated market where that vote holder has breached the significant shareholder notification regime. Respondents to the FCA's consultation suggested this new power should only apply in respect of the most serious breaches of the rules.

9.9 Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)

A separate but relevant development related to the provisions about fund manager performance evaluation in the Shareholder's Rights Directive has been the launch of the "Red Lines Voting

Initiative” by the Association of Member Nominated Trustees. The aim of this initiative is to better equip AMNT members in holding their fund managers to account for their voting on issues where companies fall short of the governance “Red Lines” of their policy. The initiative is virtually identical in concept to the vote monitoring Avon undertakes with this report.

9.10 Pre-Emption Group Guidelines

In May 2016 the FRC’s Pre-Emption Group (PEG) released a monitoring report showing the progress of implementation of the Statement of Principles, which were updated in 2015.

Using data from Manifest as one of its primary sources, the PEG found that the revised principles were largely adhered to while the FRC said the report’s findings showed the importance of open dialogue and engagement between investors and the companies to which they have allocated their capital.

The principles provide that a company may seek authority by special resolution to issue non-pre-emptively for cash equity securities representing: – no more than five per cent of issued ordinary share capital in any one year; and – no more than an additional five per cent of issued ordinary share capital provided that, in the circular for the Annual General Meeting at which such additional authority is to be sought, the company confirms that it intends to use it only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The key changes to the principles were making it clear that they apply to both UK and non-UK incorporated companies whose shares are admitted to the premium segment of the Official List of the UK Listing Authority and that they apply to all issues of equity securities that are undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction, including, for example, “cashbox” transactions. The changes also gave flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice and provided greater transparency on the discount at which equity securities are issued non-pre-emptively.

The group has also produced template resolutions for the dis-application of pre-emption rights complying with the PEG’s principles to assist companies. This template recommends companies propose two separate resolutions to cover the dis-applications envisaged by the principles. In 2016, the PEG said it will be looking for continued improvement in disclosure of the intended and actual dis-application of pre-emption rights and for all companies to engage with their shareholders and adhere to the letter and spirit of the statement of principles.

9.11 UK Modern Slavery Bill

On 10 June 2014 the UK Modern Slavery Bill was introduced to Parliament and received royal assent on 26 March 2015 and under S.54 of the Act all commercial organisations with a year end of 31 March 2016 or later in any sector, which supplies goods or services, and carries on a business or part of a business in the UK – therefore having a global impact - and is above a specified total turnover, to produce a slavery and human trafficking statement for each financial year of the organisation.

The Act has been criticised for not requiring companies to report on the supply chains of overseas subsidiaries meaning that the Act will not prevent parent companies in the UK from profiting from any slave labour used in their supply chains abroad by non-UK subsidiaries. It is however possible for a business to comply with the provision by simply stating that no steps have been taken during the financial year, although this would have a potential impact on business reputation. However, overall the new rules present a step forward in promoting transparency in relation to company actions related to modern slavery and ensure directors consider the issue of modern slavery risk by requiring the statement to be considered by the company's board and signed by a director.

Regulations have set the total turnover threshold at £36m – according to the Home Office's consultation paper the £36m threshold will apply to 12,259 companies active in the UK. Companies are expected to publish their statements as soon as reasonably practicable after the end of the financial year in which they are producing the statement, in practice this will be within six months of the year end. The Act requires each organisation to publish the statement on their website and include a link in a prominent place on its homepage, if an organisation does not have a website a copy of the statement is to be provided to anyone who requests one in writing.

9.12 UK's Investor Association Updates to Executive Pay Guidelines

In November 2015 the Investment Association (IA) published its annual executive remuneration principles update. In light of the undergoing review by IA's Executive Remuneration Working Group the principles remained largely unchanged and the IA has stated that a major revamp of the principles will be announced in 2016 following the publication of the Working Group's recommendations for the "radical simplification of executive pay" in spring 2016.

The sole change to the principles sets out an expectation that executive directors should not be able to sell LTIP share awards for cash until at least five years after the award was granted rather than an expectation of three years and a suggestion of five which was set out in the 2014 principles.

In tandem with the revised principles the IA's (2015b) annual letter to remuneration committee chairs was also published setting out key issues which IA members have asked for re-emphasis for next season;

- Salary increases – concerns with frequent increases and all increases should be justified with clear and explicit rationale, particularly for any increases in excess of inflation or the increases provided to the general workforce;
- Bonus disclosure - where companies do not disclose any retrospective targets or do not commit to full future disclosure, members have asked IVIS to Red Top those. Where relative achievement is disclosed with no commitment to disclose the actual target ranges, an Amber Top will be given. This policy will take effect for companies with yearends on or after 1 December 2015;
- Service contracts - new contracts should have equal notice periods for both the company and the director and companies should introduce clauses to allow the withholding of pay

in lieu of notice where there is any ongoing regulatory or internal disciplinary or misconduct investigation;

- Pensions – executive pension arrangements should be in line with those for the rest of the workforce; and
- Recruitment and leaving arrangements – recruitment awards should not be re-awarded or re-issued in circumstances of a fall in company value and full justification of the treatment of departing directors, particularly when a director is deemed to be a good leaver, should be provided to investors.

In April 2016 the Investment Association's Executive Remuneration Working Group released an Interim Report providing recommendations that it hopes will produce more satisfaction by investors and company bosses. The report notes that remuneration takes up a lot of the time spent in talks between shareholders and management when there may be more significant issues that should be discussed.

The report also states that markets are trading at broadly the same levels as eighteen years ago and 10% below its peak – however executive pay over the same period has more than trebled and there is an increasing disparity between average wages and executive wages. This misalignment has resulted in widespread scepticism and loss of public confidence. Failure has sometimes been rewarded, and use of median comparators has driven disproportionate rises in executive remuneration.

The report states that the Working Group is of the opinion that the near-universal usage of a three-year long-term incentive performance model overly constrains consideration of other remuneration structures, which may be more appropriate to a company's own business model and strategy

The working group will consult stakeholders in a series of roundtables over the next two months before producing a final report. The IA has informed the Working Group of its intention to review whether to adopt their recommendations in its Principles of Remuneration after the publication of the working group's final report.

Topical updates are available throughout the year via the Manifest quarterly Bulletin and the weekly blog, Manifest-I.

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Appendix 2: ESG Approaches of Current Investment Mandates

Manager	ESG Approach
Blackrock	• Recognise the importance of identifying and managing ESG risk and opportunities as a component of investment analysis • Engage with companies on ESG issues relevant to long-term economic performance. • ESG analysis extends across all sectors and geographies to identify companies lagging behind peers. As long-term investors Blackrock seeks for companies to change on their own terms, but are persistent to ensure they adopt sound practices that support long term value creation.
Genesis	• ESG factors are evaluated before investing in a company and through the investment period. Businesses are formally ranked, based on qualitative judgement on sustainable competitive advantage and the likely persistence of excess returns. Assessment of the quality of a company continues for so long as the holding is in client portfolios. • Management quality is assessed by the stock owner through ongoing dialogue with the board and company management via regular meetings, site visits, calls and correspondence. Stock owners engage with management on a variety of material issues, including ESG matters, which impact strategy or performance.
IFM Investors	• Responsible investment factors and their impact are assessed on new investments entered into. IFM aim to improve the performance of investee companies across a range of responsible investment factors. • A detailed proprietary guide has been developed to assess infrastructure ESG factors and risks against IFM policy and with reference to international benchmarks; this includes a checklist of over 80 questions such as greenhouse gas emissions, water supply, waste, environmental pollution, labour and community relations, governance and workplace safety.
Invesco	• Employ EIRIS to provide engagement to assist with RI Policy by providing Research & targeting, reporting, identifying companies and objectives, establishing dialogue and response and analysis. Strategy focuses on five key ESG themes Human Rights, Climate change, Bribery & Corruption, Water, and Supply chain. • Employs Risk Metrics Group Services to provide proxy analysis and voting. • In general Invesco engage in 3 to 5 companies a year.
JP Morgan	• Actively engage managers on a range of issues that may include social, environmental and sustainability concerns. • Review the governance structure prior to making an investment in a manager and when appropriate and material we actively engage with our managers to improve on their governance. Actively strive to ensure that their managers are consistently using best practices and will encourage change when they aren't.
Jupiter (R.I Mandate)	• Use a screening approach that excludes investments in armaments, tobacco, nuclear power as well as extractive sector companies, whilst integrating Environmental, Social and Governance criteria into company selection. • Jupiter monitors investments. They are active investors who engage directly and use voting rights to improve standards of corporate governance, environmental and social responsibility. • Provide regular updates of activities as active shareholders, including involvement in industry initiatives.
Partners	• Identifies and analyses ESG factors from an early stage, using the firm's clear methodology to mitigate risk, allow for active value creation and positive benefits. Judgements on these factors are fully integrated into Partners Group's five step investment process (irrespective of asset class) to ensure that investments respect, and where possible, benefit society and the environment.
Pyrford	• Include Environmental & Social Governance ratings in stock summary analysis in addition to four corporate governance indicators (Ownership structure, Voting structure, Accounting disclosure, Governance track record). It is the responsibility of the portfolio manager/analyst to rate each of these from 1 to 5. • Engage the services of MSCI to provide specialist research into the ESG impacts of investee companies and ratings. The investment team discuss in detail MSCI rating falls, if falls to B or

	CC “out-of-cycle” engagements takes place with company to identify why.
Royal London	• In-house ESG team works closely with Fixed Income team – allows RL to focus analysis on debt issuers. Sustainability research is supplemented by thematic and tailored coverage and engagement, with a particular emphasis on debt specific factors and sectors e.g. Utilities, Social Housing and Oil & Gas • Engage with companies across asset classes; meet with management & directors to discuss topical issues that impact holdings – such as tax, remuneration and planning for a lower-carbon energy portfolio with O&G majors • RL’s longer-term investment approach, which reflects their position as lenders to the companies rather than traders of corporate bonds, places a particular emphasis on sustainability
Schroder Equities	• The Global equity strategy fully integrates ESG analysis within its bottom up fundamental approach. • ESG and sustainability factors are analysed and appraised both within the initial modelling and stock-rating conducted by the regional equity analysts and, separately by the Global & International Equity team’s Global Sector Specialists (GSS), as a part of the team’s assessment of the sustainability of future earnings growth and fundamental risk assessment of each stock. The GSSs assign a formal ESG score for each stock from 1 to 5. • Stocks are selected for portfolios on the basis of an appraisal of both the growth potential of a stock and assessment of fundamental risk, both of which incorporate an assessment of ESG. Schroders seek to balance upside potential and downside risk in the weighting of stocks within portfolios in order to deliver consistent and attractive risk-adjusted returns.
Schroder Property	• The property team considers ESG factors in its investment process and in the on-going monitoring of managers. • We seek to ensure that our Managers are aware of their obligations and have appropriate processes in place, e.g. through evaluation of annual GRESB (Global Real Estate Sustainability Benchmark) submissions on sustainability performance. This is both good practice and also good business.
Standard Life	The RI team is active throughout Standard Life Investments, working closely across asset classes with all investment teams including the Multi- Asset team and the governance & stewardship team (G&S). The overall objective is to ensure every facet of ESG is integrated across the business. Standard Life apply this approach throughout the investment processes.
State Street (SSgA)	• ESG investment considerations extend to the active ownership process. SSGA has developed Proxy Voting and Issuer Engagement Principles that consider ESG issues in the stewardship process • Developed a proprietary ESG portfolio screening tool which flags higher risk companies for priority engagement. • Building strong relationships with the boards and management teams of investee companies and monitoring their performance is an essential component of enhancing long-term value.
TT	• ESG risks are treated in the same way that TT treats other risks to specific investments. • It is the role of every analysts to ensure that their stock analysis takes into consideration ESG factors e.g. regulation changes (GHG emissions), physical threats (climate change), brand and reputational issues (health & safety, labour practice), shareholder rights and corporate governance. Where the risk is perceived too high it is the stock would be rejected as a suitable candidate for the portfolio. • TT continues to monitor for the emergence of ESG risks and will take action depending on the severity e.g. engage with company, vote against resolution at AGM or sell the stock.
Unigestion	In all of our equity portfolios we include ESG analysis at different steps of the process to eliminate stocks with important specific ESG risks such as environmental, excessive carbon emissions, workforce treatment or corporate governance issues, legal problems or fraud. We also exclude stocks with direct exposure to controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons) from all our equities portfolios.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER
TITLE:	INVESTMENT PANEL ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 5 Sept 2016 EXEMPT Appendix 2 – Summaries of Investment Panel meetings with Managers		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal meeting since the June 2016 committee meeting, on 5 September 2016. The draft minutes of this meeting provides a record of the Panel's debate before reaching any decisions or recommendations and can be found in Appendix 1.
- 1.3 The Panel also held a Meet the Managers Workshop on 5 September 2016, a summary of the meetings is at Exempt Appendix 2.
- 1.4 There were no decisions or recommendations arising from this meeting.

2 RECOMMENDATION

That the Committee:

- 2.1 Notes the minutes of the Investment Panel meeting on 5 September at Appendix 1 and the summary of the Meet the Managers Workshop at Exempt Appendix 2.**

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 There were no recommendations or decisions for notification to the Committee from the Investment Panel meeting on 5 September 2016.
- 4.2 As recorded in the minutes, the Panel discussed the potential impact of BREXIT on the portfolio and how the arising risks may be addressed. Continuation of the current approach to currency hedging and the implementation of the risk management framework were highlighted as well as the importance of reviewing growth asset risk as part of the review of investment strategy in 2017.

5 INVESTMENT PANEL DELEGATION

- 5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

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.*

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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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Monday, 5th September, 2016, 2.00 pm

Members: Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Cherry Beath, Councillor Mary Blatchford and Shirley Marsh

Advisors: Tony Earnshaw (Independent Advisor), Steve Turner (Mercer) and James Giles (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

11 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

12 DECLARATIONS OF INTEREST

There were none.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Ann Berresford.

14 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

16 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

17 MINUTES: 25 MAY 2016

The public and exempt minutes of the meeting of the 25 May 2016 were approved as a correct record and signed by the Chair.

18 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2016

The Assistant Investments Manager presented the report and summarised the key information.

- The Fund's assets had increased by 4.2% in the quarter up to 30th June. Both equities and bonds had delivered positive returns.
- There was exceptional volatility in financial markets following the Brexit vote on 23rd June and managers are finding it a challenging environment.
- There were four amber-rated managers. In the case of Invesco the underperformance was largely the result of the effect of a difference in timing of when valuations are made between the fund and the index – when compared on valuations made at the same point in time performance is rated green.
- Because of volatility cash drawdowns were necessary to fund the hedging programme; some of the overweight in corporate bonds (to the value of £60m) was sold in July to maintain a 50% passive hedge level. Mercer continues to recommend a passive currency hedging strategy as set out in Appendix 4.
- IFM drew down \$195m of the Fund's commitment to infrastructure of \$300m on 1st April.
- Work would begin on the search process for an LDI manager, which the Committee had delegated to the Panel and officers, and it was hoped that this would be completed in time for to allow for the Panel's review of LDI trigger levels to happen at the November meeting.
- A meeting with Standard Life Investments would take place immediately after today's public meeting of the Panel. A briefing note for this had been circulated to Members.

Mr Giles commented on the executive summary of the Mercer performance report (agenda pages 27-32). He drew attention to the changes of personnel at Blackrock, Genesis and Unigestion. The Panel was asked to note that Mercer had put Standard Life's Global Absolute Return Strategies Fund (GARS) on Watch status following a review in July. Mr Turner said that Mercer was concerned about the sheer size of this fund, which made it more difficult to manage, though size was not the reason that they were underperforming; this was mainly because of their short US duration and US real yield versus nominal yield strategies. It was possible for a Watch status to be downgraded further; it would take at least two years to reach a proper assessment of their performance. IFM had been downgraded from A to B+ for the reasons stated on agenda page 66.

Mr Turner commented on the Mercer paper on currency hedging (agenda pages 91-93). The Panel accepted the case for continuing the passive hedging strategy.

Mr Turner commented on the Mercer Brexit implications report. He said that the two immediate responses by the Fund should be the continuation of the current approach to currency hedging and the implementation of the risk management framework. Growth asset risk should be reviewed as part of the review of investment strategy in 2017.

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

19 WORKPLAN

The Investment Manager presented the report.

She suggested that Royal London Asset Management be invited to a future meet the manager session to talk about the gilts markets.

RESOLVED to note the workplan.

The meeting ended at 3.20 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1519/16

Meeting / Decision: Avon Pension Fund Committee

Date: 23 rd September 2016

Author: Matt Betts

Report Title: INVESTMENT PANEL ACTIVITY

Exempt Appendix 2 – Summaries of Investment Panel meetings with Managers

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

Stating the exemption:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the 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:	23 SEPTEMBER 2016
TITLE:	INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 2016)
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Changes in RAG status of Investment Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report Appendix 5 – Revised Statement of Investment Principles	

1 THE ISSUE

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 June 2016.
- 1.2 This is the first quarter that performance measurement has been provided by BNY Mellon, the Fund's custodian. The former provider, State Street WM, withdrew from providing this service to non-custody clients at the end of 1Q16.
- 1.3 The main body of the report comprises the following sections:
 - Section 4. Funding Level Update
 - Section 5. Investment Performance: A - Fund, B - Investment Managers
 - Section 6. Investment Strategy
 - Section 7. Portfolio Rebalancing and Cash Management
 - Section 8. Corporate Governance and Responsible Investment (RI) Update
 - Section 9. 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 **Approve the revised Statement of Investment Principles at Appendix 5**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2016 will affect the next triennial valuation in 2019. 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 risen c.2% over the quarter from 83% to c. 85% and the deficit has fallen from c. £750m to c. £627m (note that this estimate does not take into account the 2016 valuation outcome).
- (2) The improvement over the quarter was due to the return from assets exceeding the increase in liabilities (4.2% vs 1.1% respectively).

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £160m (c. 4.2%) in the quarter ending 30 June 2016 giving a value for the investment Fund of £3,898m. 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 30 June 2016

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	4.0%	4.5%	7.5%
Avon Pension Fund (excl. currency hedging)	5.7%	8.7%	8.5%
Strategic benchmark (no currency hedging) <i>(Fund incl hedging, relative to benchmark)</i>	6.0% (-2.0%)	7.6% (-3.1%)	8.7% (-1.2%)

5.2 **Fund Investment Return:** Developed market equities delivered modest positive returns over the quarter on a local currency basis. Japanese equities were the main exception to this trend, falling by more than 7%. European equities (ex-UK) posted small negative returns and in the UK there was a marked difference between domestically focused small- and mid-cap stocks and global large cap stocks, with the FTSE100 returning 6.5% over the quarter. Emerging markets performed well through the quarter. Bond yields fell across all maturities leading to positive returns from Gilts. Corporate bonds benefitted from the decline in government bond yields and contributed a positive performance over the quarter (+4.2%). There was an exceptional level of volatility in financial markets as a result of the EU referendum. On the day of the referendum, 10 year UK gilt yields fell by 0.30%, the largest one day move since the financial crisis.

5.3 Fund Performance versus Benchmark: -2% over the quarter, attributed to

- (1) **Asset Allocation:** The contribution to outperformance from asset allocation was **neutral** over the quarter. The currency hedging programme detracted **-1.7%** over the quarter.
- (2) **Manager Performance:** In aggregate, the contribution of manager performance was **-0.3%** over the quarter, relative to the strategic benchmark, driven by underperformance in UK and overseas equities mandates despite outperformance in hedge funds and infrastructure versus their individual benchmarks.

5.4 **Versus Local Authority Average Fund:** Note that due to the withdrawal of State Street WM from the performance measurement market, there is no longer a local authority average return analysis available.

5.5 **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 detracted **-1.7%** to the total Fund return over the quarter and **-4.2%** over the year.

B – Investment Manager Performance

5.6 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 3 managers have been downgraded from Green to Amber rating (explained in Exempt Appendix 3).** Therefore, currently 4 managers are amber rated, Schroder (global equity), Invesco, Jupiter and TT.

5.7 Five mandates met or exceeded their three year performance target, which offset underperformance by Schroder (global equity), Invesco, Jupiter and TT. Partners and RLAM were marginally below their performance target but with the tolerance range for a Green RAG rating.

6 INVESTMENT STRATEGY

6.1 **Liability Driven Investing:** Following the delegation by Committee at their June 2016 meeting, Officers and Mercer are in the process of selecting an investment manager and drafting the trigger levels for discussion at the November Investment Panel meeting.

6.2 **Asset Class Returns:** Returns from developed equities, index linked gilts, gilts and property outperformed the strategic assumptions over three years, the latter two were significantly ahead of the assumed return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2. Emerging market equities improved on last quarter due to strong performance throughout Q2 but continue to underperform the 3 year strategic assumption. Hedge funds underperformed significantly.

6.3 **Currency Hedging Policy:** Since the result of the EU referendum, Sterling has fallen significantly against other major currencies (increasing the local market value of non-sterling assets). However, the currency hedge on the non-sterling assets has detracted from local currency returns on the four mandates that are hedged. Mercer

expects currency volatility to continue and have reaffirmed their position on the appropriateness of the current passive currency hedging strategy.

- 6.4 **Infrastructure:** \$195m of the Fund's \$300m commitment to infrastructure was drawdown in the fund managed by IFM on 1st April.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

- 7.1 No additional rebalancing activity was undertaken during the quarter. As at 31 August there are no allocations outside the rebalancing ranges.

Cash Management

- 7.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.
- 7.3 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.
- 7.4 The Fund continues to deposit internally managed cash on call with Bank of Scotland and Svenska Handelsbanken. The Fund also deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated). In addition The Fund has access to the Government's Debt Management Office, however the interest paid currently may not cover the transfer and administration costs incurred. Deposits with NatWest (the Council / Fund's banker) are kept to the minimum necessary for day to day management.
- 7.5 During the period there were no breaches of the Fund's Treasury Management Policy (approved March 2016).
- 7.6 The 2016/17 Service Plan forecast an average cash outflow of c. £1.5m each month during the year to 31 March 2017, making a total outflow of £17.5m for the year to 31st March 2017. This remains the net cash flow forecast for the year. Further details are provided in the pension fund budget and cash flow monitoring report to this Committee.

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	614
Resolutions voted:	9,724
Votes For:	9,303
Votes Against:	431
Abstained:	29
Withheld* vote:	34

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

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

9 UPDATE TO STATEMENT OF INVESTMENT PRINCIPLES

- 9.1 The Fund's Statement of Investment Principles (SIP) 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 SIP 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".
- 9.2 The SIP has been updated to reflect the changes made to the bond portfolio to improve matching characteristics versus the liabilities which were fully implemented last quarter. The list of Investment Manager mandates has also been updated to reflect funding of the IFM infrastructure mandate. Note that once the proposed new LGPS Investment Regulations are in place the Fund will produce an Investment Strategy Statement to replace the SIP.
- 9.3 The Committee is asked to approve the revised SIP in Appendix 5.

10 RISK MANAGEMENT

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

11 EQUALITIES

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

12 CONSULTATION

- 12.1 This report is for information and therefore consultation is not necessary.

13 ISSUES TO CONSIDER IN REACHING THE DECISION

- 13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

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

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

AVON PENSION FUND VALUATION - 30 JUNE 2016

	Passive Multi-Asset	Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds		DGFs		Property		Infra- structure	Currency Hedging	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	JP Morgan	Terminating Mandates	Pyrford	Standard Life	Schroder - UK	Partners - Overseas	IFM	Record	General Cash		
EQUITIES																				
UK	173.7	203.1	161.5			30.8													569.1	14.60%
North America	168.6					162.5													331.0	8.5%
Europe	116.3					30.2		44.4											190.9	4.9%
Japan	26.2					20.6		49.0											95.7	2.5%
Pacific Rim	43.7					5.6		34.2											83.4	2.1%
Emerging Markets				166.9	191.4	25.2												0.0	383.4	9.8%
Global ex-UK							307.6												307.6	7.9%
Global inc-UK																	5.1		5.1	0.1%
Total Overseas	354.8	0.0	0.0	166.9	191.4	244.0	307.6	127.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.1	0.0	1397.3	35.8%
Total Equities	528.5	203.1	161.5	166.9	191.4	274.8	307.6	127.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.1	0.0	1966.5	50.5%
DGFs												131.3	231.9						363.2	9.3%
Hedge Funds										204.4	4.3								208.7	5.4%
Property														192.5	188.1				380.6	9.8%
Infrastructure																149.2			149.2	3.8%
BONDS																				
Index Linked Gilts	474.3																		474.3	12.2%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	72.4								301.0										373.4	9.6%
Overseas Bonds																			0.0	0.0%
Total Bonds	546.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	301.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	847.7	21.7%
Cash	5.9	5.7	12.7			2.3								2.1				31.1	59.7	1.5%
FX Hedging																	-77.7		-77.7	-2.0%
TOTAL	1081.1	208.7	174.2	166.9	191.4	277.1	307.6	127.6	301.0	204.4	4.3	131.3	231.9	194.6	188.1	149.2	-72.6	31.1	3897.9	96.2%

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AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2016

SEPTEMBER 2016

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IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

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Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

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.

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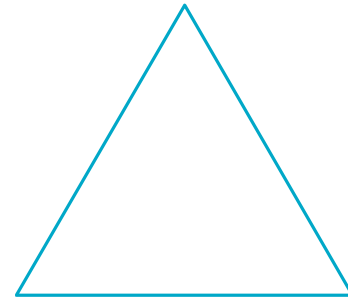
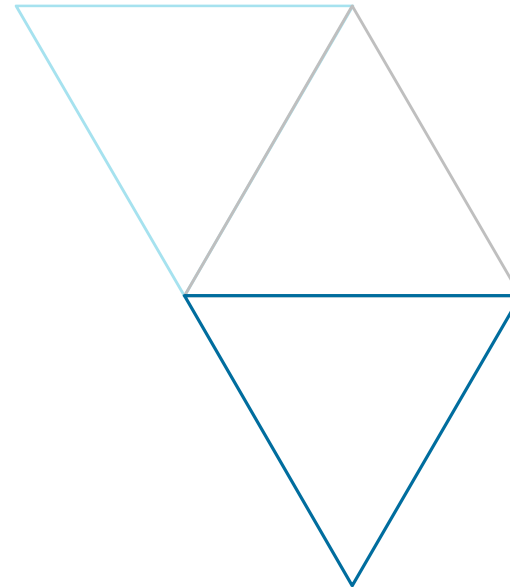
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SECTION 1

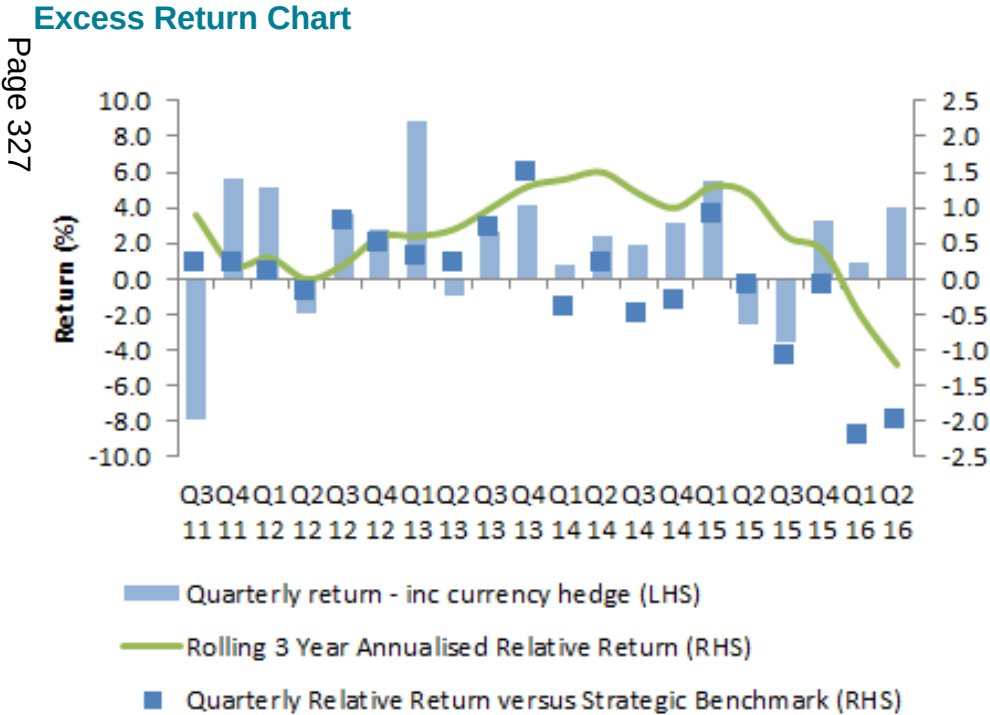
EXECUTIVE SUMMARY

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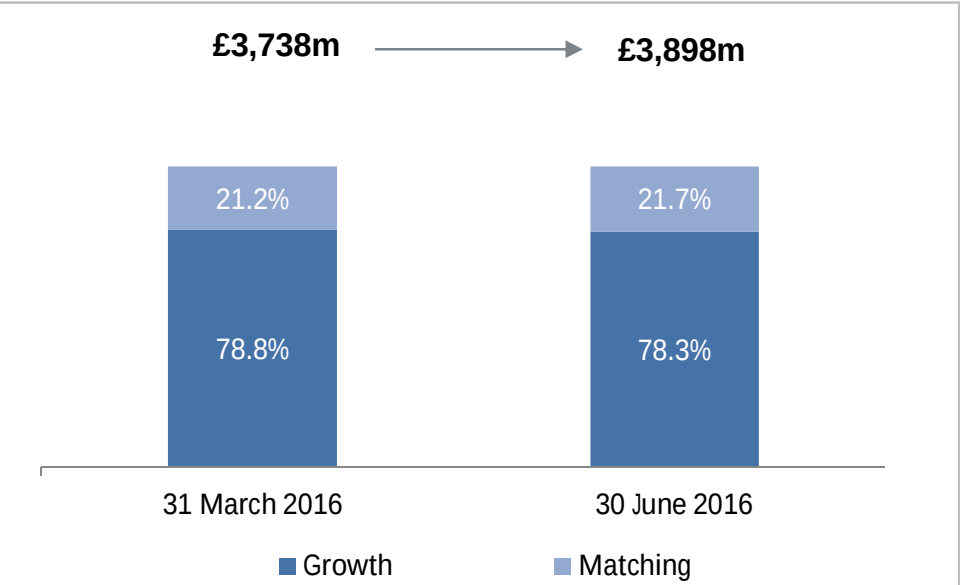


EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	4.5	7.5
Total Fund (ex currency hedge)	5.7	8.7	8.5
Strategic Benchmark (no currency hedge)	6.0	7.6	8.7
Relative (inc currency hedge)	-2.0	-3.1	-1.2



Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) increased from £3,738m (31 March 2016) to £3,898m.

This increase was primarily due to positive performance across most asset classes in particular overseas equities as sterling weakened significantly over the quarter, and bonds as yields fell.

At a strategic level, all asset class allocations were within the agreed tolerance ranges at the end of the quarter, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

The underperformance of the Fund return (when the currency hedge with Record is included) relative to the unhedged strategic benchmark return (which excludes currency hedging) over the quarter was largely a result of sterling depreciating over the quarter. The Fund return excluding currency hedging was only 0.3% behind the unhedged strategic benchmark.

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 increased by c. 2% over the second quarter of 2016, as the return on the assets exceeded the increase in liabilities.

Fund performance

- The value of the Fund’s assets increased by £160m over the quarter, to £3,898m at 30 June 2016. The Fund’s assets returned 4.0% over the quarter (5.7% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from most strategies. This underperformed the Strategic Benchmark return of 6.0%.

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Strategy

- Global (developed) equity returns over the last three years at 12.0% p.a. have been ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain broadly neutral in our medium term outlook for developed market equities (over the next one to three years), despite growing uncertainty amidst geopolitical pressures, although we have reduced our conviction as a result of uncertainty following the EU Referendum.
- The three year return from emerging market equities has increased to 3.8% p.a. from -1.8 % p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns have been affected by the general emerging markets weakness in recent years, although performance in the last couple of quarters was good. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

EXECUTIVE SUMMARY

Strategy (continued)

- UK government bond returns over the three years to 30 June 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 15.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 12.2% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.
- UK corporate bonds returned 7.4% p.a. over the three year period, being above their assumed return of 5.5% p.a., while property returns of 14.5% p.a. continue to be substantially above the assumed strategic return of 7% p.a., despite signs of slowing in Q2.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates, and as active managers in general have struggled to generate meaningful returns.
- With most listed assets looking close to fully valued, if not fully valued, we would continue to expect 'alpha' driven investments such as hedge funds and dynamic multi-asset strategies 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. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and continue to believe that there are likely to be opportunities arising in distressed debt given the maturing credit cycle. Asset classes that can provide a reliable source of income such as Long Lease Property, Private Debt and Infrastructure also offer relatively attractive sources of return, in our view, given the current market outlook.

EXECUTIVE SUMMARY

Managers

- Absolute returns of the managers over the quarter were mixed. UK equities struggled in light of concerns over the EU referendum and the slowing of economic growth at the start of the quarter, and Jupiter and TT delivered negative relative returns. Genesis had the highest returns benefitting from a positive quarter for emerging markets equities, while Standard Life GARS' performance over the quarter was disappointing (-1.1% relative to a benchmark of +1.4%).
- The EU Referendum result led to a significant depreciation of the pound; as a result, the currency hedging mandates in place detracted value. In the event of a strengthening pound they will be expected to add value.
- Returns over the year to 30 June 2016 were generally strong. The equity mandates (with the exception of Jupiter) delivered positive absolute returns. Emerging market returns for the year were positive on the back of a strong Q2, with Genesis and Unigestion returning 8.9% and 5.5% respectively.
- Over three years, all mandates with a three year track record produced positive absolute returns, with only Schroder global equity, Invesco and Partners failing to beat their benchmarks (although see comments on the measurement of Partners' performance later). In addition, Jupiter, TT, Schroder property and RLAM (marginally) failed to achieve their three-year performance objectives (however Schroder property has met it's target over five years), despite beating their benchmarks. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

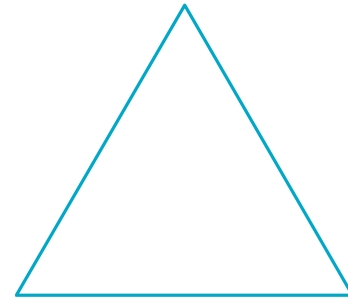
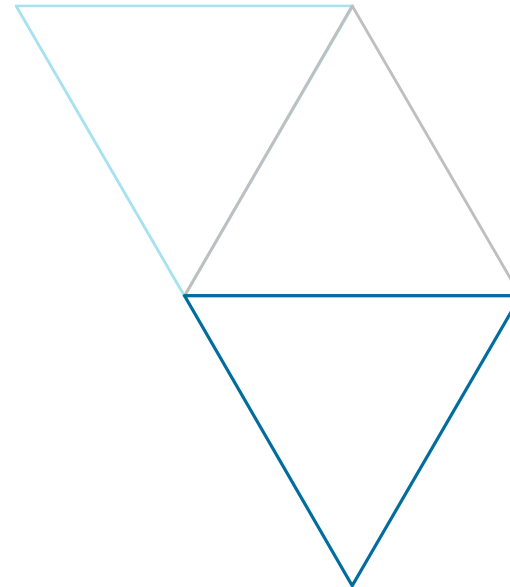
Key points for consideration

- The result from the EU Referendum led to UK gilt yields falling to historical all-time lows and sterling to depreciate significantly against other major currencies, falling to its lowest against the US dollar since 1985. Markets remain fragile due to heightened uncertainty and reduced liquidity and the short-term impact on UK economy is generally expected to be negative.
- Brexit and the dramatic falls in gilt yields are expected to have had limited direct impact on the liabilities on the 2016 “CPI plus” basis (as gilt yields do not directly affect the valuation of the liabilities in the way they did on the 2013 “gilts plus” basis), although if the Referendum results mean a reduction in long-term return expectations for assets relative to CPI this could increase liabilities.
- Uncertainty, volatility and reduced liquidity may create opportunities for investors that are able to respond dynamically to changing conditions.
- In addition, the impact of Brexit on the banking sector may create some interesting opportunities in private markets.
- Before the EU Referendum, UK property values were highly valued, and transaction market activity has since tailed off. Purchasers are more risk averse and unwilling to proceed with deals where projected returns were dependent on rental growth. Vendors who are not forced to sell are unwilling to accept a price reduction that may only be temporary.
- Secured income strategies (semi-liquid credit) offer a yield premium as compensation for reduced liquidity and greater complexity.
- Flexible manager strategies should also benefit from greater volatility and may make use of cash as an asset allocation tool (e.g. variable beta equity managers, multi-asset credit managers, some hedge funds, idiosyncratic multi-asset).

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

Most equity markets posted low positive returns in local currency terms over the quarter. Japanese equities were the main exception to this trend, falling by 7.7% in local currency terms, as the sharp appreciation of the Yen over the quarter led to concerns over future earnings growth. European (ex-UK) equities also fell by 0.6% in light of the uncertainty in the aftermath of the Brexit vote. Nonetheless, all major equity markets delivered strong positive returns in sterling terms due to the sharp depreciation of sterling against most other major currencies.

Within UK equities, there was a marked divergence in the performance of large capitalisation stocks and more domestically focused small and mid-caps. Large capitalisation stocks, as measured by the FTSE 100 index, returned 6.5% over the quarter as the fall in sterling and higher commodity prices benefited multi-nationals. Small and mid-sized companies, as measured by the FTSE Small Cap index and FTSE 250 Index, fell by 0.6% and 2.9% respectively over the quarter due to domestic economic uncertainty.

Within global equity markets, US equities were the strongest performer, delivering returns of 2.6% in local and 10.3% in sterling terms, as markets benefitted from the growing expectation that interest rate rises would be delayed further. In emerging markets, Latin American equities in particular enjoyed a strong quarter as Brazil and Peru rallied on positive political developments whereas emerging Europe such as Hungary and Poland generally underperformed amid uncertainty over the impact of Brexit. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, also outperformed the broader equity market, returning 1.9% in local currency and 9.6% in sterling terms.

Bond Market Review

Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.

In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.

Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.

Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Currency Market Review

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

Commodity Market Review

There was a broad rally in global commodities over the quarter. Energy and precious metals led the gains with positive returns of 19.0% and 8.1% respectively in US dollar terms.

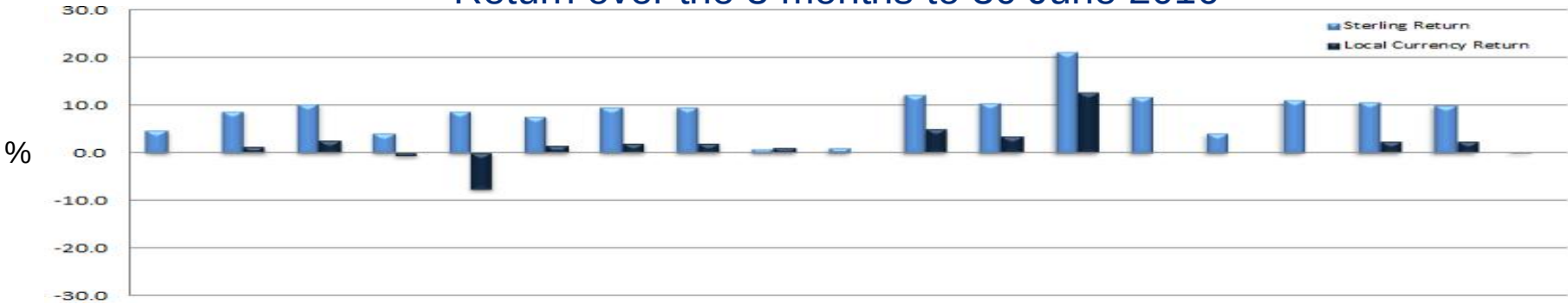
Brent Crude Oil price rallied in the second quarter, to increase from US\$40.0/barrel to US\$49.6/barrel, a rise of c. 24%. Gold rose by 7.0% over the quarter to reach a price of c. \$1,321/oz, a level not seen since June 2014, on the back of safe haven demand.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND

INDEX PERFORMANCE

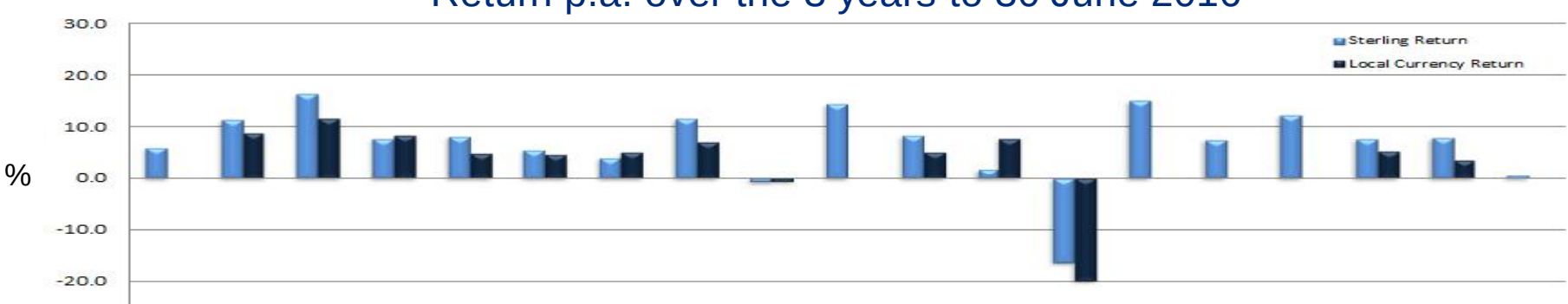
Return over the 3 months to 30 June 2016



Return over the 12 months to 30 June 2016



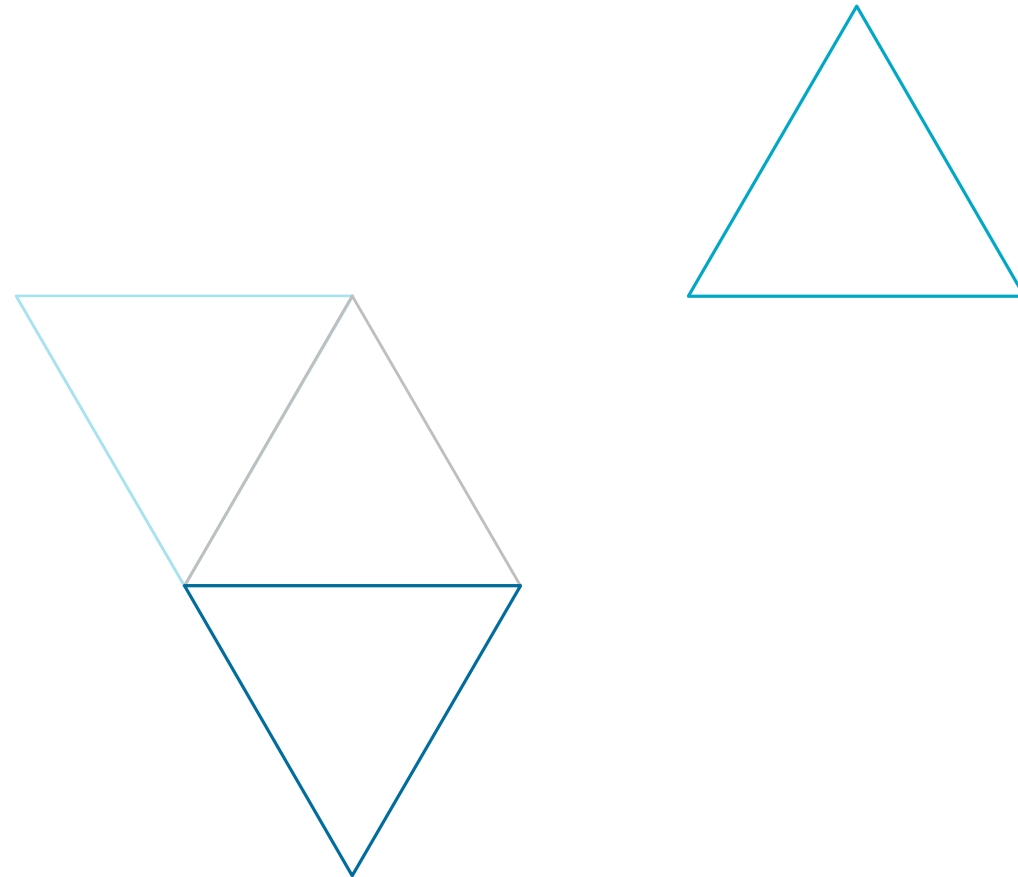
Return p.a. over the 3 years to 30 June 2016



SECTION 3

STRATEGIC CONSIDERATIONS

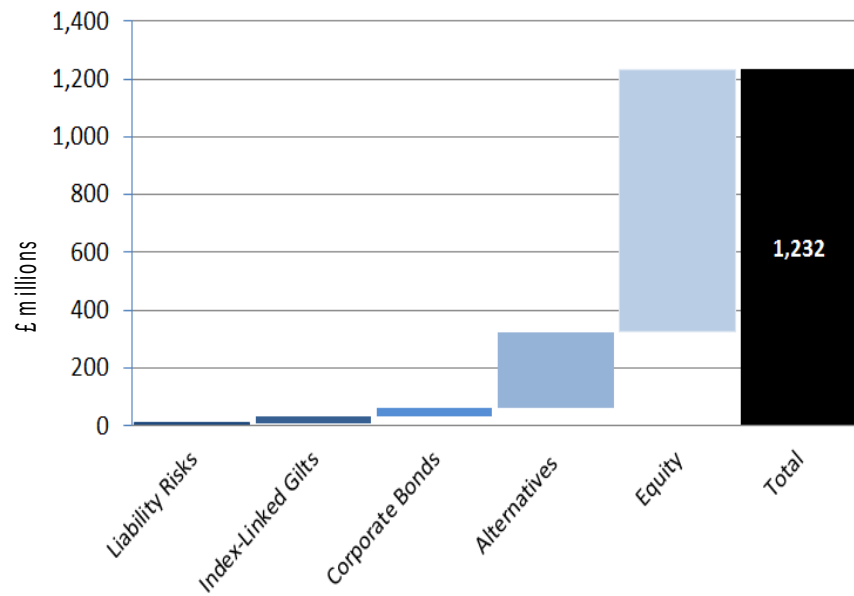
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STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

Page 336
31 March 2016



The two charts to the left illustrate the main risks that the Fund is exposed to on the proposed 2016 funding basis and the size of these risks in the context of the change in the deficit position.

The purpose of showing these charts is not to alarm, rather to ensure there is 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 each chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider a downside scenario 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 three years’ time.

If we focus on the chart at 30 June 2016, it shows that if a 1 in 20 “downside event” occurred, we would expect that in three years’ time, the deficit would increase by an additional **£1.3b** on top of the current deficit of **£0.7b**, creating a deficit of c. **£2.0b**.

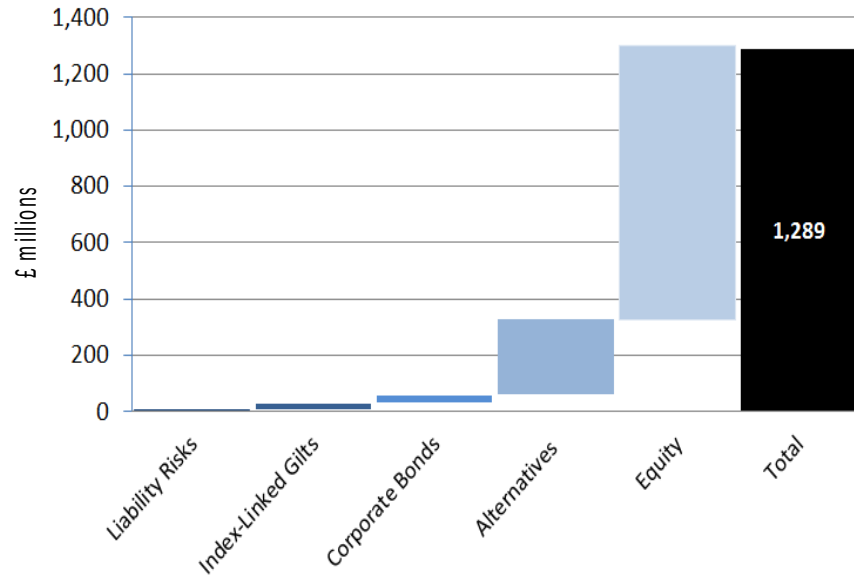
Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads and volatility of equity markets and alternative assets).

The two charts show that the one-year risk over the quarter has increased slightly. This largely reflects an increased contribution from equity volatility, as asset values have increased.

The contributions to the total risk from the various return drivers have, as expected, changed little. Equity market risk dominate.

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.

30 June 2016



MARKET BACKGROUND

INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	12.0	<i>Remains ahead of the assumed strategic return. This has increased from 9.3% p.a. last quarter as the latest quarter's return of 8.7% was considerably higher than the 0.8% return of Q2 2013, which fell out of the 3 year return.</i>
Emerging Market Equities (FTSE AW Emerging)	8.75	3.8	<i>The three year return from emerging market equities has increased from -1.8% p.a. last quarter, as the return of 9.5% experienced last quarter was significantly higher than the quarter that fell out of the period (-7.5%). The three year return remains considerably below the assumed strategic return.</i>
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.8	<i>DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates and low inflation means that both benchmarks have significantly underperformed the long term expected return from equity. During periods of strong equity returns we would expect DGF to underperform equities.</i>
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	15.0	<i>UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages, and returns have increased compared to the previous quarter as yields fell significantly over Q2. Gilt returns are now considerably above the assumed strategic return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2.</i>
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	12.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	7.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.7	<i>Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.</i>
Property (IPD UK Monthly)	7.0	14.5	<i>Property returns continue to be above the expected returns, driven by the encouraging economic data in the US and the UK over the last three years. Returns slowed in June in light of the result of the EU Referendum and the investor uncertainty this created.</i>
Infrastructure (S&P Global Infrastructure)	7.0	13.3	<i>Infrastructure returns are well ahead of the expected returns, driven by a strong Q2 return of 12.9%. This return was in part driven by currency as sterling depreciated over the quarter.</i>

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive

Mercer's current DAA position/view

Position/view last time (if changed)



DEVELOPED MARKET EQUITIES

- ✓ Monetary policy remains generally supportive of equity markets
- ! Macro environment more uncertain amidst geopolitical pressures. Risks appear to have shifted to the downside
- ! Uninspiring earnings growth and downwards revisions to earnings estimates persist



EMERGING MARKET EQUITIES

- ✓ Valuations remain below long-term averages, though have risen over the year
- ✓ Rebound in commodity prices and more dovish outlook from the Fed should prove favourable
- ! A period of dollar strength and an earlier than expected rate rise by the Fed would pose potential risks for emerging markets

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.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

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FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy and uncertainty following the Brexit vote will restrain upward yield moves in medium term
- ! Valuations remain expensive, with nominal yields well below long-term average levels



INDEX-LINKED GILTS

- ✓ Breakeven inflation levels largely unchanged over the quarter and remain at cyclical lows
- ✓ Expect UK inflation to increase at least temporarily as a result of a Brexit
- ! Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

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NON-GOVERNMENT BONDS (£ ALL-STOCK)



Credit spreads remain in fair value territory relative to current default rates



Yields remain historically low and prospective total returns are relatively limited



A reduction in trading liquidity and an uncertain macro environment have led to the risk of increased volatility



UK PROPERTY



Relative to gilts, yields look reasonable and the referendum result may present opportunities in parts of the market in the longer term (e.g. HLV)



Period of uncertainty for UK property market; activity in both transaction and rental markets likely to be subdued



Whilst true impact on valuations is still unknown, values are expected to have been pushed down in light of Brexit

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016



GROWTH VERSUS DEFENSIVE

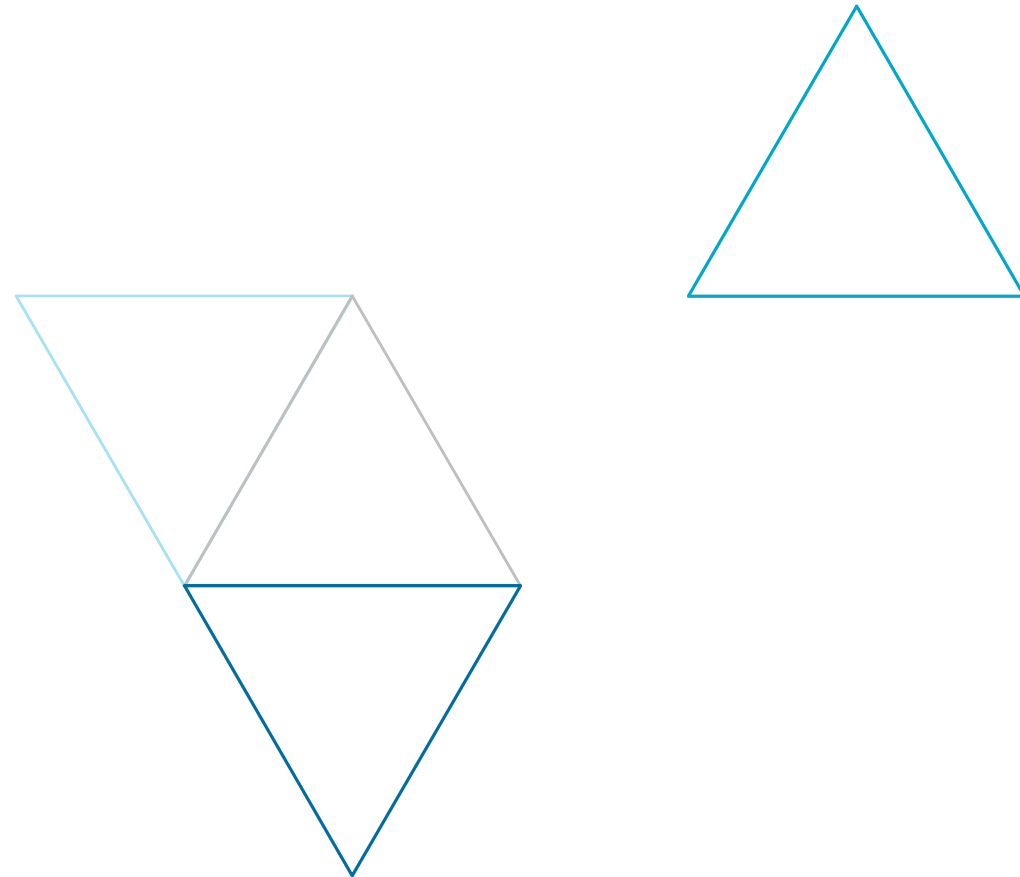
** The downgrade from attractive to neutral reflects our reduced confidence in equities and the broadly flat outlook for defensive assets over the next one to three years.*

Asset Class	Jan 2016	Apr 2016	Jul 2016
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive
Eurozone Government Bonds	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive
Non-Government Bonds (€ All-Stocks)	Unattractive	Unattractive	Unattractive
Global Equities	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Neutral	Neutral
Small Cap Equities	Neutral	Neutral	Neutral
Low Volatility Equities	Neutral	Neutral	Neutral
UK Property	Neutral	Neutral	Unattractive
High yield bonds	Neutral	Neutral	Neutral
Local currency emerging market debt	Unattractive	Unattractive	Neutral

SECTION 4

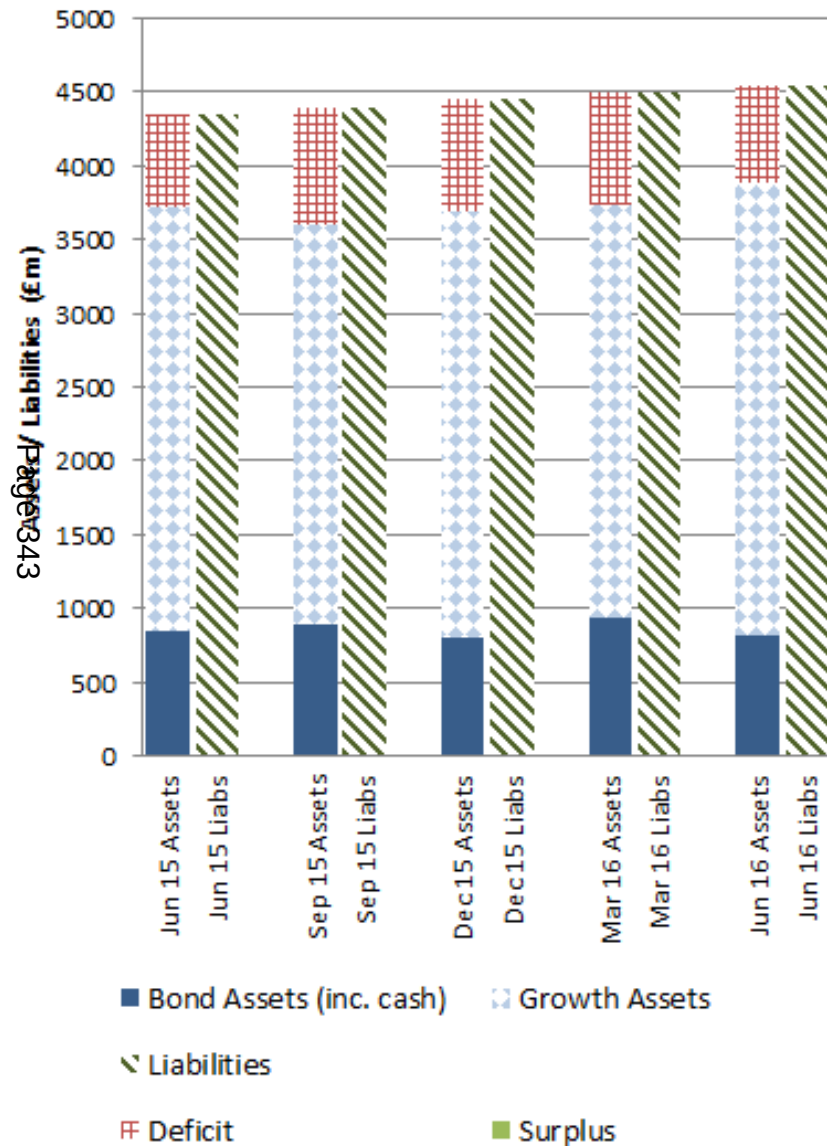
CONSIDERATION OF FUNDING LEVEL

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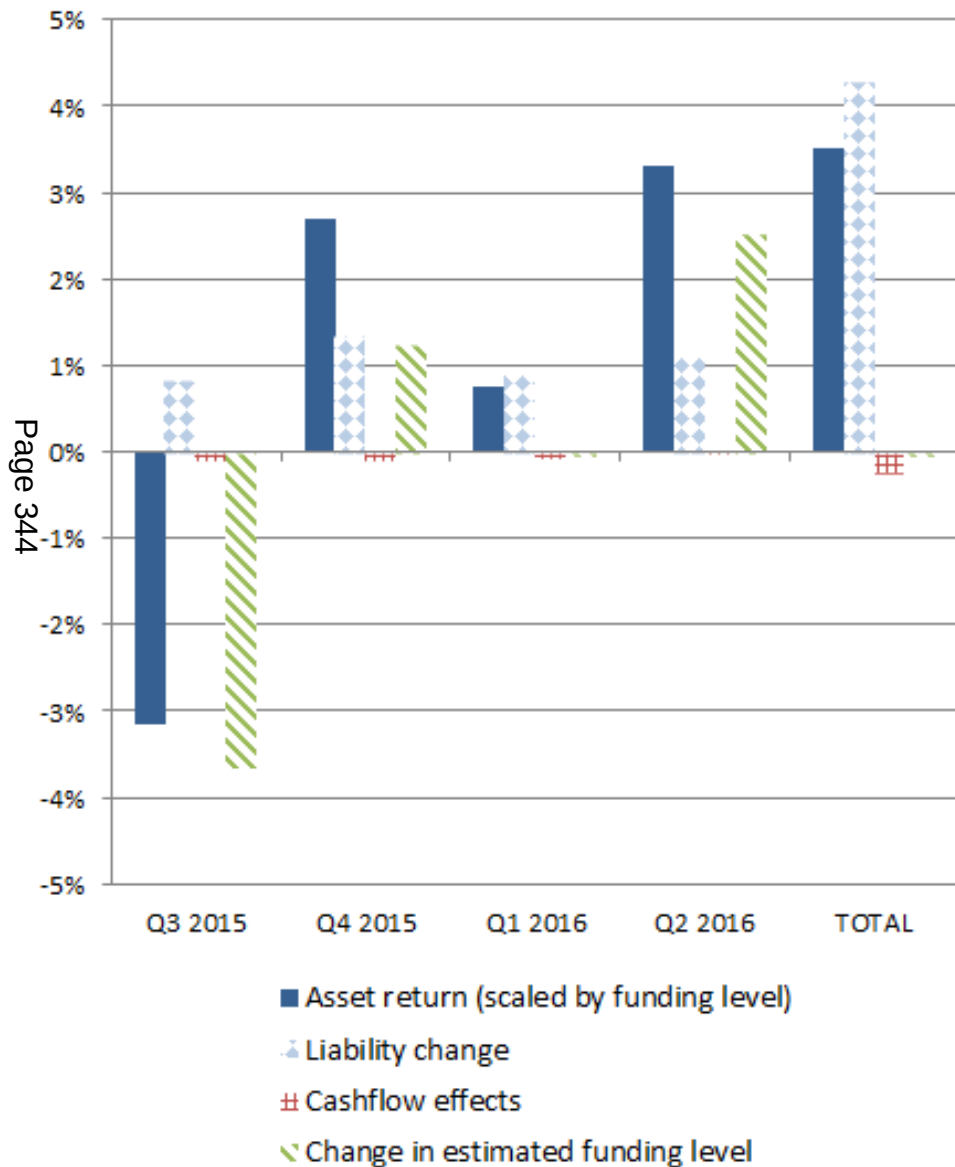
CONSIDERATION OF FUNDING LEVEL

ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level increased by c. 2% over the second quarter of 2016, all else being equal, from 83% to 85%.
- This was driven by the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the quarter (i.e. the "interest cost").
- This is calculated using the new actuarial valuation as at 31 March 2016 and new "CPI plus" basis.

CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES

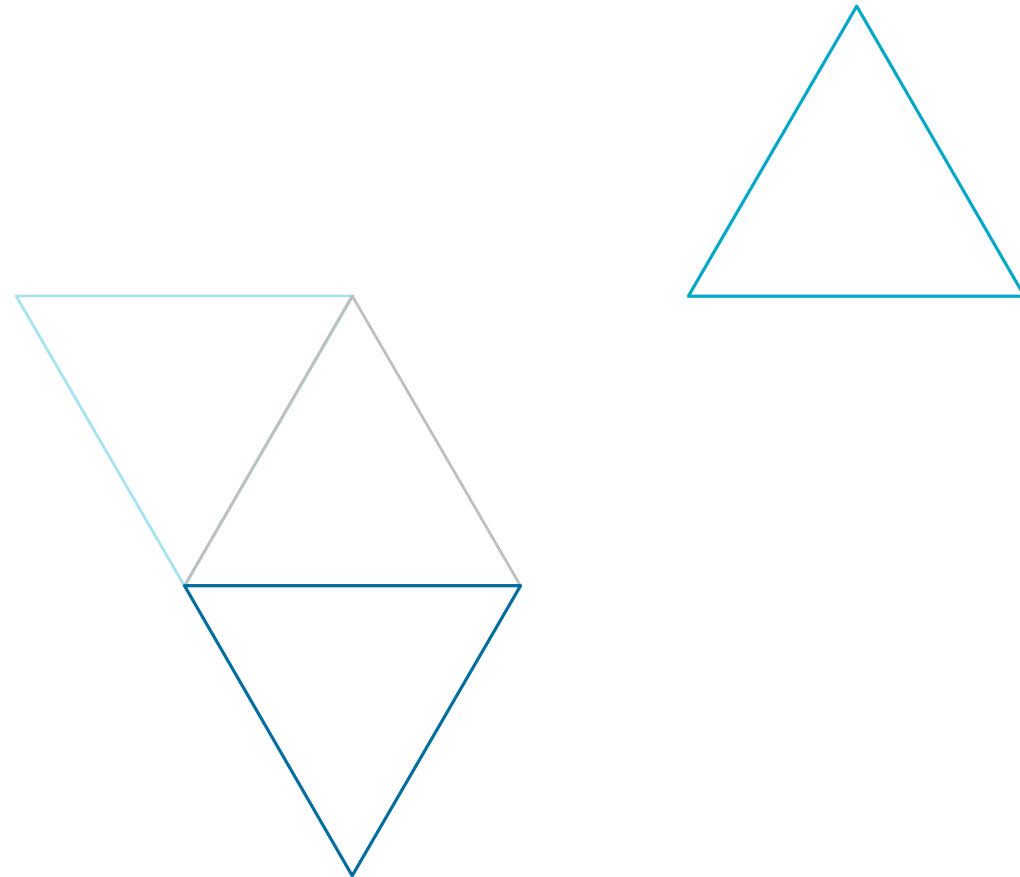


- The Fund's assets returned 4.0% over the quarter, which, when allowing for the funding position, increased the funding level by 3.3%.
- In addition, the Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negligible.
- Overall, the combined effect has led to an increase in the estimated funding level to 85% (from 83% at 31 March 2016).
- Over the 12 month period, the estimated funding level has fallen by 0.1%.

SECTION 5

FUND VALUATIONS

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FUND VALUATIONS

VALUATION BY ASSET CLASS

Asset Allocation									
Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)			Difference (%)
Developed Market Equities	1,544,963	1,611,123	41.3	41.3	40.0	35	-	45	+1.3
Emerging Market Equities	327,975	358,238	8.8	9.2	10.0	5	-	15	-0.8
Diversified Growth Funds	360,928	363,166	9.7	9.3	10.0	5	-	15	-0.7
Fund of Hedge Funds	192,394	208,736	5.1	5.4	5.0	0	-	7.5	+0.4
Property	362,097	380,524	9.7	9.8	10.0	5	-	15	-0.2
Infrastructure	-	149,161	-	3.8	5.0	0	-	7.5	-1.2
Bonds	792,149	847,704	21.2	21.7	20.0	15	-	35	+1.7
Cash (including currency instruments)	157,710	-20,793	4.2	-0.5	-	0	-	5	-0.5
Total	3,738,216	3,897,860	100.0	100.0	100.0				0.0

Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £160m due to positive returns from most asset classes (in particular overseas equities). At the end of the quarter, all asset classes were within the agreed tolerance ranges, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,025,565	-21,660	1,081,129	27.4	27.7
Jupiter	UK Equities	173,896	-	174,182	4.7	4.5
TT International	UK Equities	201,799	-	208,744	5.4	5.4
Schroder	Global Equities	253,892	-	277,115	6.8	7.1
Genesis	Emerging Market Equities	149,857	-	166,886	4.0	4.3
Unigestion	Emerging Market Equities	178,118	-	191,352	4.8	4.9
Invesco	Global ex-UK Equities	289,696	-	307,650	7.7	7.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,803	-	127,575	3.2	3.3
Pyrford	DGF	126,947	-	131,310	3.4	3.4
Standard Life	DGF	233,981	-	231,856	6.3	5.9

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

FUND VALUATIONS

VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
MAN	Fund of Hedge Funds	422	-	446	0.0	0.0
Signet	Fund of Hedge Funds	1,056	-	913	0.0	0.0
Gottex	Fund of Hedge Funds	3,547	-596	2,933	0.1	0.1
JPMorgan	Fund of Hedge Funds	187,695	-	204,444	5.0	5.2
Schroder	UK Property	195,868	-	194,598	5.2	5.0
Partners	Property	171,992	8,060	188,066	4.6	4.8
IFM	Infrastructure	-	136,698	149,161	-	3.8
RLAM	Bonds	289,662	-	300,968	7.7	7.7
Record Currency Management	Currency Hedging	-29,293	20,300	-72,552	-0.8	-1.9
Internal Cash	Cash	167,927	-142,801	31,083	4.5	0.8
Total		3,738,639	0	3,897,860	100.0	100.0

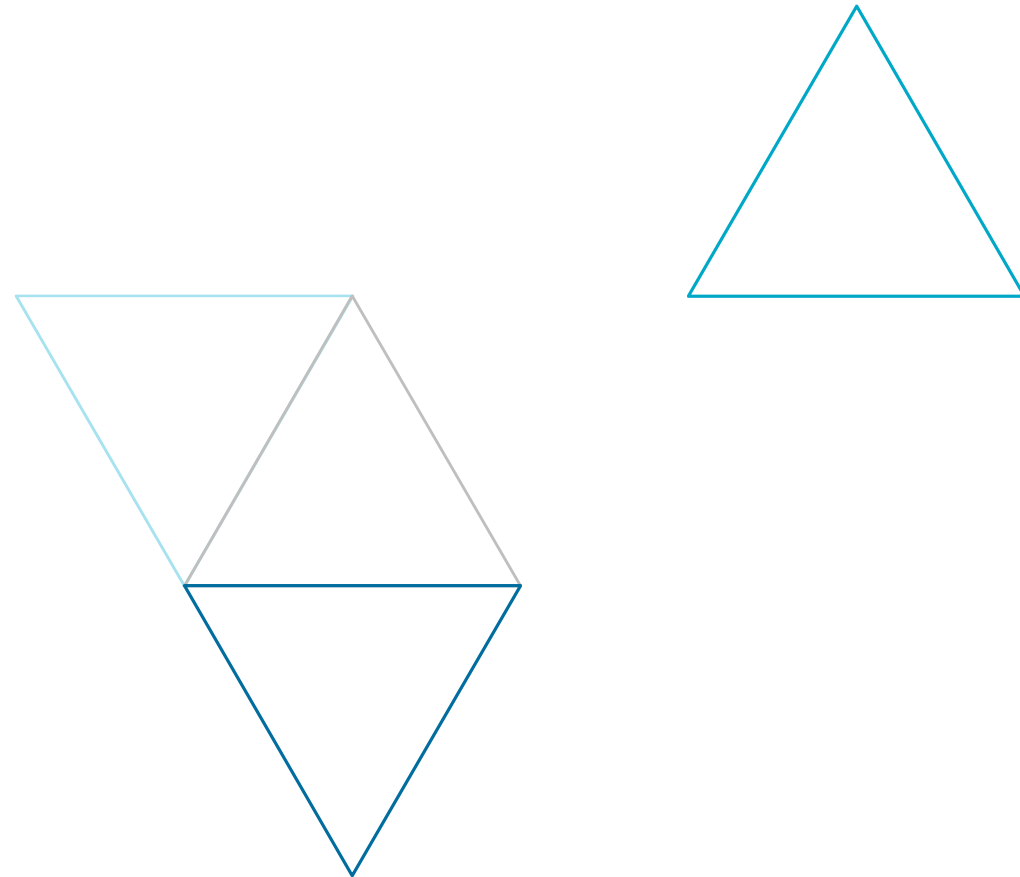
Source: BNY Mellon, Avon. Totals may not sum due to rounding.

SECTION 6

PERFORMANCE

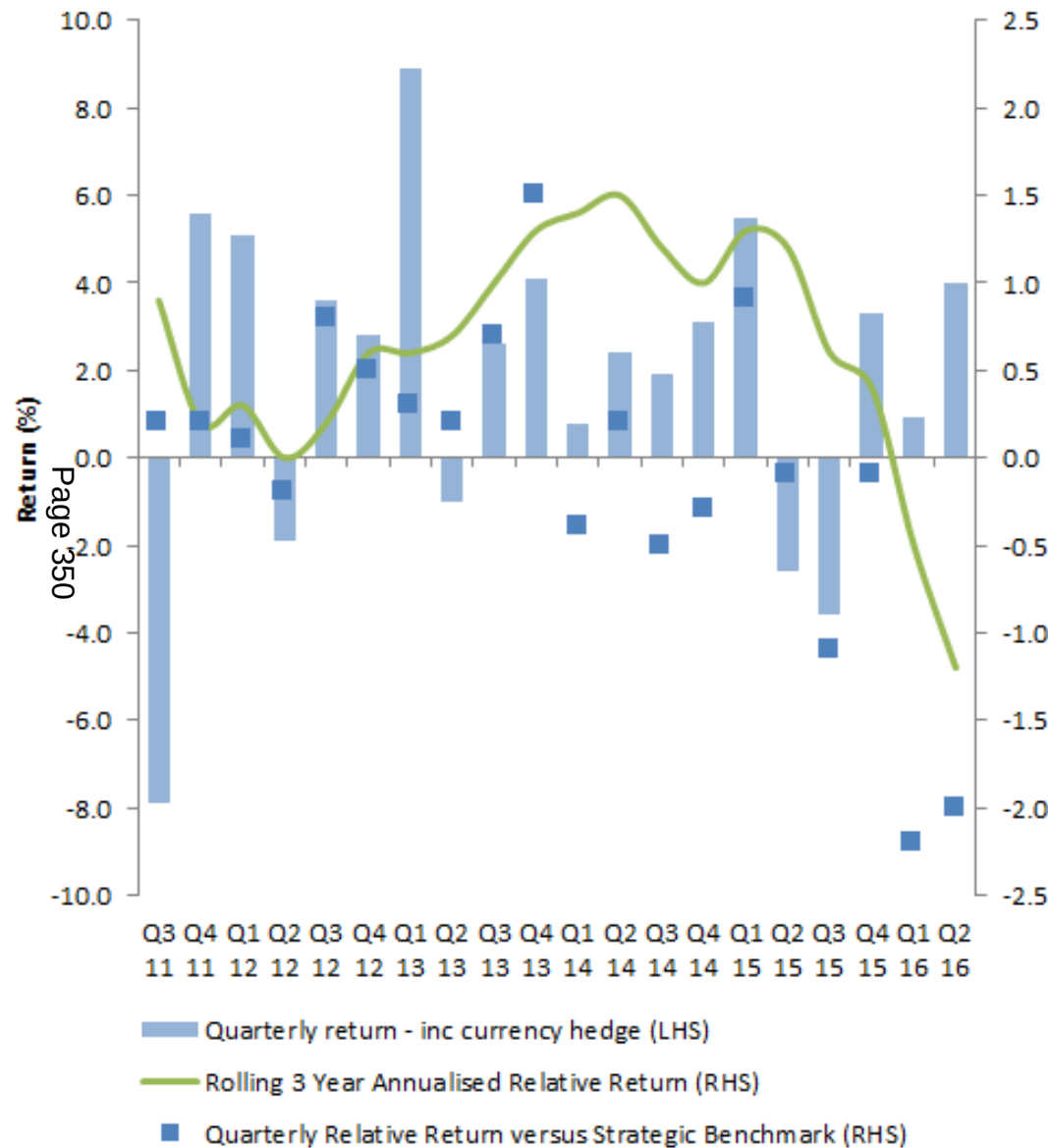
SUMMARY

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PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE

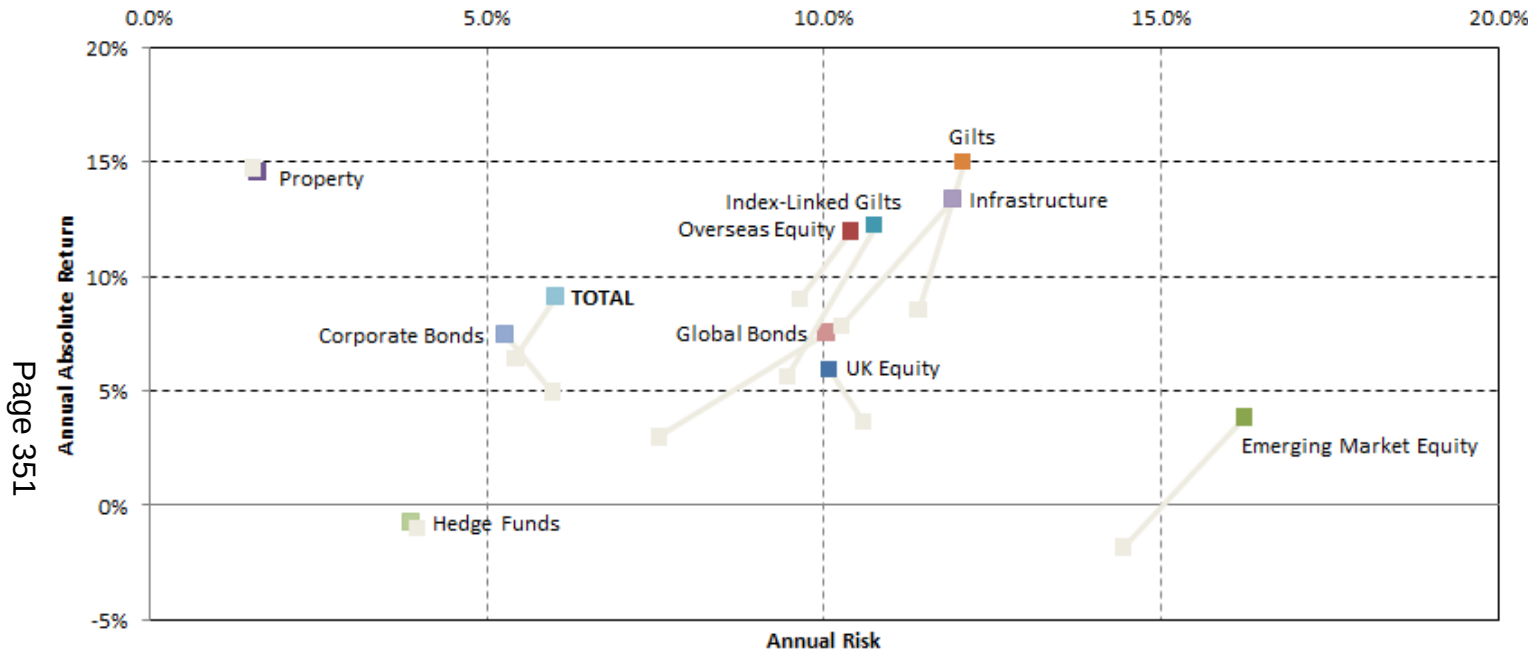


	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	4.5	7.5
Total Fund (ex currency hedge)	5.7	8.7	8.5
Strategic Benchmark (no currency hedge)	6.0	7.6	8.7
Relative (inc currency hedge)	-2.0	-3.1	-1.2

- Over Q2 2016, the Fund underperformed its Strategic Benchmark by 2.0% when including the currency hedge and by 0.3% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 3.1% and by 1.2% p.a. over the three year period (again, largely due to currency movements).
- The latest quarter's underperformance has increased the rolling three year underperformance from -0.5% p.a. to -1.2% p.a.
- The underperformance of the Fund (when the currency hedge with Record is included) relative to the unhedged strategic benchmark over the quarter was primarily due to having the currency hedging mandate in place, as sterling depreciated over the quarter.

MANAGER MONITORING RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 30 June 2016



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2016, 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 last quarter, in grey.

Comments

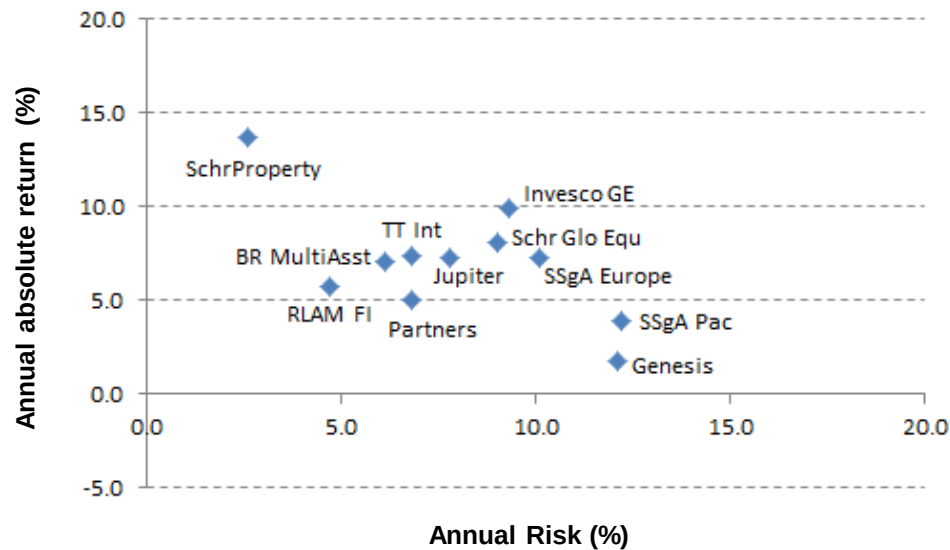
- There were some significant shifts in observed returns and volatilities over the quarter. The asset classes with the most relevant shifts were global bonds, index-linked and fixed interest gilts, infrastructure and emerging markets equities. In all of them, both return and volatility increased. For overseas assets, a significant proportion of the increase in return and observed volatility was due to the fall in sterling over the quarter.

MANAGER MONITORING

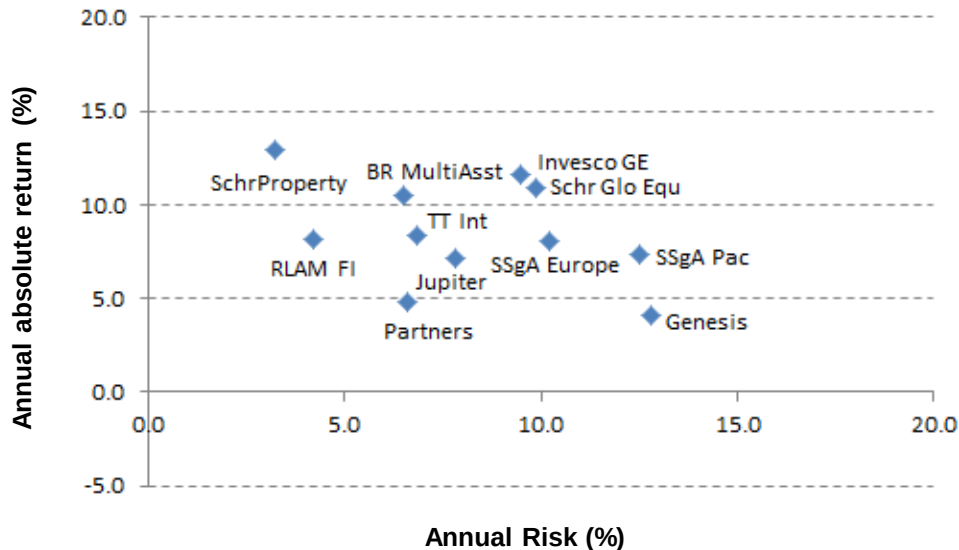
RISK RETURN ANALYSIS

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3 year Risk vs 3 year Return to 31 March 2016



3 year Risk vs 3 year Return to 30 June 2016



Comments

- Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 23).

MANAGER MONITORING

MANAGER PERFORMANCE TO 30 JUNE 2016

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	7.7	7.7	0.0	13.7	13.7	0.0	10.4	10.4	0.0	-	Target met
Jupiter	0.1	4.7	-4.4	-2.6	2.2	-4.7	7.0	5.9	+1.1	+2	Target not met
TT International	3.3	4.7	-1.3	4.8	2.2	+2.5	8.3	5.9	+2.3	+3-4	Target not met
Schroder Equity	9.1	8.8	+0.3	13.7	14.0	-0.3	10.7	11.2	-0.4	+4	Target not met
Genesis	10.9	8.4	+2.3	8.9	3.9	+4.8	4.1	3.0	+1.0	-	Target met
Unigestion	7.4	8.2	-0.7	5.5	3.5	+1.9	N/A	N/A	N/A	+2-4	N/A
Invesco	6.2	8.8	-2.3	12.3	15.3	-2.6	11.6	12.1	-0.4	+0.5	Target not met
SSgA Europe	4.1	3.8	+0.3	6.7	5.5	+1.1	8.1	7.6	+0.5	+0.5	Target met
SSgA Pacific	7.7	7.7	0.0	8.4	8.5	-0.1	7.3	6.8	+0.5	+0.5	Target met
Pyrford	3.4	2.0	+1.4	8.1	6.6	+1.3	N/A	N/A	N/A	-	N/A
Standard Life	-1.1	1.4	-2.4	-4.4	5.7	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	7.9	0.9	+7.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	0.1	-0.4	6.6	7.2	-0.5	12.8	12.5	+0.3	+1	Target not met*
Partners Property	6.6	1.1	+5.4	10.4	6.9	+3.3	6.3	11.7	-4.9	+2	Target not met
IFM	9.0	0.8	+8.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	4.0	4.3	-0.3	8.0	9.0	-0.9	8.1	7.4	+0.7	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.4	0.0	0.4	0.4	0.0	-	N/A

Source: BNY Mellon, Avon, Mercer estimates.

BlackRock were unable to provide the benchmark returns in time and so we have assumed this is in line with fund performance.

In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.

In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).

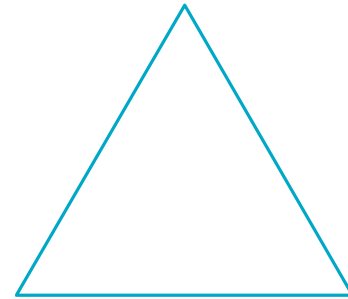
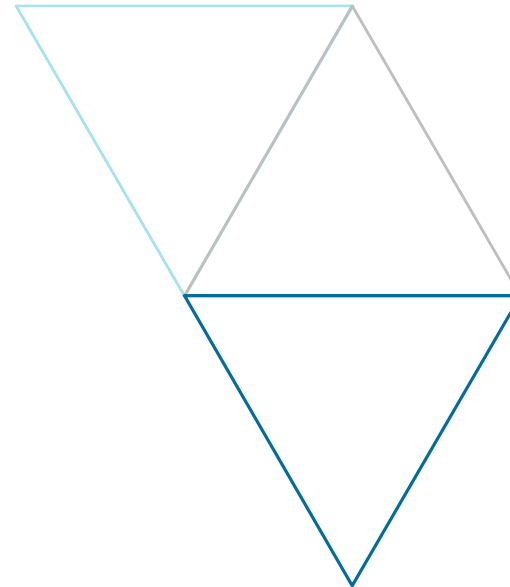
A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Target was met over a five year time period.

APPENDIX 1

SUMMARY OF MANDATES

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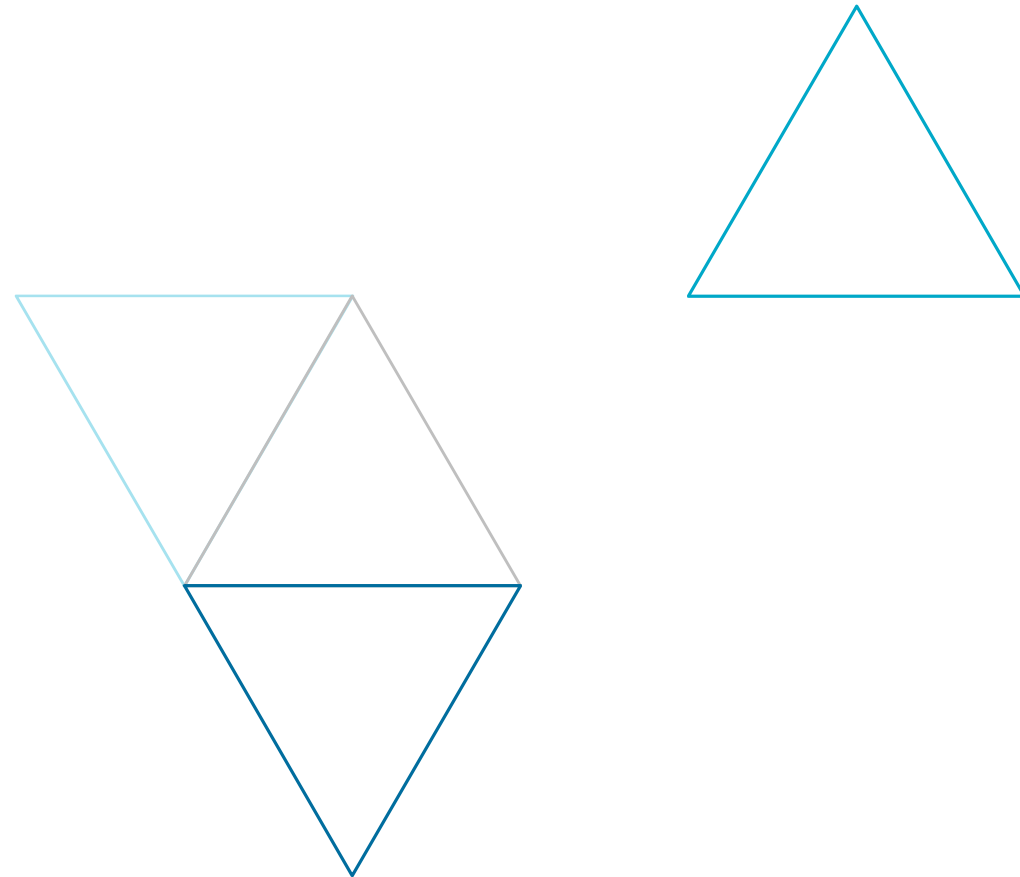
SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
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%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	3 Month LIBOR +4% p.a.	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS

INDICES



MARKET STATISTICS INDICES

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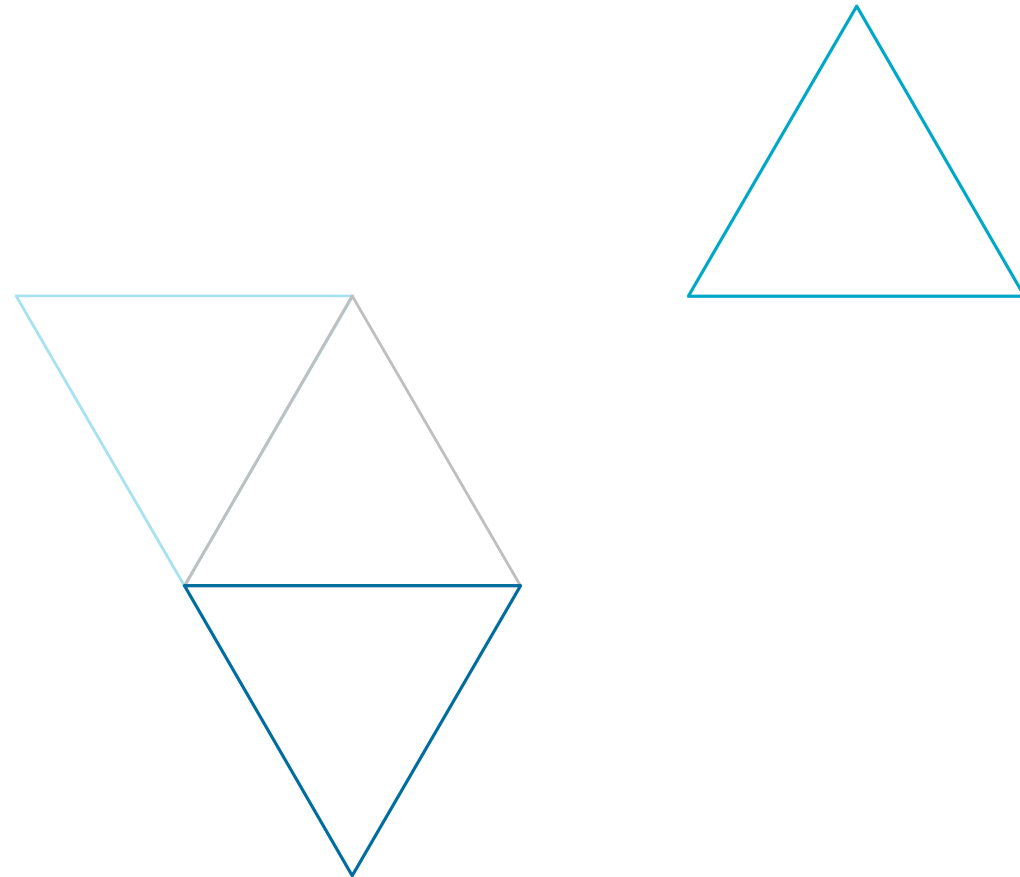
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
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
Infrastructure	S&P Global Infrastructure
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 3

CHANGES IN YIELDS

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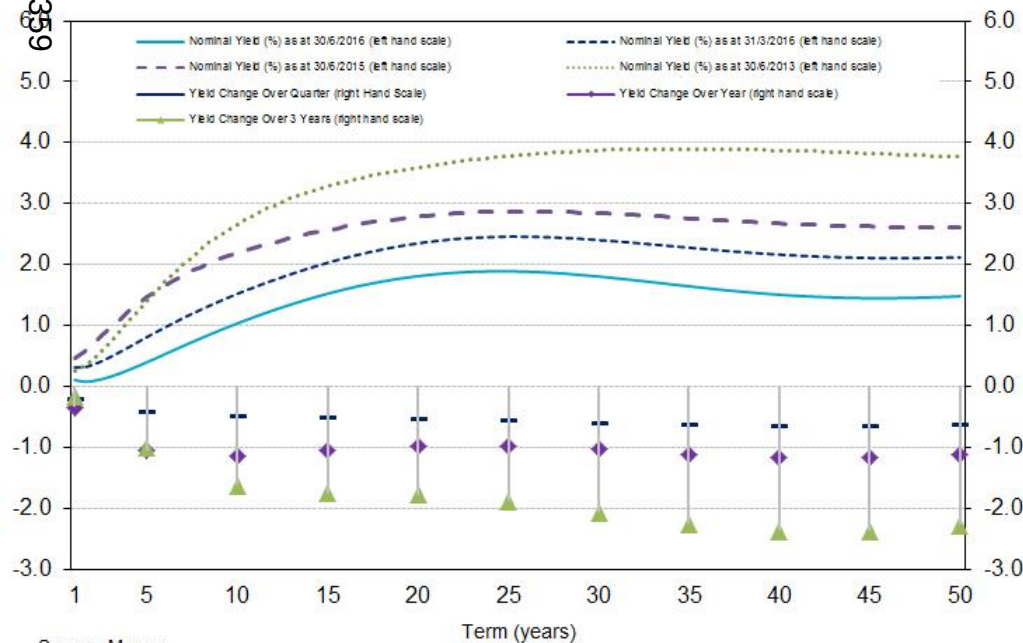


CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2016	31 March 2016	30 June 2015	30 June 2014
UK Equities	3.66	3.77	3.46	3.27
Over 15 Year Gilts	1.61	2.17	2.63	3.34
Over 5 Year Index-Linked Gilts	-1.38	-0.97	-0.75	-0.10
Sterling Non Gilts	2.55	2.90	3.15	3.59

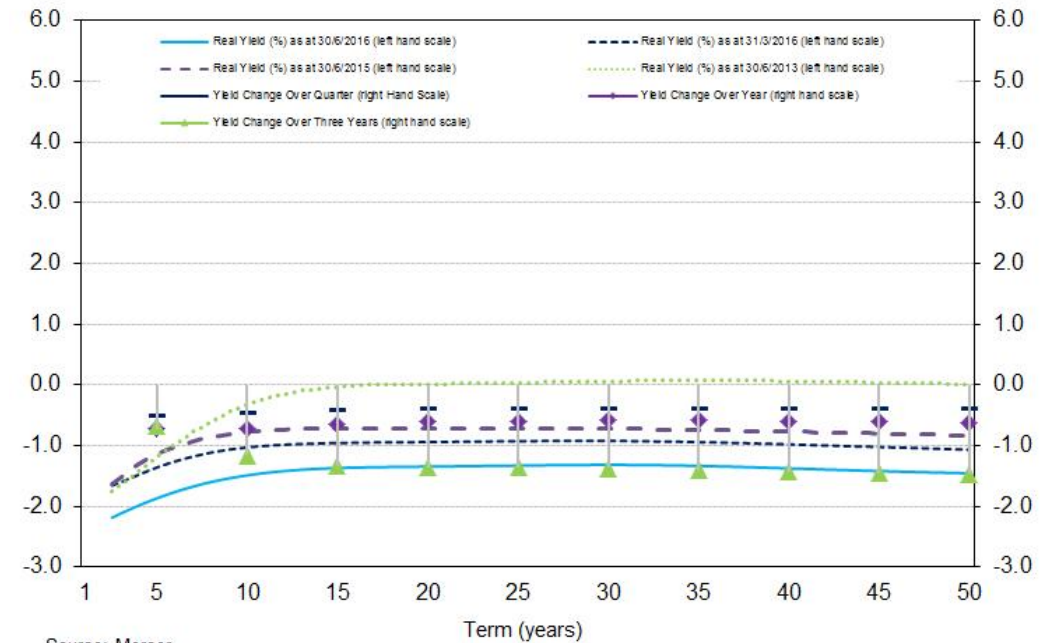
- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Year Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.
- Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.
- Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Page 359
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY



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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1519/16

Meeting / Decision: Avon Pension Fund Committee

Date: 23 rd September 2016

Author: Matt Betts

Report Title: INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 2016)

Exempt Appendix 3 - Changes in RAG status of Investment Managers

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

Stating the exemption:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the 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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The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 70 public sector pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2016



Attending the LGPS seminar (clockwise from top left) Patrick Daniels; Cllr Mukesh Malhotra; a group of delegates; Natasha Landell Mills, David Sheasby, Jeanette Andrews and Cllr Keiran Quinn.

Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling

Launch of the All Party Parliamentary Group on Local Authority Pension Funds

Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Engagement with Total leads to carbon risk reporting and further meetings with the Company

LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

LAPFF attends 13 AGMs during the quarter

Achievements

Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling



LAPFF Vice Chair, Ian Greenwood

On 7 June 2016, LAPFF hosted a successful seminar, sponsored by PIRC, entitled 'Responsible Investment, Shareholder Rights and Pooling' at Martin Currie Investment Management. The seminar highlighted the remaining uncertainties linked to the mandatory pooling of local government pension funds in the UK and Wales, especially in relation to implementing responsible investment (RI) through funds. The seminar presentations are available to LAPFF members [here](#).

The day began with David Sheasby of Martin Currie, Natasha Landell Mills of Sarasin & Partners, and Jeanette Andrews of Legal & General Investment Management, speaking about fund managers' approaches to environmental, social and governance (ESG) issues and ESG integration into their work products. All three speakers emphasised the importance of ESG analysis to capital protection and long-term corporate growth. Their questions about the pooling process related primarily to the devolution of power and accountability away from funds to asset managers, including the transfer of responsibility for RI and reduced active management of investments.

Patrick Daniels of Robbins Geller Rudman & Dowd then spoke about legal accountability of companies to shareholders, specifically the way shareholder litigation will work given the new pooling arrangements. He stressed that pooling would not affect the likelihood of claims arising, but that effective data retention and monitoring would be key to the success of shareholder claims.

In a pooling situation, this retention could be difficult if custodians employed by individual funds are different from those used by the pools, which may become the claimants in this litigation. Mr Daniels' recommendation was that the cleanest solution is for pension funds to assign legacy claims to their pools and ensure that the pools have rigorous data protection processes and data control, which are contracted-in to the pools' constitutions, to increase the prospect of successful litigation in the future.

Alan MacDougall of PIRC continued the accountability theme by suggesting that if funds do not maintain ownership line-of-sight for their investments, RI will not be within their control; it will effectively be delegated to pools, notwithstanding the regulatory position that the individual funds are supposed to maintain ultimate responsibility for responsible investment. Therefore, collaboration on RI will be key, including the provision of guidance on how to work with asset managers in this area, particularly with regard to proxy voting policy, director nominations and co-filing shareholder resolutions.

Representatives of LAPFF members across four pools – Faith Ward, Cllr Mary Barnett, Cllr Rishi Madlani and Rodney Barton – concluded by setting out the expectations of pools in relation to RI. The London Collective Investment Vehicle (CIV) was used throughout the day as a source of learnings on developing pools as the CIV has already been up and running for some time.

Despite the uncertainties that pooling continues to present, delegates agreed that it should be seen as an opportunity to maximise, not dilute, the active role that funds have in responsible investment.

LAPFF facilitates launch of All Party Parliamentary Group

In May, LAPFF facilitated the launch of an All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Clive Betts MP (*below left*) was elected Chair and Ian Blackford MP (*below right*) was elected vice-Chair. The aim of the APPG is to consider a range of issues affecting local authority pension funds, particularly: the use of pension fund money for infrastructure; corporate governance and shareholder activism; and LGPS reforms. LAPFF Chair, Cllr Kieran Quinn, led the session, along with contributions from Unison, LAPFF member funds, and others.



Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Over the last twelve months, LAPFF has been heavily involved in engagement with, and filing shareholder resolutions at, **Rio Tinto, Anglo American** and **Glencore**. This spring, all three resolutions were voted in with overwhelming shareholder support, showing the strength of belief amongst the investor community that companies must be transparent about how they are preparing for the transition to a low carbon economy.

LAPFF leads on engagement with Rio Tinto and, in April, the resolution obtained a 99.1% vote in favour, the highest level of support for a shareholder resolution yet in the UK. Later that month, the Anglo American resolution obtained a 96% 'for' vote and, in May, 98% of voting shareholders supported the resolution 'asks' at Glencore. All three resolutions were publicly supported by the companies' boards and members of the LAPFF executive attended each AGM to speak to the resolutions.

These successes follow those of last year, when similar strategic resilience resolutions were co-filed at BP and Shell. A year on, LAPFF is now reviewing how well these companies have implemented the resolution 'asks' in their reporting, amidst continuing engagement with both companies.

Engagement with Total leads to carbon risk reporting

LAPFF is also pleased to have been part of an investor coalition which has successfully engaged with **Total** on strategic resilience. As a result of this engagement, the Company committed to reporting in line with the requests of the strategic resilience resolutions that have already been filed at oil, gas and mining companies in the UK. This includes reporting on emissions, the International Energy Agency's post-2015 scenarios, research and development, key performance indicators, and public policy positions.

Following this, Total released its dedicated report on this issue '[Integrating Climate into our Strategy](#)' at its AGM in May. LAPFF signed-on to a joint investor statement presented at that AGM, which was attended by Cllr Simon, supporting Total's commitment. LAPFF's question at the AGM was to ask the Chair if Total would consider reporting its energy reserves in kilojoules rather than barrels of oil. As the former is 'resource-neutral' this would be a means to help the Company and the market account for and place value on a range of renewable energy resources beyond oil and gas. The Chair's response was that whilst Total would

continue to publish its reserves in barrels of oil, this proposal would be considered. Cllr Simon subsequently attended a group investor meeting with the Chair and Chief Executive in June, to discuss the new report in detail, and Denise Le Gal attended an event with Total's Vice President on Climate the following day, to discuss that report further.

LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

Following Ian Greenwood's participation at the BP AGM in April to ask the Board about its plans for 2016/17 to make carbon pricing effective, he was then interviewed by the BBC about LAPFF's views on executive pay at the Company, following a 20% increase in remuneration to the CEO on last year. Mr Greenwood stated, in clips that were shown in primetime [BBC news](#) slots, that the CEO's pay 'sent entirely the wrong message' to shareholders and employees, following significant job cuts and the biggest operating loss that BP has ever reported. Over 59% of investors opposed the Remuneration Report at the AGM, which was one of the largest rejections of such a report in the UK to date. LAPFF has now asked BP for a meeting to discuss the Company's approaches to remuneration, ahead of the vote on remuneration policy in 2017.



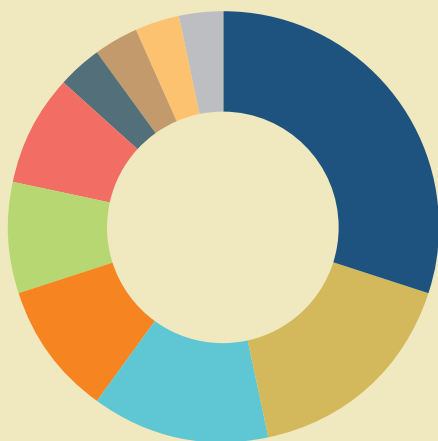
LAPFF Vice Chair, Ian Greenwood, being interviewed by the BBC on BP remuneration

LAPFF attends 13 AGMs during the quarter

It has been a busy and successful quarter for LAPFF, having attended 13 AGMs between April and June, raising issues ranging from remuneration, to climate risk, to supply chain management. A number of these AGMs have brought about opportunities for further engagements with the companies on issues of concern to LAPFF's members.

Company Engagement

ENGAGEMENT TOPICS



Climate change	18
Human rights	10
Employment standards	8
Board composition	6
Environmental risk	5
Remuneration	5
Campaign (general)	2
Governance (general)	2
Incentivising executives	2
Supply chain management	2

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

Over the last year, LAPFF has been engaging with companies on their approach to diversity. At the **Tullow Oil** AGM, Cllr Mukesh Malhotra asked the Chair how Board diversity, and diversity more broadly, would be strengthened at the Company, particularly through linking pay to key performance indicators. The Chair's response was encouraging and showed a willingness to continue to develop the Company's approach, particularly by considering the need for ethnic diversity, as well as gender diversity, and giving consideration to the fact that Tullow is an African-based business.

Through the 30% Club, LAPFF also met with the Chair of **GKN**. The Company currently only has one woman on the Board, and the meeting explored the challenges the Board faced in addressing gender diversity.

Following on from previous AGM attendance, a LAPFF representative attended the **Carillion** AGM in May to ask about the Company's efforts to implement the reporting requirements of the Modern Slavery Act and transparency in its supply chain in Qatar. LAPFF was then invited to join the launch of Carillion's Sustainability Report that afternoon at which the Chair spoke animatedly about the Company's approach towards sustainability.



In April, LAPFF Executive Committee member Jane Firth met with representatives of **Hays**, to consider a range of issues, including the Company's business model, use of zero hour contracts, remuneration and share buybacks. One concern has been the extent of structural pressure that appears to push the Company towards using workers on temporary contracts.

At the **Next** AGM, Ms Firth asked about supplier audits and a particular case of human trafficking. The Chair responded in some detail. Ms Firth also asked how Next intends to report on water use, and whether it has signed on to the Better Cotton Initiative. Again, further information was provided including on how Next is working to minimise water usage in the UK.

LAPFF also continued its engagement with **Singapore Technologies**, following the [Company's announcement last year](#) that it would cease to design, produce and sell anti-personnel mines and cluster munitions. LAPFF welcomed the Company's request for a meeting on this issue, and gained a better understanding of how the Board was able to take the decision to stop the manufacturing and sales of these munitions.

The **National Express** AGM was, again, highly contentious this year. The Teamsters had proposed a shareholder resolution calling for an independent review of North American school bus operations that was not included on the AGM ballot. At the AGM, the Company advanced various arguments as to why this shareholder resolution had not been included in the AGM agenda. The LAPFF Chair, Cllr Kieran Quinn, asked for clarity from the Company on the particular reasons for failing to accept the resolution this year. This has raised a significant issue about the requirements for co-filing, which LAPFF will follow closely.

LAPFF picked up on executive remuneration at the **Standard Life** AGM this year, with Cllr Barney Crockett querying the bonus payments made to the former Chief Executive whilst on gardening leave. The Chairman, Sir Gerry Grimstone, confirmed that his payments were in line with the terms of his contract. Concerns over the incoming Chief Executive's pay, despite the fact that he voluntarily reduced the ceiling on his long-term incentive payments from 500% to 400%, contributed to a vote of 22.3% against the remuneration report. In addition, LAPFF issued a [voting alert](#) against the remuneration report at WPP, which was followed by a [press release](#). LAPFF's position was reported extensively in national press, as set out in the 'Media Coverage' section of this report. Remuneration was also raised by Cllr Rose at the **RBS** AGM, in asking to what extent particular issues of concern had been taken into account in devising the CEO's pay package. The Company's response was, in part, that shareholders had overwhelmingly supported the pay policy in 2014. At the **G4S** AGM, Cllr Mukesh Malhotra queried the link between remuneration and poor contract performance. The Chair stated that a range of financial and non-financial factors are taken into account when calculating pay, and that the Company's current pay levels are considered necessary in order to attract high quality candidates.

continues to entirely overlook the appropriate purpose of the accounts. ECON's report will go forward as a resolution to the European Parliament for an affirmatory vote.

LAPFF has also been in dialogue with Lord Hill, EU Commissioner, challenging the position adopted by EFRAG in endorsing IFRS 9. Lord Hill has agreed that the IFRS endorsement criteria does need to cover the purpose of shareholder and creditor protection, and that the relevant legal test is the 'true and fair view of the assets, liabilities, financial position and profit or loss'. However, he continues to hold that EFRAG has appropriately applied the criteria in its endorsement advice on IFRS 9. LAPFF has sent a follow up letter to Lord Hill challenging this position.

HOLDINGS-BASED ENGAGEMENT

This year, LAPFF attended the **Unilever** AGM to find out more about the company's implementation of the 'Unilever Sustainable Living Plan', which it introduced in 2010. Unilever's efforts to integrate sustainability throughout its business model are very rare in the UK, and have attracted a lot of positive intention.

PROMOTING GOOD GOVERNANCE

A meeting with Global Witness, a non-governmental organisation based in London, gave a better understanding of their research on corruption and corporate transparency. In particular, these discussions related to national investigations into how Shell obtained rights to 'OPL 245', an oil field in Nigeria.

At a recent Shell SRI event, LAPFF asked the Managing Director of The Shell Petroleum Development Company of Nigeria (SPDC), Osagie Okunbor, whether the Company was concerned that the Nigerian government might revoke its OPL 245 licence, following these allegations. Mr Okunbor said there was no evidence to suggest this was the case. LAPFF has sent a letter to Mr Okunbor on this issue, asking for an engagement meeting.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

LAPFF continued its focussed engagement on carbon risk this quarter. Mr Greenwood attended the BP AGM and Shell UK shareholder meeting to follow-up on implementation of last year's shareholder resolutions. In response to the question on what BP could do to make carbon pricing more effective, the BP Chair reaffirmed a commitment to a carbon price and its membership of the World Bank Leadership Coalition as evidence of this. Meanwhile, at Shell the response to Mr Greenwood's question on carbon pricing was that the Company has been advocating for a carbon price for 15 years and will



RELIABLE ACCOUNTS

LAPFF has continued to apply pressure at an EU level to ensure that IFRS 9 is not endorsed until it appropriately reflects the correct legal position on the 'target' of the true and fair view test (i.e. assets, liabilities, financial position and profit or loss), and the 'purpose' of the accounts (creditor and shareholder protection).

In May, the Economic and Monetary Affairs Committee (ECON) of the European Parliament correctly flagged all of the problems that LAPFF has been highlighting with the criteria that the European Financial Reporting Advisory Group (EFRAG) has applied in endorsing IFRS. It is LAPFF's view that whilst EFRAG's amended endorsement advice (issued in November 2015) now superficially refers to the appropriate targets of the true and fair view, it fails to take these targets into account more systemically and

continue to advocate on this with governments, including in the UK. The CEO made it clear that the Company will only invest in carbon, capture and storage (CCS) if there is a clear carbon price.

Attending the **Rio Tinto** AGM, Mr Barton proposed the strategic resilience resolution and asked if certain reporting elements could be addressed even more directly in the Company's presentation of its business strategy. Jan du Plessis, the Chair, noted that it was not just about risks but also opportunities for the business and gave several examples. For example, energy comprises about 30% of the costs for aluminium, and with an 80% hydro-electric supply, this gives a competitive advantage.

CLlr Simon attended the AGMs of **Glencore** and **Anglo American**, to support the shareholder resolutions co-filed this year. At Glencore, the strategic resilience resolution took centre stage, with the Board welcoming it, and responding to questions on operational emissions, carbon pricing, stress-testing the portfolio and thermal coal. As a follow-up to this engagement, LAPFF also attended Glencore's SRI day in London, in June. At Anglo American, LAPFF asked how the Company planned to incentivise carbon reductions through pay policies and practices. Positively, the Board offered an engagement meeting to discuss these issues in the run up to the vote on remuneration policy in 2017.

The Shell SRI day in May provided an opportunity to hear from the Company in more detail on how it is preparing for the low carbon transition. Several Shell representatives commented on the significant change over the past year, fuelled by COP 21 and the shareholder resolutions, in approaches to carbon risk and how more companies in the industry are now recognising the need to respond to this. The Company emphasised again its strong belief that carbon pricing needs to be introduced in order to effectively curb carbon emissions, and also stressed its own switch towards natural gas, a 'cleaner' fuel. To continue its engagement with the Company on these issues, LAPFF was one of the signatories to an investor statement that was presented at the Shell AGM in May. This statement commended the Company on its efforts to date, but urged it to continue to push itself further in a commitment to annual reporting on the resilience of the Company's business model to climate change.

LAPFF also signed a letter sent to **ENI**, in May, on strategic resilience, asking the ENI Chair and CEO directly for a public commitment to reporting against the five main 'asks' of the resolutions filed at oil, gas and mining companies over the last two years. This letter takes the same approach as that sent to Total in March, which also received a highly positive response. Following the letter, the Company released its [Sustainability Report](#) with an enhanced section on climate change.



In addition, LAPFF has actively encouraged member funds to make [public declarations of support](#) for strategic resilience resolutions at [Exxon](#) and [Chevron](#) this quarter. At both AGMs, shareholder resolutions called on the Companies to publish annual assessments of long-term portfolio impacts of public climate change policies. These resolutions gained [record support](#), with 38% of voting shareholders supporting at Exxon and 41% at Chevron. In addition, LAPFF encouraged support for another shareholder resolution at Chevron, which asked the Company to increase the total amount of capital distributions, given the climate change related risk of stranded carbon assets.

LAPFF has also continued to engage with the Financial Reporting Council (FRC) on how to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports. Led by Sarasin & Partners and supported by ClientEarth, this engagement aims to set out a pathway to encourage the FRC to be proactive in this area.

Aligned to this, LAPFF supported [a position paper on climate risk reporting](#) which calls on companies to assess and report their climate-related risks within their annual report in the interests of prudent and long-term capital stewardship. In many jurisdictions, to do so is already a requirement for listed companies and the paper sets out why companies and regulators need to do more to ensure that such requirements are properly implemented.

In May this year, LAPFF also submitted a consultation response to the Task Force on Climate Disclosure's Phase I Report. LAPFF's response set out its view that there should be a forward-looking focus on detailed quantitative and qualitative reporting, supported by additional narrative where necessary, across five elements: operational emissions; strategic resilience; research and development; the governance of company policy implementation on climate change and key performance indicators on incorporating the carbon transition into the business model; and public policy. Members can view LAPFF's response [here](#).

NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

LAPFF meets with ShareAction: The LAPFF Chair, Cllr Kieran Quinn, had a positive meeting with representatives from ShareAction to discuss issues that both organisations are interested in, and to better understand each other's work.

Two Degrees of Change: This event explored ways of working collaboratively and practically to manage the investment implications of global warming beyond the energy sector.

'Business and human rights - A five step guide for company boards': The launch of a new report commissioned by the Equality and Human Rights Commission and authored by Shift, which seeks to assist companies in complying with the UN Guiding Principles on Business and Human Rights.

'Strategic Litigation on Modern Slavery in Global Value Chains': A discussion hosted by the University of Notre Dame Law School, on how modern slavery in supply chains can be curbed.

Living Wages in the Supply Chain: This event showed that there has been limited progress in dealing with living wages in the supply chain. Living wages need to be seen and understood in the broader context of human resources management to make headway, which aligns with LAPFF's Human Capital Policy.

Share Action Tax Event: This event illustrated that tax is becoming a huge issue for investors, and that simple legal compliance is no longer deemed sufficient.

PRI Fiduciary Duty Event: A three year project on fiduciary duty is being launched this year. Its aim is to publish a roadmap for full integration of ESG into fiduciary duty and to work with investors and governments to clarify the content of fiduciary duty.

Cyber Security and Scope: Protecting and unlocking the value of company data: An event organised by UKSIF to explore the risks and opportunities that data presents to business.

MEDIA COVERAGE

Accounting standards

Investment & Pensions Europe: [LAPFF welcomes EC concession on bank accounting concerns](#) (20 May 2016)

Financial Times (Letters): [Accounting rules that put capital protection in peril](#) (18 May 2016)

Investment & Pensions Europe: [Pressure mounts on IFRS foundation, international standards](#) (9 May 2016)

Remuneration

City A.M.: [More pressure on Martin Sorrell over £70.4m pay package ahead of WPP's AGM](#) (7 June 2016)

Herald Scotland: [Shareholder revolt over WPP chief's £70m pay package grows](#) (7 June 2016)

Pensions Age: [LAPFF tells members to vote down pay packet for WPP's Sir Martin Sorrell](#) (7 June 2016)

Reuters: [UK pension fund group asks members to reject Sorrell's pay](#) (7 June 2016)



Guardian: [Vote against Sorrell pay award, urge pension fund advisers](#) (6 June 2016)

Independent: [WPP boss Martin Sorrell to face pay package opposition from a pension fund group](#) (6 June 2016)

Times: [Sorrell runs into a storm of anger over £70m pay package](#) (6 June 2016)

BBC News: [BP shareholders reject chief Bob Dudley's £14m pay deal](#) (14 April 2016)

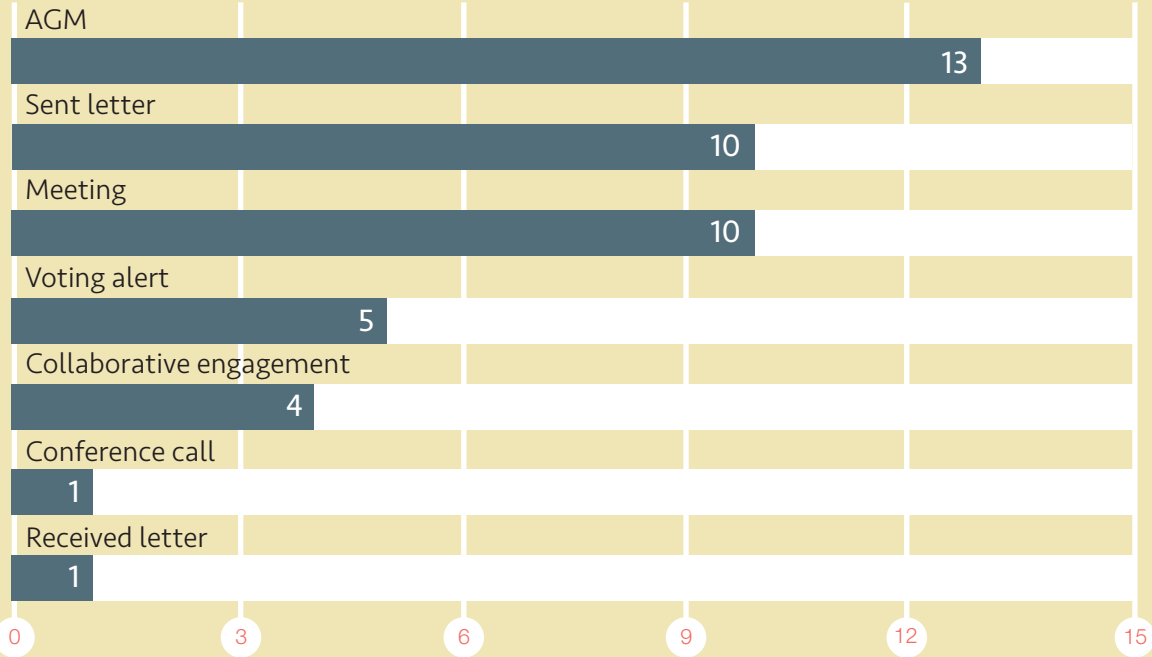
BBC News: [Dudley's pay sends 'wrong message' investor says](#) (14 April 2016)

Q2 2016 ENGAGEMENT DATA

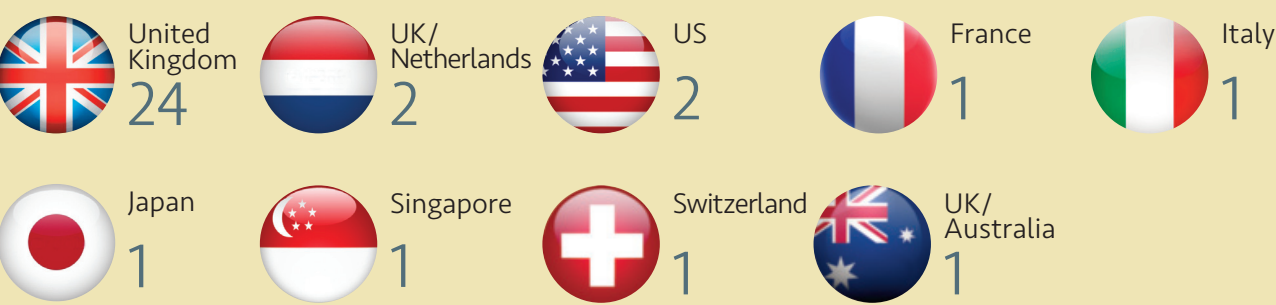
	Company	Topics	Activity/Outcome	Domicile
1	Hays	Governance (General)/ Employment	Meeting/Dialogue	United Kingdom
2	Centrica	Climate Change	Meeting/Dialogue	United Kingdom
3	BP	Climate Change/ Human Rights	Meeting/Dialogue	United Kingdom
4	Rio Tinto	Climate Change	Conference Call/Dialogue	United Kingdom
5	Total	Climate Change	Sent Letter/Dialogue	France
6	Singapore Technologies	Human Rights	Meeting/Dialogue	Singapore
7	BP	Climate Change/ Incentivising Execs	Attended AGM/ Small Improvement	United Kingdom
8	Rio Tinto	Climate Change	Attended AGM/Dialogue	UK/Australia
9	Unilever	Human Rights/Supply Chain Management	Attended AGM/Dialogue	UK/Netherlands
10	Anglo American	Climate Change	Attended AGM/Dialogue	United Kingdom
11	Anglo American	Climate Change	Alert Issued/Substantial Improvement	United Kingdom
12	Tullow Oil	Board Composition/ Governance	Sent Letter/Dialogue	United Kingdom
13	Tullow Oil	Board Composition	Received Letter/Dialogue	United Kingdom
14	Shell	Remuneration	Meeting/Dialogue	UK/Netherlands
15	GKN	Board Composition	Collaborative Engagement	United Kingdom
16	ExxonMobil	Climate Change	Alert Issued/Dialogue	United States
17	Tullow Oil	Board Composition	Attended AGM/Dialogue	United Kingdom
18	Ricoh	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	Japan
19	Burberry	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	United Kingdom
20	Unilever	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	UK/Netherlands
21	Carillion	Employment Standards/ Supply Chain Management	Attended AGM/Dialogue	United Kingdom

	Company	Topics	Activity/Outcome	Domicile
22	RBS	Remuneration	Attended AGM/Dialogue	United Kingdom
23	Glencore	Climate Change	Alert Issued/Substantial Improvement	Switzerland
24	Chevron	Climate Change	Alert Issued/Dialogue	United States
25	National Express	Employment Standards/ Human Rights	Attended AGM/Dialogue	UK
26	Royal Dutch Shell	Climate Change/Campaign	Collaborative Engagement	UK/Netherlands
27	Telecom Plus	Board Composition	Sent Letter/Dialogue	UK
28	ENI	Climate Change	Collaborative Engagement	Italy
29	Glencore	Climate Change	Attended AGM/Substantial	Switzerland
30	Next	Employment Standards/ Climate Change	Attended AGM/Dialogue	UK
31	Royal Dutch Shell	Climate Change	Collaborative Engagement	UK/Netherlands
32	Royal Dutch Shell	Climate Change	Attended AGM/Satisfactory	UK/Netherlands
33	Standard Life	Incentivising Execs	Attended AGM/Dialogue	UK
34	National Express	Employment Standards/ Human Rights	Sent Letter/Dialogue	UK
35	Total	Climate Change	Attended AGM/Dialogue	France
36	G4S	Remuneration	Sent Letter/Dialogue	UK
37	WPP	Remuneration	Alert Issued/Dialogue	UK
38	Royal Dutch Shell	Campaign (General)/ Human Rights	Sent Letter/Dialogue	UK/Netherlands
39	Tullow Oil	Board Composition	Meeting/Dialogue	UK
40	BP	Remuneration	Sent Letter/Awaiting Resp	UK
41	BP	Environmental Risk	Meeting/Dialogue	UK
42	Glencore	Environmental Risk	Meeting/Dialogue	Switzerland
43	Rio Tinto	Environmental Risk	Meeting/Dialogue	UK/Australia
44	Total	Environmental Risk	Meeting/Dialogue	France

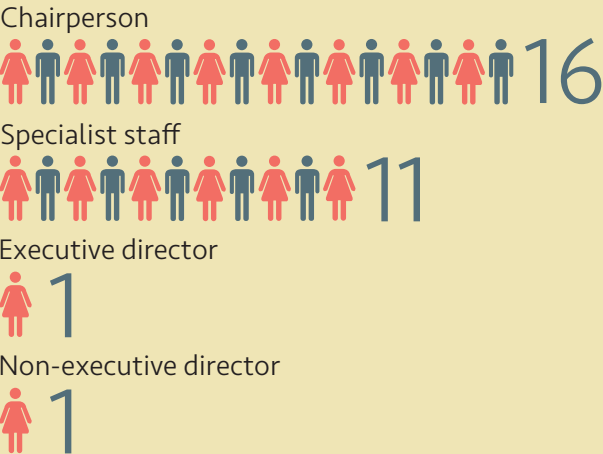
COMPANY ENGAGEMENT ACTIVITIES



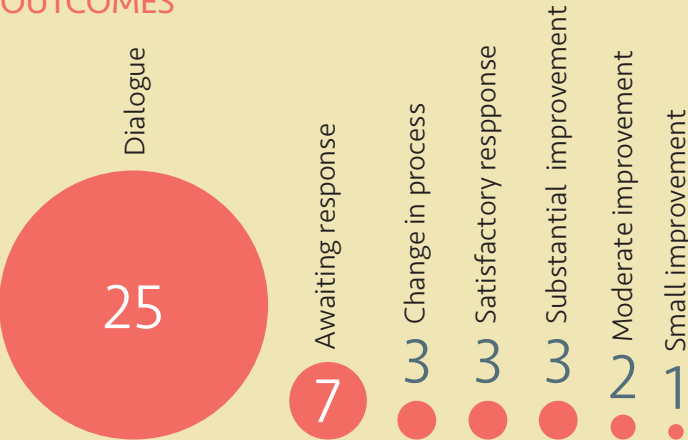
COMPANY DOMICILES



POSITION ENGAGED



OUTCOMES



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

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AVON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

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

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

This statement is required to cover the following:

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

1 Investment Objective

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

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

2 Types of Investment Held

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

Implementation: The Fund invests in equities (both UK and overseas), diversified growth funds, index-linked and fixed interest stocks, Fund of Hedge Funds, infrastructure and property funds. 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 .

Asset Class	% of Fund	Range	Expected return*	Expected Volatility
Growth assets	80%	65 -85%		
<i>Equities</i>	<i>50%</i>	<i>45 - 55%</i>		
<i>Developed</i>	<i>40%</i>	<i>35 - 45%</i>	<i>+3.75%</i>	<i>15 - 20%</i>
<i>Emerging</i>	<i>10%</i>	<i>5 - 15%</i>	<i>+4.25%</i>	<i>15 - 25%</i>
<i>Diversified Growth Funds</i>	<i>10%</i>	<i>5 - 15%</i>	<i>+3.75%</i>	<i>10 - 15%</i>
<i>Illiquid Growth</i>	<i>20%</i>	<i>15 - 25%</i>		
<i>Hedge Funds</i>	<i>5%</i>	<i>0 - 7.5%</i>	<i>+1.5%</i>	<i>6 - 15%</i>
<i>Property</i>	<i>10%</i>	<i>5 - 15 %</i>	<i>+2.5%</i>	<i>5 - 10%</i>
<i>Infrastructure</i>	<i>5%</i>	<i>0 - 7.5%</i>	<i>+2.5%</i>	<i>5 - 10%</i>

<i>Other Growth</i>	<i>0%</i>	<i>0 - 5%</i>	<i>+2.5%</i>	
Stabilising Assets	20%	15 - 35%		
<i>Government Bonds</i>	<i>0%</i>	<i>0 - 10%</i>	<i>0%</i>	<i>5 - 10%</i>
<i>Index linked bonds</i>	<i>12%</i>	<i>9 - 15%</i>	<i>-0.25%</i>	<i>5 - 10%</i>
<i>Corporate Bonds</i>	<i>8%</i>	<i>4 - 20%</i>	<i>+1.0%</i>	<i>5 - 10%</i>
<i>Other Bonds</i>	<i>0%</i>	<i>0 - 5%</i>	<i>+1.0%</i>	<i>5 - 10%</i>
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. The expected returns will be reviewed in 2017 as part of the strategic investment review and at that time they will reference the basis on which the liabilities will have been valued in the 2016 actuarial valuation..*

The inclusion of diversified growth funds (DGFs), property, infrastructure 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 a passive 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 passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way. 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. A passive currency hedging mandate aims to reduce the volatility arising from currency exposure in an efficient and cost effective manner.

The investment structure is detailed in the table below:

Manager	Mandate	Performance Objective	% of Fund	Inception date
BlackRock	Passive multi-asset	In line with customised benchmark	29%	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	LIBOR + 4% p.a.	6.7%	04/02/15

	(active)			
Pyrford International	Diversified Growth Funds (active)	RPI + 5% p.a.	3.3%	14/11/13
JP Morgan Asset Management	Fund of Hedge Funds	The higher of LIBOR +3% or 6% p.a.	5%	13/07/15
Royal London Asset Management (RLAM)	UK Corporate Bond Fund (active)	iBoxx £ non-Gilt Index +0.8% p.a.	5%	11/07/07
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
IFM	Infrastructure (active)	Gilts +2.5% p.a.	5%	30/09/14
Record Currency Management	Currency hedge (US\$, Yen and Euro equity exposure)	N / A	n/a	26/07/11
Current Structure			100%	

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, which are mainly interest rates and inflation. The corporate bonds (8% of the Fund) provide an interest rate hedge. Index Linked bonds (12% of the Fund) 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.

For approval by Avon Pension Fund Committee on 23 September 2016

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER 14
TITLE:	ANNUAL REPORT TO COUNCIL 2016	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council 2016 Appendix 2 – Local Pension Board – Annual Report 2016		

1 THE ISSUE

- 1.1 The Avon Pension Fund Committee and Local Pension Board have different specific roles and purposes. The Council (as scheme manager) has delegated responsibility for the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund. The Local Pension Board has responsibility for assisting the scheme manager in relation to achieving regulatory compliance and effective and efficient governance and administration of the scheme.
- 1.2 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.
- 1.3 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 2016, will be submitted to the Council meeting on 10 November 2016. 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.
- 1.3 The Public Service Pensions Act 2013 (PSPA2013) required the Council to establish a local pension board to assist the administering authority with the effective and efficient management and administration of the scheme. The Avon Fund Pension Board has published its annual report detailing the work undertaken by the Board in its inaugural year. The report will be published so that it is available for all stakeholders.

2 RECOMMENDATION

That the Committee:-

- 2.1 Review and approve the 2016 Annual Report to Council
- 2.2 Notes the Local Pension Board Annual Report

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 2016 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.

4.3 The Pension Board Annual Report is included for completeness.

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	

AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2015 - March 2016)

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 230 employing bodies including the four unitary authorities (of which c. 120 are academies). The Fund has approximately 106,000 members and the value of the Fund as at 31 March 2016 was £3.7 billion. In 2015/16 the Fund received £144m in pension contributions and paid out £163m in pension payments and transfers.

(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 91% for the voting members and 40% for the non-voting members.

Ad hoc workshops are arranged as necessary reflecting the Committee’s meeting agendas. During the last twelve months four workshops were arranged covering:

- Introduction to the pension fund
- Benefits administration training including TPR requirements

- Actuarial valuations and the 2015 Interim Valuation
- Liability Driven investing and the Funding Strategy Statement

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 three times during the year with attendance at 83%. In addition two workshops were held; one for the managers to present to the panel on their performance and outlook for their portfolio and a training session on investment strategy.

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. Much of the training is delivered through detailed Committee and Panel reports and workshops where the topic is explored greater in detail. As there were a number of new members following the 2015 local elections, a number of induction sessions were held.

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's assets decreased from £3,840m at 31 March 2015 to £3,742m at 31 March 2016. The Fund generated an investment return of -2.1% during the year, with a return of 5.8% p.a. over the last three years.
- The 2015/16 investment return was driven primarily by the fall in equity markets which account for 50% of the fund's assets and the impact of hedging the foreign currency exposure within the portfolio during a period when sterling

depreciated. Excluding the currency hedge the returns were -0.2% over the year and 6.1% p.a. over the last three years. Bonds overall generated a positive return albeit more subdued than in the previous year. Property delivered a positive return as did hedge funds and diversified growth funds to a lesser extent.

b) POOLING OF ASSETS

- In 2015 the government announced that the LGPS funds should pool their assets to reduce investment management costs and increase the capacity across the LGPS to invest in infrastructure.
- Funds were asked to put forward their proposals by February 2015. The fund is participating in a pool of 10 funds mainly from the south west to develop this proposal (known as Brunel Pension Partnership).
- The initial proposal in February was approved by government with a more detailed proposal submitted in July detailing the operational structure of the pool. The government has yet to provide feedback on this stage.
- The full business case for the pool overall and each individual fund is now being developed for approval later in 2016. The new arrangements are to be in place by April 2018. A Shadow Oversight Board comprising the Chair of each LGPS fund is overseeing the process.

c) FUNDING LEVEL

- As at 31 March 2016 the Actuary has estimated that the funding level was 83% from 78% a year earlier and the deficit has decreased to c. 750m from £1,104m. The improvement reflects the change in the discount rate partially offset by the negative return on assets.
- The value of the future pension liabilities is calculated using a discount rate. Historically this has been based on UK gilt yields. However, with gilt yields at very low levels there is a risk that a discount rate based on gilt yields will build too much prudence in to the actuarial valuation meaning employer contribution rates will be overstated.
- Therefore the valuation struck at 31 March 2016 will be calculated with reference to inflation (CPI) as the pension benefits are linked to inflation. The discount rate will reflect the real investment return expected on the investment portfolio.

d) PENSIONS ADMINISTRATION

(i) Budget

- During the year to 31 March 2016, total administration costs (excluding governance and investment management costs) were £2.13m a saving of £253,000 (10%) on the budget.
- Total costs including Investment Management, custody and governance costs, were £19.7m, £1.9m below budget. Investment management fees were lower than expected due to the lower than anticipated increase in asset values since the setting of the budget and lower fee rates on some mandates.

- The investment management and custody fees of £17.1m equates to 0.46% 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 2014/2015 the Fund's overall costs at £16.55 p.a. per member were less than the average of £19.17. Staffing costs (excluding payroll) were significantly less at £6.73 per member against £7.83. Payroll costs per pensioner member of £0.82 compares favourably against the average of £1.85.
- The Fund invests heavily in communications with communication costs at £2.21 per member compared to the average of £0.78. 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 further development 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 ACTIVITY TO MARCH 2016

a) Investment Strategy

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

- A review of the currency hedging strategy during the year concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. However, implementation was altered from an active to passive approach to ensure more effective hedging of the currency risk
- In addition the committee has begun to explore ways in which the investment portfolio can be used to manage the liability risks more effectively. The current investment strategy only provides limited protection against changes in the value of the liabilities. The Committee is considering how this level of protection could be increased and any decision will be made in 2016/17. As an initial step

the allocation to UK government bonds is now invested entirely in index linked gilts that closely match the fund's inflation linked cashflows.

- 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. In addition an interim valuation was undertaken as at March 2015 to identify the issues that will need to be considered in the 2016 funding strategy and to inform employers of the trend in contribution rates for budgeting purposes.

c) Approval of the 3-year Service Plan and Budget 2016/19

- The Service Plan sets out the Pension Fund's objectives for the next three years (2016/19). The three year budget supports the objectives and actions arising from the plan.
- The main focus of this plan is:
 - (i) To fully engage in the development of pooled funds in the interest of the Avon Pension Fund
 - (ii) to strengthen the resources available to cope with future demand pressures and manage risk and compliance
 - (iii) to continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth;
 - (iv) to deliver the valuation and revised funding strategy
 - (v) to continue work on Liability Driven Investment and undertake an asset liability review to ensure the Fund manages its cashflows effectively.
 - (vi) to continue 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 in 2016/17 was £2.66m. This includes gross savings of £80,000 that have been made through changes in working arrangements and the greater adoption of digital technology. These savings have partially offset additional costs included to meet the pressures of dealing with the increasing number of employers. The other major additional cost pressure arises from the increase in NI costs.
- 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 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 as they fall to the Fund and Employers.

- 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.
- The key objectives of this Strategy are to ensure that:
- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners.
- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner
- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maintain costs at below or average levels
- The strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data.

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.
- PSPA2013 gives the Pensions Regulator a role in regulating the public service schemes including the LGPS.
- The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions. The Fund has undertaken a detailed review of its core

data and processes and assessed its level of compliance with regulation requirements in respect of:

- Scheme record keeping
- Maintaining contributions
- Providing information to members
- The regulations require 100% completeness of data across a number of core areas. In all, the Fund tested 102,000 membership records through a series of analytical reports and measured the overall level of completeness of data accuracy at 92%. A data improvement plan has been produced to address the issues identified.
- To ensure compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP). Additionally, the fund has implemented a Breaches Procedure to enable reporting to be undertaken in situations whereby the failure to comply with TPR is likely to be of material significance or in which a legal duty which is relevant to the administration of the scheme has not been complied with.
- Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis for review and approval.

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.

g) Administration

- In accordance with the Pensions Administration Strategy the Committee monitors the KPI for pensions administration and the scheme employers quarterly.
- Focus in 2015/16 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 75% of scheme employers now submitting member data electronically, representing 85% of overall fund membership.

h) Workplans

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

5 FUTURE ACTIVITY

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

a) Investments

- Investment Strategy – conclude on the options to more effectively manage the liabilities through hedging the interest rate and risks.
- Review the Responsible Investing Policy to ensure all risks are managed and opportunities identified.
- Review the investment strategy following the 2016 valuation with particular focus on meeting updated cash flow requirements.

b) Funding Strategy

- Review the outcome of the 2016 actuarial valuation, the application of the funding strategy on employer funding plans and the work undertaken to assess the financial covenants of scheme employers.
- Explore options for insuring against ill-health retirements.

c) Benefits Administration

- Ensure maintained compliance with stringent requirements of The Pensions Regulator (TPR).
- Review and 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

- Work closely with the Shadow Oversight Board of Brunel Pension Partnership to understand the significance and impact of the pooling proposals on the Avon Pension Fund to make sure due process is followed and the outcome is in the best interests of the fund.
- Consider the impact of pooling on the fund's governance arrangements and put forward recommendations to Council.
- Engage with and respond to government consultations or consultations from the LGPS Scheme Advisory Board. It is expected that the focus will be on the outcome of the 2016 valuation and potential implications of the cost mechanism to control employer costs.
- The Committee will continue to monitor the impact that the 2014 Budget freedoms for pension fund members has on the Fund to ensure there is a robust governance process in place to manage the potential risks arising from these changes.

Avon Pension Fund

September 2016

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.

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

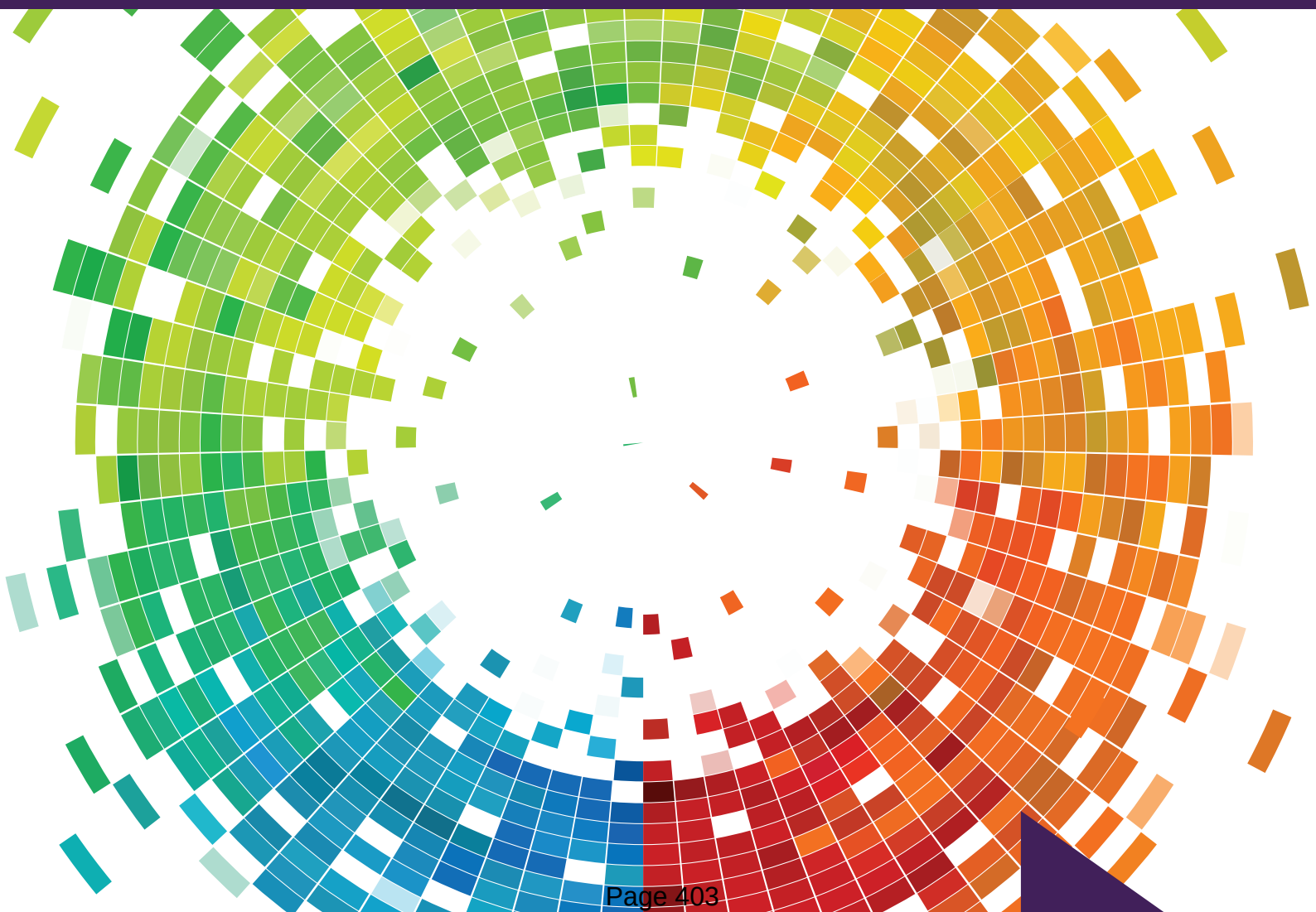
Officers are responsible for:

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

Avon Pension Fund Pension Board Annual Report 2015/16



1. Introduction



Welcome to the first Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 following a decision made by B&NES Council to create the Board in response to the Public Sector Pensions Act 2013.

This report covers the period 1st April 2015 to 31st July 2016 within which the Board has held five formal meetings.

The first year of the Board has been a developmental one with the initial focus being on -

- a. Establishing its own Terms of Reference and policies and procedures to ensure that its

governance complies with the statute and LGPS regulations and best practice guidance issued by the national LGPS Advisory Board;

- b. Supporting development of Board Members skills and knowledge through formal and informal training and agreeing a training plan so its members are fully conversant with their statutory duties and responsibilities for example on the requirements of the Pensions Regulator;
- c. Developing and starting to implement a rolling work programme to fulfil its statutory duties;
- d. Understanding the legislative framework within public sector pensions, compliance standards and significant new developments which may affect future governance such as 'pooling'.

I am delighted to say that with the support of the officers and advisors to the Avon Pension Fund the LPB has made good progress in fulfilling its terms of reference in its first year.

The LPB has reviewed a wide range of areas and made a number of recommendations (see page 8 and Appendix 1). Examples of such action included

the establishment of a formal Breaches Policy.

One of the most important reviews the LPB has undertaken is the funds compliance with the Pensions Regulators Code of Practice 14 (see page 6). The LPB welcomes the actions being implemented by the fund to ensure it fully complies with the Code before the LPB carries out its next annual review of compliance.

The LPB has also reviewed the Pension Funds communications and stressed the need for information to be kept up to date and the importance of the fund website to fund members

Looking ahead the LPB will seek to assist and support the Avon Pension Fund in respect of minimising potential governance and other risks arising from the Governments proposed asset pooling in 2017-18.

Last but not least could I thank my fellow Board members for their commitment to their roles on the LPB and I commend this report to you.

Howard Pearce
Independent Chair

2. Legal basis of Local Pension Board

Background

At the request of central government Lord Hutton conducted a wide ranging review into public service pensions and published his findings in a report in March 2011 recommending significant change to the governance of Pension Funds, 'to make... schemes...more transparent'.

Subsequently legislation was introduced in the form of the Public Sector Pension Act 2013 along with the Local Government Pension Scheme (Governance) Regulations 2015. These require each Local Government Pension Scheme (LGPS) administering authority to establish a new body known as a Local Pensions Board (LPB) to assist the Council (Administering Authority) in running the Pension Fund.

One of the key aims of the reform was to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

Therefore the LPB is separate to the Avon Pension Fund Committee (Section 101 committee) to which as administering authority (the Council) it has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 therefore sets out the requirements for the establishment of a Board with the responsibility for assisting the scheme manager in relation to the following matters:

- a. Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and:
- b. To ensure the effective and efficient governance and administration of the Scheme.

The LPB will assist the 'Scheme Manager' by monitoring and advising on compliance with the pension scheme regulations, along with all other

legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the Scheme.

The LPB therefore works with the Avon Pension Fund Committee to scrutinise its decision making process and ensure the Fund's compliance with its legislative requirements and is not a decision making body.

Pension Regulator

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore a focus for the LPB was in ensuring compliance with the Regulator's code of practice. This is split into a number of areas which covers Governance, Risk Management and Resolving Issues.

The LPB as part of their work plan has needed to consider these areas, to ensure the Fund is compliant and if not to make recommendations to the Pension Fund Committee on ways to address these requirements.

Terms of Reference

Terms of Reference for the board are available through the following link.

<http://www.avonpensionfund.org.uk/pension-board>

3. Establishment of Local Pension Board

The requirement for an Independent Chairman and Board Membership was outlined in the terms of reference to the LPB which were agreed by full Council on the 15th January.

Adverts for the role of Chairman were placed on the Fund's website, Western Daily Press, Jobsgopublic.com, Local Government Chronicle online and the Council's job vacancy website.

All applicants were then reviewed against the five published criteria in the person specifications and a shortlist of four candidates drawn up for interview with the Strategic Director of Resources, Head of Business, Finance and Pensions and the Head of Audit West.

Interviews were held in June 2015 and a preferred candidate – Howard Pearce – was identified and recommended to the LPB for an appointment of four years.

The process for the appointment of Board Members followed a similar path with adverts placed on the Fund's website and pro-actively distributed through the many employee and employer communications and conferences.

Interviews for Board Membership were held from June 2015 through to May 2016 and as at May 2016 a full compliment of employer and employee members are now in post.

Details of the Local Pension Board Members

Independent Chairman:

Howard Pearce,
former Head of Pension Fund Management, Environment Agency.

Employer Member Representatives:

Gaynor Fisher, *active member*
Steve Harman, *active member*
Tony Whitlock, *active member*

Scheme Member Representative:

David Yorath, *retired member*
Tom Renhard, *active member*
Mark King, *active member*

The register of interests for members of the Local Pension Board and details of each individual's relevant experience are available through the following link.

<http://www.avonpensionfund.org.uk/pension-board>

Attendance at Local Pension Board Meetings – July 2015 – July 2016

Role	Board Member	Attendance
Independent Chairman	Howard Pearce	5
Employer Representative	Gaynor Fisher	4
	Steve Harman	4
	Tony Whitlock	2 (Started Role May 2016)
Member Representative	David Yorath	5
	Tom Renhard	4
	Mark King	1 (Started Role May 2016)

4. Training

Background

In accordance with the Pension Regulator (tPR) Code of Practice 14 every individual member of a LPB must in summary:

- Be Conversant with the rules of the local government pension scheme (LGPS) &
- Have knowledge and understanding of the law relating to pensions:

These responsibilities begin from the date the LPB member takes up their role. These knowledge and understanding requirements apply to every individual member of a LPB rather than as a collective group.

Degree of Knowledge and Understanding

The legal requirement is that Members of the LPB must be conversant with the rules of the LGPS and any document recording policy about the administration of the Fund. This is implied as a working knowledge so that members are aware of which legislation/policies to refer to when carrying out their role.

Areas of Knowledge and Understanding

LPB Members should be conversant with, but not limited to the following areas:

- a. Scheme approved policies
- b. Risk assessment/management
- c. Scheme booklets/members communications
- d. Role of LPB Members and the scheme manager
- e. Policies in relation to discretions
- f. Communications with scheme members and employers
- g. Key policy documents on administration, funding and investment

Training Undertaken

Briefings were given by officers from the Avon Pension Fund to LPB members on a full range of topics covering the LGPS framework, Avon Pension Fund and its administration.

In addition three Board Members attended the LGE Pensions Fundamental Course and five completed the on-line tPR e-learning public sector pension module toolkit.

Training is a regular topic at each formal board meeting and all Board Members retain their own training log, which is also submitted annually to assist in the completion of ongoing needs into a Training Plan.

Details of areas discussed, updates and plans are available through the following link.

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?Committeeld=563>

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members signed up to a Code of Conduct in July 2015 which emphasised that as a holder of public office there is an expectation that LPB members will comply with the 'seven principles of public life', also known as the 'Nolan Principles'.

All LPB members have formally completed their declaration of interest forms and through five formal meetings which have been held during the year no 'conflicts' have been declared. For more information on conflicts of interest and declarations at each meeting please use the following link.

Conflicts of Interest

All LPB members also signed up to their own Conflicts of Interest Policy in November 2015. This requires all members to notify Democratic Service of any potential conflict of interest arising as a result of their position on the Board.

<https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563>

All meetings of the LPB include a standing item titled 'Declaration of Interests' at the start of the meeting where any declaration in relation to the items on the agenda should be made.

6. Pension Board Costs & Budget

In meeting the requirements of the Public Sector Pension Act (2013) and establishing a Local Pensions Board, Bath & North East Somerset approved terms of reference and necessary supporting arrangements at its meeting of its full Council on the 15th January 2015 and the Pension Board adopted these at its meeting in July 2015.

As with all elements of the public sector there is exceptional pressure to ensure value for money can be demonstrated and the Board will continue to consider this in its future operations.

These included the establishment of a budget to enable the Board to perform its duties and a summary of costs for its first year (nine months up to 31st March 2016) is included below.

Summary Financial Table

Budget Area	Actual Costs	Budget
LPB Members Allowances	£6,024	£11,600
LPB Members Training Costs	£3,485	£6,000
LPB Meeting & Democratic Services Costs	£5,514	£6,000
Central Recharges & Officer Costs	£9,420	£12,800
Total	£24,443	£37,400

7. Local Pension Board Compliance with the Pension Regulator's Code of Practice No.14

As part of assessing both the effectiveness and compliance of the Board with its key requirements, officers carried out a self-assessment of the LPB's current arrangements against the Regulator's Code of Practice No.14.

The full results of this exercise were reported to the LPB's formal meeting in May 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s41759/Benchmarking%20update%20App2.pdf>

In summary the LPB and the fund were compliant with the Code and the self-assessment identified only a small number of recommended actions to take in meeting best practice, which included –

- Monitoring of Data Improvement Plan
- Managing Overdue contributions
- Records of Investigations and correspondence
- Production of Annual Benefit statements in required formats

- Provision of basic scheme information to new entrants
- Review Dispute Resolution procedures
- Review Employer obligations re: IDRPs Procedures
- Review Employer obligations re: TPAS and Pensions Ombudsman Procedures

The Board remain committed that the exercise should be revisited at least annually to ensure it could evaluate its compliance and assess improvements where necessary.

8. Pension Fund Communications

Effective communications form a core part of the role of the Avon Pension Fund and during the year the Board reviewed the new website which had been developed by the Fund as well as the overall Communications Strategy.

The Board welcomed the new website which had refreshed and simplified the way information on the Fund could both be located and sought and commended the actions of officers. Reviewing the strategy for how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

9. Risk Management

Risk management processes for the Avon Pension Fund follow the framework laid down by the Council. The Risk Register for the fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

The Register is reviewed regularly by the pension management team and risks fall into one of the following categories –

- i. Fund administration & control of operational processes and strategic governance processes and TPR compliance;
- ii. Service delivery partners not delivering in line with their contracts or SLAs;
- 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
- iv. Changes to the National Scheme
- v. Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions

The LPB's ongoing review concurred with the views of Avon Pension Fund Officers in that the three top risks facing the fund revolve around –

- Project Brunel and future implications of pooling arrangements
- Significant growth of new employers through the Academies agenda
- Future Funding Strategy

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

The LPB will continue to ensure that a review of the risk register will remain a regular agenda item.

10. Summary Review of Areas Covered in 2015/16 & Recommendations Made

The first year of operation of the LPB was very much developmental with the essential building blocks needing to be put in place to enable the Board to work effectively as we move forward.

A summary of the areas covered and recommended is detailed as follows (Full Details at Appendix 1) -

Establishment of LPB Arrangements, Policies & Procedures
Approval of Appointment of Chair and Board Members
Review & Approval of LPB Terms of Reference
Review & Approval of LPB Code of Conduct
Review & Approval of LPB Conflicts of Interest Policy
Review & Recommendation of Avon Pension Fund Regulatory Breaches Policy
Review of Training Requirements
Review of Work Plan

Review of Pension Fund Administration
Review of Compliance Report
Review of Risk Register
Review of Service Plan
Review of Annual Report
Review of Communication Strategy

Independent Assurance
Review of TPR & CIPFA Benchmarking exercises
Review of External Audit role and reports
Review of Internal Audit role and reports

11. Forward Plan for 2016-17

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

Agenda Item	02/11/16	16/02/17	11/05/17	27/07/17
Conflicts of Interest Declarations	✓	✓	✓	✓
Training Plan Update (Incl. Annual Plan)	✓	✓	✓	✓
Work Plan Update	✓	✓	✓	✓
Avon Pension Fund Committee & Investment Panel Minutes	✓	✓	✓	✓
LGPS Developments & Updates	✓	✓	✓	✓
Risk Register Update	✓	✓	✓	✓
Review of Pension Fund Annual Report	✓			
Review of Administration Strategy		✓		
Compliance Report	✓	✓	✓	✓
Internal Audit Plans & Update		✓		
External Audit Plans & Update	✓		✓	
Pension Board Budget		✓		
Benchmarking Update	✓		✓	
Avon Pension Fund Service Plan 16/17			✓	
Pension Board Annual Report			✓	✓
Review of Communications Strategy				✓
Review of Statement of Investment Principles (Statutory Investment Strategy Statement)		✓		
Review of Policy Framework	✓			
Review of Valuation & Funding Strategy	✓			
Review of Data Integrity & Action Plans		✓		
Review of IT Security & Business Continuity			✓	
Review of Governance Compliance Statement			✓	
Review of compliance with TPR COP 14		✓		
Review of Fund Internal Controls & Delegations		✓		
Review of External Advisors				✓
Review of Fraud Risk Strategy		✓		
Review of Complaints/IDRP Procedures			✓	
Review of outcome of GMP reconciliation				✓

Appendix 1 – Local Pension Board – Actions & Decisions

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

	Area	Action
All meetings	Pension Committee and Investment Sub-Committee Decision Making	The Local Pension Board actively scrutinised all Pension Committee and Investment Sub-Committee papers and minutes and considered their impacts in terms of the meeting agenda
30 July 2015		Resolved:
	Appointment of Chair & Board Members	Approve appointment of Chair and Board Members
	Purpose of Board & Terms of Reference	Approve Terms of Reference
	Code of Conduct and Conflicts of Interest	Recommend process to adopt Code of Conduct & create separate Conflicts of Interest Policy
	Training & Work Plan Requirements	Recommend creation of Training Plan and Work Plan for the Board
5 November 2015		Resolved:
	LGPS Developments	Note the report and latest developments and that Members should receive training about governance so that they had a clear understanding of the roles of the Council, the Committee, the Panel and the Board
	Conflicts of Interest Policy	Approved LPB Conflicts of Interest Policy
	Regulatory Breaches Policy	Recommended revisions and submission to Pension Fund Committee
	Annual Report	Note the Report
	Financial Statements	Note the Statements and recommend attendance of External Auditors at future meeting
	Administration Strategy	Note the Report
	Training & Work Plan Updates	Note the Updates
25 February 2016		Resolved:
	LGPS Developments	Note the report
	Benchmarking Update	Note the report and future plans for benchmarking of the LGPS by tPR and Scheme Advisory Board
	Compliance Report	Note the performance indicators and customer satisfaction feedback for the four months to January 2016
		Note progress on the Data Improvement Plan
		The Board would consider its regulatory compliance reporting at a future meeting
	Risk Register	Note the Risk Register

	Internal Audit	Note the report and Audit Plan and that completion of the recommended actions would come to a future meeting
	Regulatory Breaches Policy	Recommend the Breaches procedure (subject to the revisions discussed) to the Pension Fund Committee for approval
	Pension Board Budget	Recommend the budget for approval
	Training & Work Plan Updates	Note the reports and recommend completion of training logs and tPR e-learning module
19 May 2016		Resolved:
	LGPS Developments	Note the report and developments on 'pooling'
	External Audit	Note the Audit Plan for 2015/16
	Pension Fund Service Plan	Note the 3 year Service Plan and Budget
	Risk Register	Note the report
	Benchmarking Update	Note the outcome of the benchmarking exercise and review of tPR's Codes of Practice
	Compliance Report	Note the performance indicators and customer satisfaction feedback to 30th April 2016
		Note the Data Improvement Plan
	Training & Work Plan Updates	Note the reports and endorse the plans
27 July 2016		Resolved:
	LGPS Developments	Note the report
	Communications Strategy	Note the Communications Strategy
	Compliance Report	Note the report and Performance Indicators and Customer Satisfaction feedback for 3 months to 30 June 2016 and progress on the Data Improvement Plan
	Risk Register	Note the report and planned improvements
	Annual Report	Approve the Annual report
	Training & Work Plan Updates	Note the reports

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 SEPTEMBER 2016
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JULY 2016 (2) CASHFLOW FORECAST
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 July 2016 Appendix 1A Summary Budget Variances: Year to 31 July 2016 Appendix 2 Cash Flow Forecast	

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2016. This information is set out in Appendices 1 and 1A.

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2017.

2 RECOMMENDATION

That the Committee notes:

2.1 The administration and management expenditure incurred for 4 months to 31 July 2016.

2.2 The budget for Stage 3a of the pooling project.

2.3 The Cash Flow Forecast to 31 March 2017.

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 4 months to 31 July 2016 are contained in **Appendix 1**.

The forecast for the year to 31 March 2017 is for expenditure to be £154,400 under budget. Within the directly controlled Administration budget expenditure is forecast to be £186,900 below budget. The forecast reduction in directly controlled expenditure is mainly due to the holding over of expenditure on the IT strategy as the product offer regarding Employer Self Service is being revised. There is also forecast reduced expenditure on salaries as a result of the delayed appointment staff and expected savings in Communications.

- 4.2 In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £32,500 due to increased custody fees. More portfolios are now included in the hedging programme and this has increased transaction costs.
- 4.3 Explanations of the most significant variances are contained in Appendix 1A to this Report.
- 4.4 Stage 2 of the pooling project (up to July proposal) came in slightly under budget at £31,000.
- 4.5 The budget for Stage 3a was signed off by the Chief Financial Officers and Monitoring Officers Group (FLAG) meeting on 7 September 2016. This budget covers delivery of the full business case including independent advice requested by FLAG to validate the robustness of the business case and project team resources. It does not include the cost of officer time on the project (except for the project team). DCLG have reaffirmed that all costs of pooling are chargeable to local funds. The set up costs will be offset by future savings in investment management fees.
- 4.6 The committee is asked to note further expenditure of £75,000 for Stage 3a of the pooling project as agreed by the s151 Officer.

5 CASH FLOW FORECAST

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. 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 2016 - 2019 Service Plan included a cash flow forecast showing a net outflow in 2016/17 of just over £17.4m.

The actual cash flow to 31 July was neutral against a budgeted outflow of c£6m for the same period. The difference was due to lower lump sum payments than were

expected and some deficit recovery contributions being paid for the whole year in April. The effect of these advance contribution payments unwinds during the year and so has no effect overall in the full year. Investment income received as cash was also higher than budgeted.

The expected outturn for the year to 31 March 2017 remains as forecast in the Service Plan as it is expected that these differences will be offset by future variances.

6 EQUALITIES

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

7 CONSULTATION

7.1 None appropriate.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

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

9 ADVICE SOUGHT

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

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395259.
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

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2017

	4 MONTHS TO JULY 2016			FULL YEAR 2016/17		
	BUDGET	ACTUAL	VARIANCE	BUDGET	FORECAST	VARIANCE
	£	£	£	£	£	£
Administration						
Investment Expenses	21,021	24,414	3,393	63,064	63,064	0
Administration Costs	27,977	13,955	(14,021)	83,930	83,930	0
Communication Costs	18,883	20,248	1,365	56,650	29,750	(26,900)
Payroll Communication Costs	24,379	43,526	19,147	73,137	73,137	0
Information Systems	79,087	186,924	107,837	237,261	237,261	0
Salaries	609,231	560,816	(48,414)	1,827,692	1,767,692	(60,000)
Central Allocated Costs	123,708	211,983	88,275	371,123	371,123	0
Miscellaneous Recoveries/Income	(71,447)	(42,447)	29,001	(214,342)	(214,342)	0
IT Strategy	52,864	13,623	(39,242)	158,593	58,593	(100,000)
Total Administration	885,703	1,033,043	147,340	2,657,108	2,470,208	(186,900)
Governance & Compliance						
Investment Governance & Member Training	139,417	107,914	(31,503)	418,250	418,250	0
Members' Allowances	13,322	79	(13,243)	39,965	39,965	0
Independent Members' Costs	15,100	10,800	(4,300)	45,300	45,300	0
Compliance Costs	227,182	168,938	(58,244)	681,546	681,546	0
Compliance Costs recharged	(83,333)	(62,169)	21,164	(250,000)	(250,000)	0
Pensions Board	13,533	3,434	(10,099)	40,600	40,600	0
Total Governance & Compliance	325,220	228,996	(96,224)	975,661	975,661	0
Investment Fees						
Global Custodian Fees	29,167	43,942	14,776	87,500	120,000	32,500
Investment Manager Fees	5,743,042	5,205,145	(537,897)	17,229,125	17,229,125	0
Total Investment Fees	5,772,208	5,249,087	(523,121)	17,316,625	17,349,125	32,500
NET TOTAL COSTS	6,983,131	6,511,126	(472,005)	20,949,394	20,794,994	(154,400)

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APPENDIX 1A

Summary of main budget variances: Year to 31 July 2016

Variances Analysis of the full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(20,000)	Reduced salaries expenditure due to:- - Benefits : Posts being held open pending the restructure.
	(40,000)	- Investments: Delayed appointment of actuarial team post, maternity leave and residual left from extra resources allowed to support pooling.
Communication Costs	(26,900)	Savings through the distribution of newsletters at the same time as Annual Benefit Statements and P60's.
IT Strategy	(100,000)	Expenditure is expected to be delayed and the budget carried over to 2017/18 as the product offer from the supplier for Employer Self Service is revised.
Administration	(186,900)	

Global Custodian Fees	32,500	Custody fees forecast has been increased to reflect higher than anticipated transaction fees in the currency hedging portfolio following the decision to extend the hedge to include overseas property, hedge fund and infrastructure mandates.

Expenditure Outside Direct Control **32,500**

Total **(154,400)**

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

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FOUR MONTHS TO 31 JULY 2016			FULL YEAR 2016/17		
		Forecast Per	Actual	Variance	Forecast Per	Out-turn	Variance
		Service Plan			Service Plan	Forecast	
		£'000	£'000	£'000	£'000	£'000	£'000
Outflows							
Benefits	Pensions	(43,221)	(43,789)	(568)	(129,664)	(131,367)	(1,703)
	Lump sums	(11,523)	(7,760)	3,763	(34,568)	(23,279)	11,289
Total Benefits Outflows		(54,744)	(51,549)	3,195	(164,232)	(154,646)	9,586
Inflows							
Deficit recovery		4,703	9,649	4,946	14,109	13,874	(235)
Future service Contributions		40,421	37,557	(2,864)	121,262	118,350	(2,912)
Total Contributions		45,124	47,206	2,082	135,371	132,224	(3,147)
Net Cash Flow (Benefits and Contributions)		(9,620)	(4,343)	5,278	(28,861)	(22,422)	6,439
Net Transfers In & Out (budgeted as zero)		-	(86)	(86)	-	(258)	(258)
Investment income received as cash		4,985	6,831	1,846	14,954	12,165	(2,789)
Administration costs		(1,182)	(2,230)	(1,048)	(3,545)	(6,690)	(3,145)
Net Cash In-Flow (Out-Flow)		(5,817)	172	5,990	(17,452)	(17,205)	247

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 September 2016
TITLE:	PENSION FUND ADMINISTRATION (1) SUMMARY PERFORMANCE REPORT to 30 June 2016 (2) PERFORMANCE INDICATORS - 3 MONTHS TO 30 June 2016 (3) TPR COMPLIANCE
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:- Appendix 1 Employer/APF - scheme leaver performance report to 30 June 2016 Appendix 2 Active membership statistics over 12 months to 30 June 2016 Appendix 3 Joiners & leavers statistics over 12 months to 30 June 2016 Appendix 3A & 3B Active members demographic as at July 2016 Appendix 4 Late payers report – up to 30 June 2016 Appendix 5 Balanced Scorecard : KPI's - 3 months to 30 June 2016 Appendix 5A Annex 1 & 2 Admin case workload status as at 30 June 2016 Appendix 6 IDRP Schedule Appendix 7 TPR – Data Improvement Plan – to 30 June 2016 Appendix 8 Risk Register	

1 THE ISSUE

- 1.1 The purpose of this report is to inform Committee of Performance Indicators for 3 months to 30 June 2016 and Summary Performance Reports on Employer and APF performance over 4 years to 30 June 2016 as well as the Risk Register.
- 1.2 Further to the introduction of The Pension Regulator (TPR) Code of Practise 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 this report also includes progress on the Data Improvement Plan plus level of employer compliance.

2 RECOMMENDATION

That the Committee notes:

- 2.1 Summary Performance Report and Performance Indicators to 30 June 2016.
- 2.2 Progress on the Data Improvement Plan
- 2.3 Risk Register

3. Employer Performance

- 3.1 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.
- 3.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 30 June is included as **Appendix 1. (Annex 1,2 &3)**
- 3.3 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
- 3.4 Separate bar charts are displayed 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. It should be noted that for the current year reports for are currently reflecting targets set under the previous SLA (April 2011) and do not take into consideration the increased allowance incorporated in the revised Pensions Admin Strategy (June 2015) reflecting the complexities of the new CARE scheme arrangements. Revised performance reports are currently being finalised and will be presented at the next Pensions Committee following completion of phases 1, 2 and 3 of the Task Workflow project.
- 3.5 **TASK WORKFLOW**
- 3.6 A new member leaver form checking process has been introduced from March which will immediately flag employer data submission errors and omissions. It also addresses any issues at point of receipt enabling a prompt communication back with employers where necessary.
- 3.7 During the period 1st May to 31st July a total of 2108 leaver forms have been received with an average error rate of approx. 32%. Reporting on types of errors and by employer is now possible. This will enable the Fund to analyse the data and work with employers to improve the quality of their leaver forms.
- 3.8 So far the biggest percentage of errors is from employers performing incorrect pay calculations under the two separate definitions of LGPS pensionable pay (CARE earnings for the 2014 scheme and whole time pensionable pay for the previous scheme definition). Additionally a significant number of employers submit blank leaver forms via Employer Self Service.
- 3.9 The leaver form has now been reviewed to improve the layout and provide more guidance notes for employers. A training course has been put together to guide employers through the leaver form in more detail and includes comprehensive training on pay calculations. The new form and the training session is due to be piloted with Banes & North Somerset Payroll Departments in July / August and based on feedback received we plan to launch the new form and the training course later in August /September.
- 3.10 From the data it has also been identified that some employers who have been trained to use ESS are still sending leaver forms via paper and this will be addressed with employers.

4. Trends in Membership/Joiners & Leavers

- 4.1 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this continued volatile time when higher than normal level of 1) redundancies and 2) potential opt-outs by members concerned about scheme changes and affordability.
- 4.2 The Committee will be kept informed of the ongoing changes and the effect it is having on LGPS membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.
- 4.3 The active membership statistics are shown in graph format in **Appendix 2** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 3**. The increase in membership over the twelve months to 30th June reflects an increase in the number of part-time workers and workers with multiple employment posts. **Appendix 3A & 3B** provides a detailed breakdown of employer/member ratio and split between whole time and part-time membership as well as a snapshot of individual employer and member make up. The increasing number of new smaller employers to the Fund as part of the fragmentation of the employer base (newly created Academies and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

5. Late Payers Report

- 5.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.
- 5.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.
- 5.3 **Appendix 4** reports late payers in the 3 month period to 30th June 2016. None of the late payments during this period are considered to be a material breach and consequently they will not be reported to the Pensions Regulator at this time. The fund considers a material breach to be the product of repeated breaches. A single breach will only be considered material if it is deliberate or there is dishonesty or there is no expectation that it will be corrected.

6. Year End Data Receipt & Provision of Annual Benefit Statements

- 6.1 The Year End (YE) process is a statutory requirement for employers to provide the Fund with membership data. The data is used to provide members with their Annual Benefit Statement (ABS) by the statutory deadline of 31 August and used by the Fund Actuary as part of the triennial valuation process, which determines individual employer contribution rates.
- 6.2 The YE process concluded, following a period of data cleansing, on 30th June. All employers submitted their data in order for the Annual Benefit Statements to be run. The YE data was submitted to the Fund's Actuary, Mercers for the Triennial Valuation by agreed deadlines.

6.3 The Annual Benefit Statement process began in July. The deferred members ABSs were sent out towards the end of July. Of those 2,500 members deferred (left the scheme) in 2015/16 and a partial negative revaluation needs to be applied to their pension figures. The software which will do this is not expected until Oct/Nov, therefore these statements were sent with a disclaimer and explanation to notify members. All active member ABSs were sent by the 31st August deadline. However, the Fire ABS process was delayed, due to late software updates, the complexity of the fire schemes and the need to check data to ensure that the ABS was accurate. The Fire ABS will therefore be sent to members by 30th September. We are keeping the Fire Service updated on this and as administering authority we have notified The Pension Regulator that we have breached the 31st August deadline.

6.4 Breaches

6.5 As required under TPR Code of Practice No. 14 the Fund has implemented an approved Breaches Policy. Employers who have failed to meet set deadlines for the submission of data or for incomplete/incorrect data will be subject to further action under the policy. A summary report will be included in the next paper to both LPB and Pensions Committee

7. Avon Pension Fund – Administration Performance

7.1 Balanced Scorecard detailing Key Performance Indicators for the 3 Months to 30th June 2016

7.2 The information provided in this report is based on the Avon Pension Fund's Service Level Agreement which falls in line with the industry standards set out by the LGPC & used in CIPFA benchmarking. All standards fall within the regulatory guidelines set out in The Occupational & Personal Pension Schemes (Disclosure of Information) Regulations 2015 which require provision of information to members.

7.3 Full details of *performance against target*, in tabular and graph format, are shown in **Appendix 5**. Reports are currently being reviewed as part of the Task Workflow Project and it is expected that new and updated versions will be produced in December 2016.

8. Admin Case Workload

8.1 The level of work outstanding from tasks set up in the period (Item C4 and associated annex 1 & 2) in the 3 month period is reported in **Appendix 5A** by showing what *percentage* of the work is outstanding. As a snapshot, at 30th June 2016 there were 4753 cases outstanding of which 39% represents actual workable cases and 61%

8.2 of the 39% workable cases approximately 71% of this total is attributed to case workload delayed in action due to late release of GAD guidance or legislation (ie linking/aggregation of membership and member benefit transfer investigation). As previously reported, these cases are now being progressed.

9. CUSTOMER SATISFACTION FEEDBACK - RETIREMENTS

9.1 In March the APF re-launched its member website, with an online customer service questionnaire for recent retirees. This replaced the “paper” questionnaires, which have now ceased. However the online returns have been lower than expected and at this point could not be used to provide a statistically accurate overview. We are looking at increasing the opportunities across the website to gather customer satisfaction feedback and will report back to the Committee with an update.

10. IDRП Report

10.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved.

This is done under an IDRП. The table in **Appendix 6** shows the cases going through at the present time.

11. The Pensions Regulator Data Improvement Plan

11.1 Summary of Data Improvement Plan Data as at 30th June 2016 is shown below with a comprehensive breakdown attached in **Appendix 7**

Summary of Data Improvement Plan Data as at 30 June 2016

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Completeness of data as % of membership
Actives	1584	1027	467	2144	99.56%
Deferreds	4762	196	181	4777	98.83%
Pensioners	176	1	7	170	99.91%
Dependants	68	9	11	66	99.78%
Total	6590	1233	666	7157	99.36%

11.2 Over the last couple of months there has been an increase in errors due to the results of the year end exercise. So far 526 missing leavers and 399 missing starters have been identified despite the work that was done in January / February to prompt employers to start looking at their data ahead of the year end exercise. However the missing data is in the process of being requested from employers and we hope to work with employers over the coming months to reduce these errors.

11.3 Due to the year end and in preparation for the Valuation resource to work on TPR queries has been reduced and re-directed to checking of leaver forms and processing of deferred and refund cases. However this will be reverted now that the Valuation extract has been run.

11.4 Data improvement reports will be updated on a monthly basis and reported to Committee quarterly. Reports will be developed to demonstrate work undertaken on the correction of historic cases already identified and new cases identified during each reporting period.

12 RISK REGISTER

12.1 The Risk Register follows the Council's format 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. Risks identified cannot be eliminated but can be treated via monitoring.

12.2 The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – 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 continues to invest 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 Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in August 2016. A new risk following Brexit has been added. The main risks are that the decision to leave the EU may have both negative implications for the investment strategy and expected returns/risk levels. Short term impact is mainly via depreciation of sterling. These risks are mitigated by:

- Impact assessed at quarterly Panel and Committee meetings when strategy is monitored.

- Strategy Investment review in 2017 will reset investment expectation and evaluate investment opportunities having assessed the impact of Brexit on investment markets and liabilities.

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

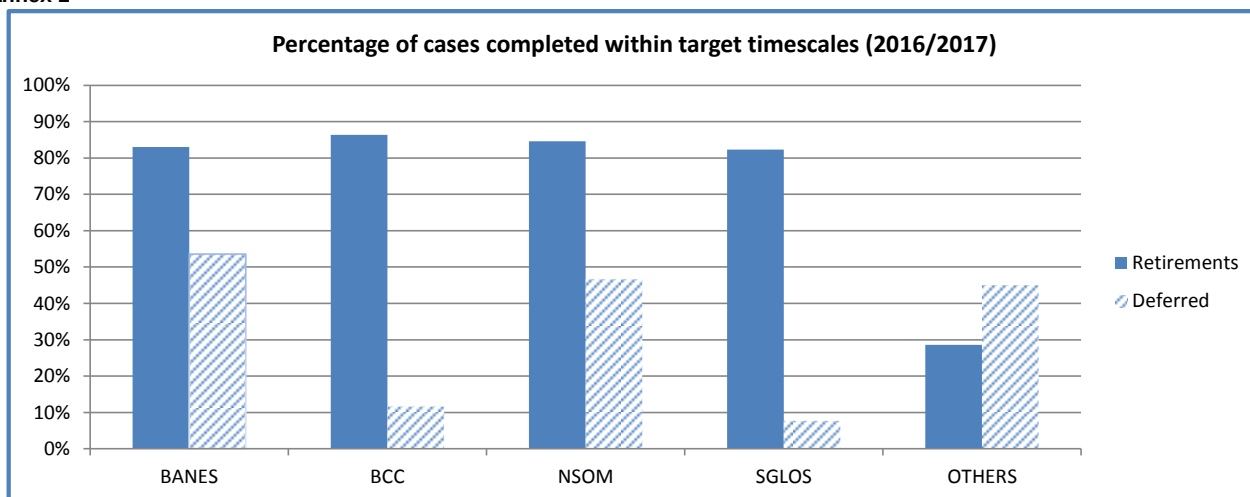
16.1 There are no other issues to consider not mentioned in this Report.

17 ADVICE SOUGHT

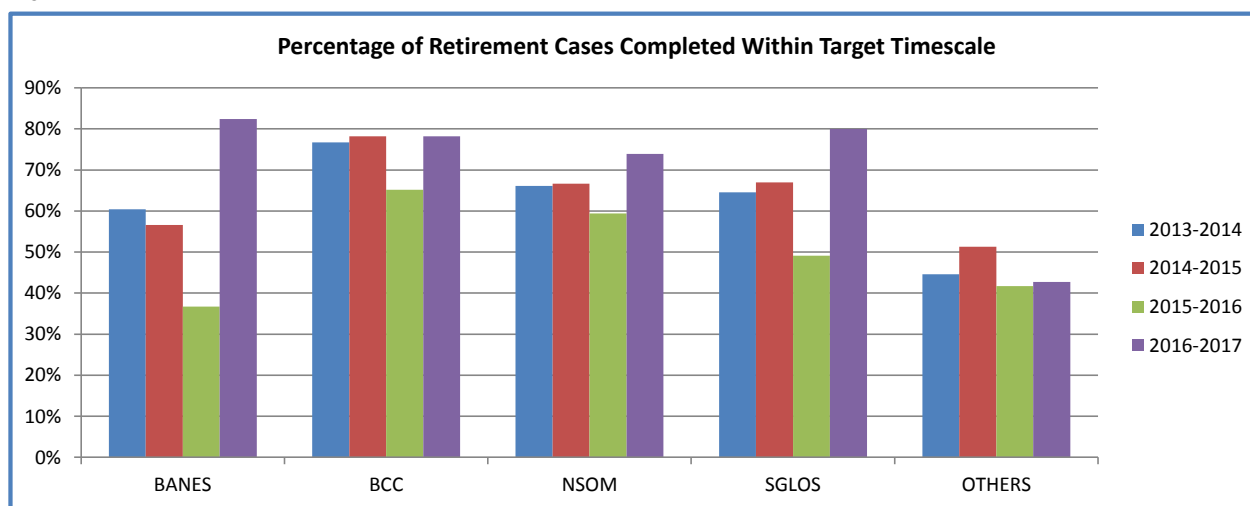
17.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Geoff Cleak, Acting Pensions Manager Tel: 01225 395277
Background papers	Various Statistical Records
Please contact the report author if you need to access this report in an alternative format	

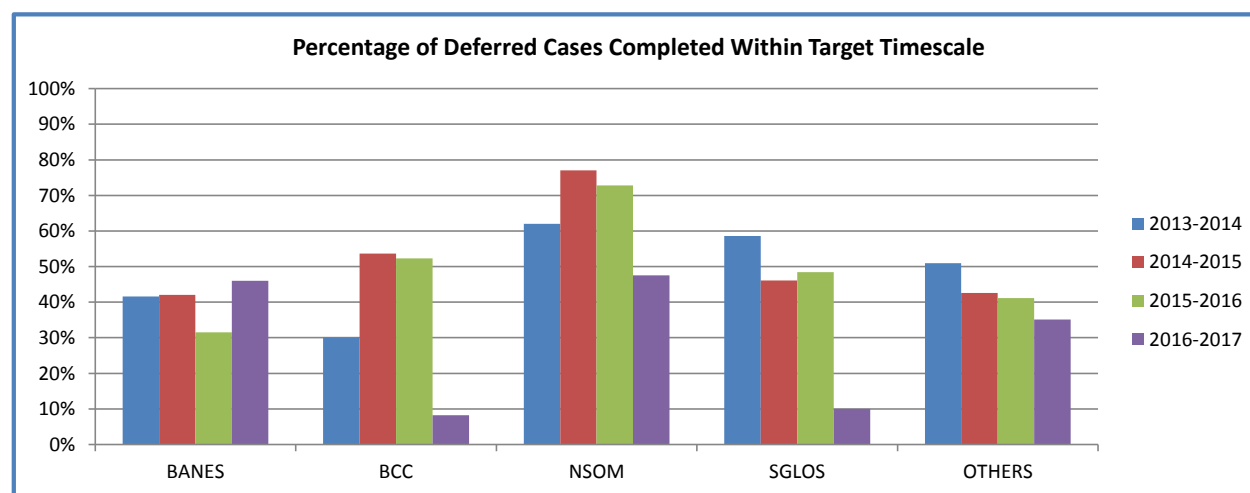
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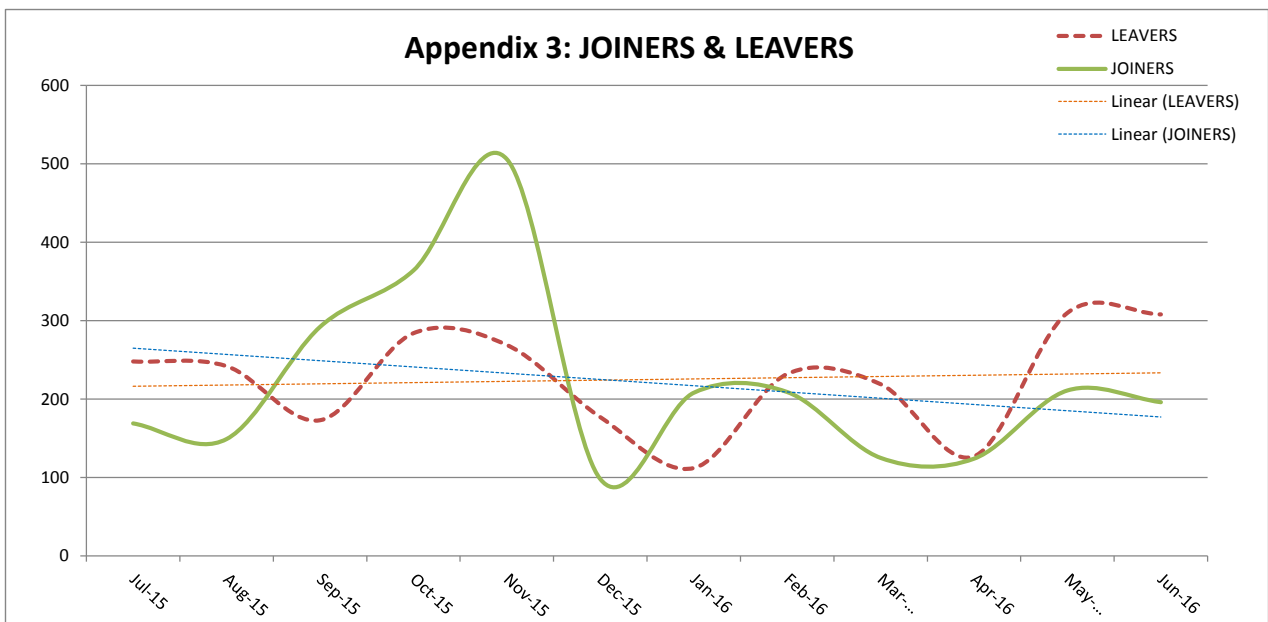
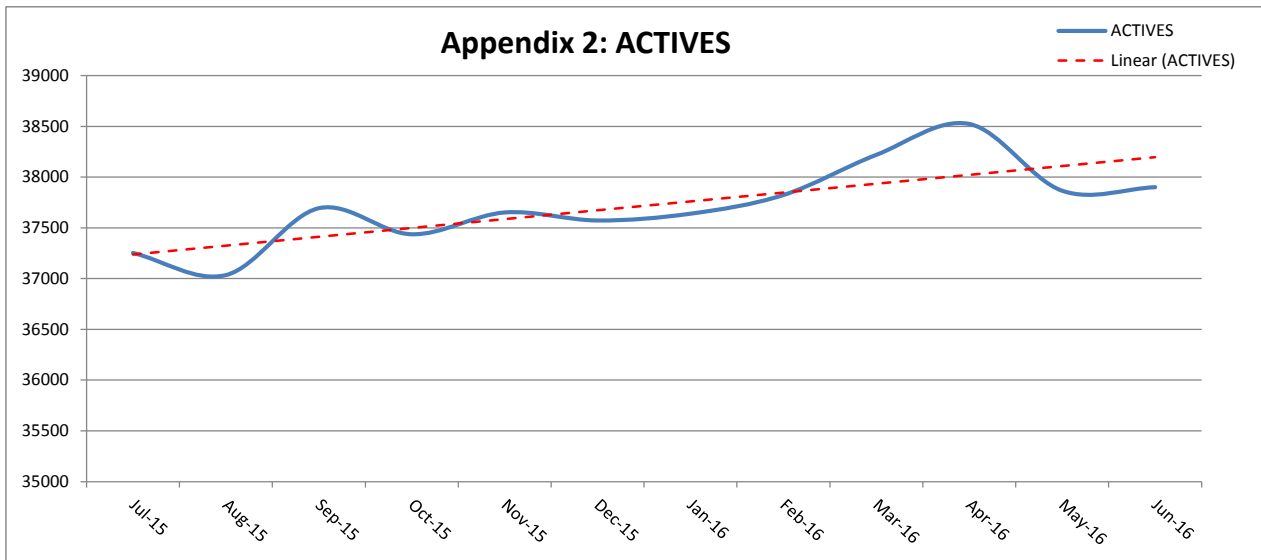
Annex 2



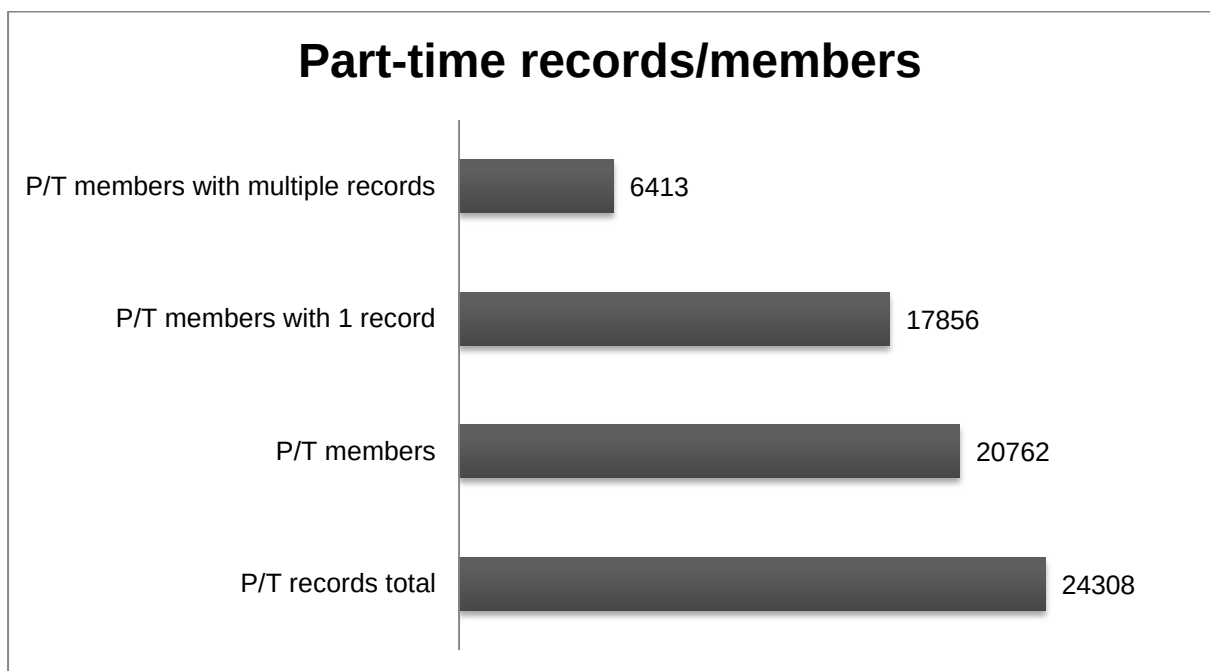
Annex 3



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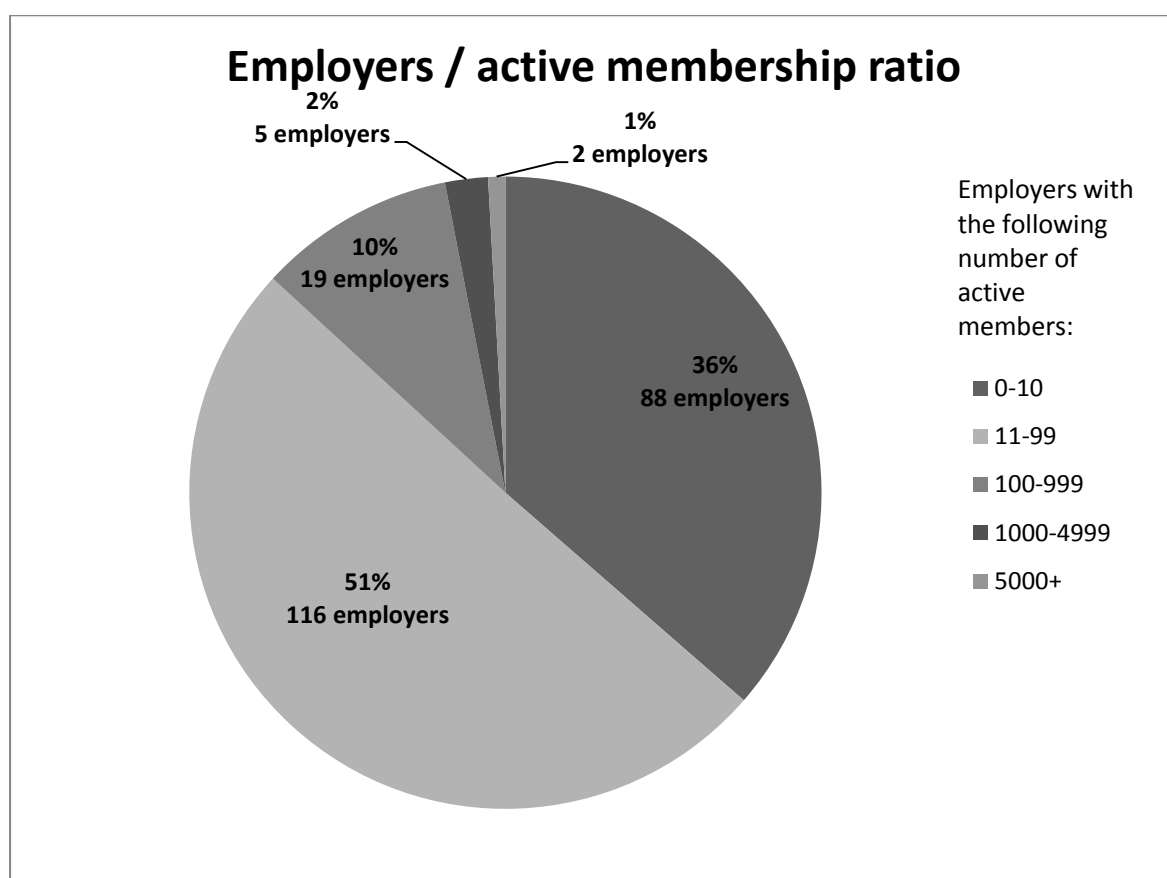
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Employer/active membership ratio by numbers – July 2016

Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	19
Number of employers with 11 - 99 members	116
Number of employers with 0 - 10 members	88
Total	230



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APPENDIX 4

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Steiner Academy	April	31	3	1,117.15	Significant days late.	The Academy previously thought they had overcome their serious problems but April contributions were still late. However subsequent contributions have been received on time and they believe they have now resolved the issues.
Aspens (employer numbers 608,612,614,616 & 617)	April	4	1	2,855.64	Significant days late.	These employers are all administered together. May contributions were all paid on time.
Aspens (employer number 615)	April	11	1	271.77	Significant days late.	May contributions were all paid on time.
Patchway Town Council	May	8	1	3,227.95	Significant days late.	Late payment was due to staff being on leave. The Council are adjusting their procedure to allow for this in future. June contributions were all paid on time.
Clifton Suspension Bridge Trust	June	6	1	4,631.66	Significant days late.	July contributions were all paid early.
Bristol Waste Company	June	9	1	27,660.64	Significant days late.	Late payment was due to staff being on leave. The Company is adjusting its procedure to allow for this in future. July contributions were all paid early.
Aspens 608 (CLF Hanham Woods)	June	18	2	479.98	Significant days late.	The employer entered the wrong payment date in to their system due to an administrative error.
Total Days		87		40,244.79		
Total Contributions in Period				31,940,151	Late Payments as Percentage of total 0.12% Late Payments from 11 out of a total of 232 employers	

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 regulations.

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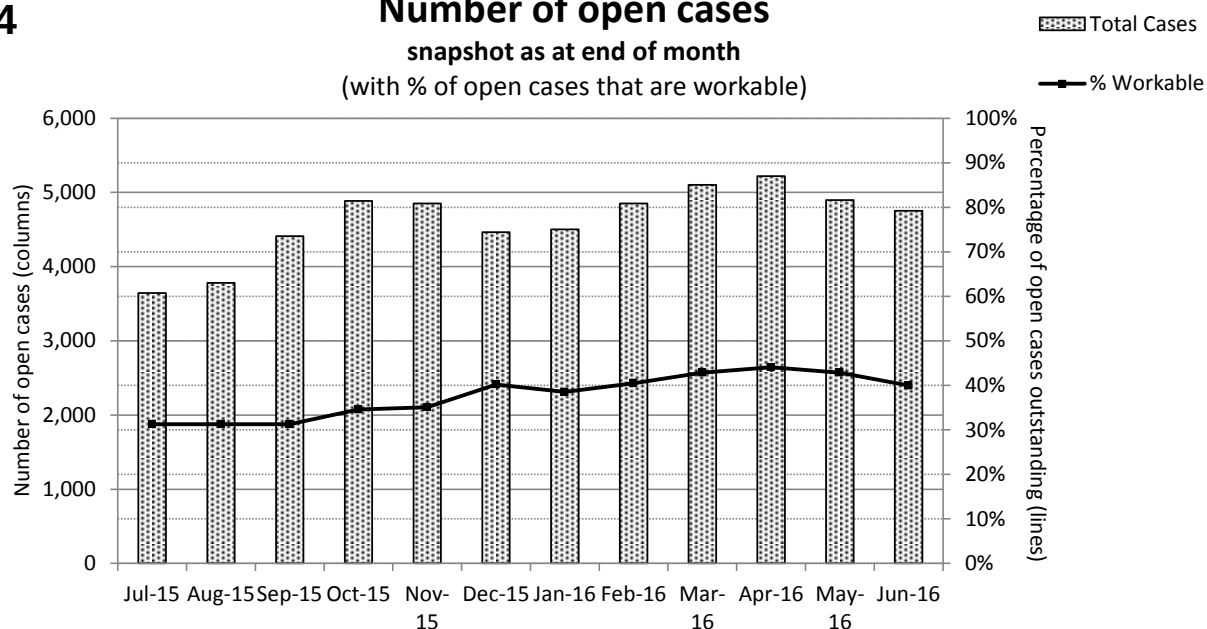
	Indicator	Red Amber Green	2015/16 Actual	Target	Actual 3 months to 30/06/2016	Comments
A	CUSTOMER PERSPECTIVE					
1	General satisfaction with service – retirees feedback					Nil – see Report
2	Service standards – processing tasks within internal targets (SLA)					
	Deaths	A	91%	92%	90%	9 out of 10 cases completed within target
	Retirements	A	89%	90%	81%	399 Of 493 Tasks completed within target
	Leavers (Deferreds)	G	81%	75%	78%	507 of 653 Tasks completed within target
	Refunds	G	82%	80%	92%	668 Of 723 Tasks completed within target
	Transfers In	A	74%	75%	59%	10 of 17 Tasks completed within target
	Transfers Out	A	77%	75%	72%	51 Of 71 Tasks completed within target
	Estimates	A	95%	90%	60%	540 Of 896 Tasks completed within target
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)	G			n/a	None due this period
6	Number of hits per period on APF website	G	51511 / 4292 pcm		14991	4997 per calendar month for reporting period
7	Advising members of Reg Changes within 3 months of implementation				n/a	none this period
8	Issue of Newsletter (Active & Pensioners)			1	1	Pensioner newsletter sent with P60s in May
9	Annual Benefit Statements distributed by 31 August			100%	100%	All Active ABS sent by 31 August deadline
B	PEOPLE PERSPECTIVE					
1	% of new staff leaving within 3 months of joining				0%	
2	Sickness Absence					
	a) Short term	G	1.3%	3%	1%	Ahead of corporate target of 5%
	b) Long term	G	0%	2%	0%	Ahead of corporate target of 5%
C	PROCESS PERSPECTIVE					
1	Services actually delivered electronically	G			13.65%	13.65% represents eligible users signed up to 'my pension online' = 11,890 members with electronic access
2	a) Active membership covered by employer ESS	G	72%	90%	75%	
	b) % of employers submitting data electronically	G	58%	70%	60%	
3	% Telephone calls answered within 20 seconds	G	97%	95%	98.8%	8846 calls, 8742 answered within 20 seconds
4	Maintain work outstanding at below 40%	G	30053 created 27944 cleared	<40%	39%	5449 created, 4652 cleared – see Appendix 3A Annex 1 and 2
5	Year End data receipt	G		100%	90%	217 out of 241 submitted by initial deadline of 30 April 2016
D	RESOURCE PERSPECTIVE					
1	% Supplier invoices paid within 30 day or mutually agreed terms	G	89%	90%	91%	Business Financial Services (incl Pensions)
2	Temp staff levels (% of workforce)	G	0.74%		6.0%	

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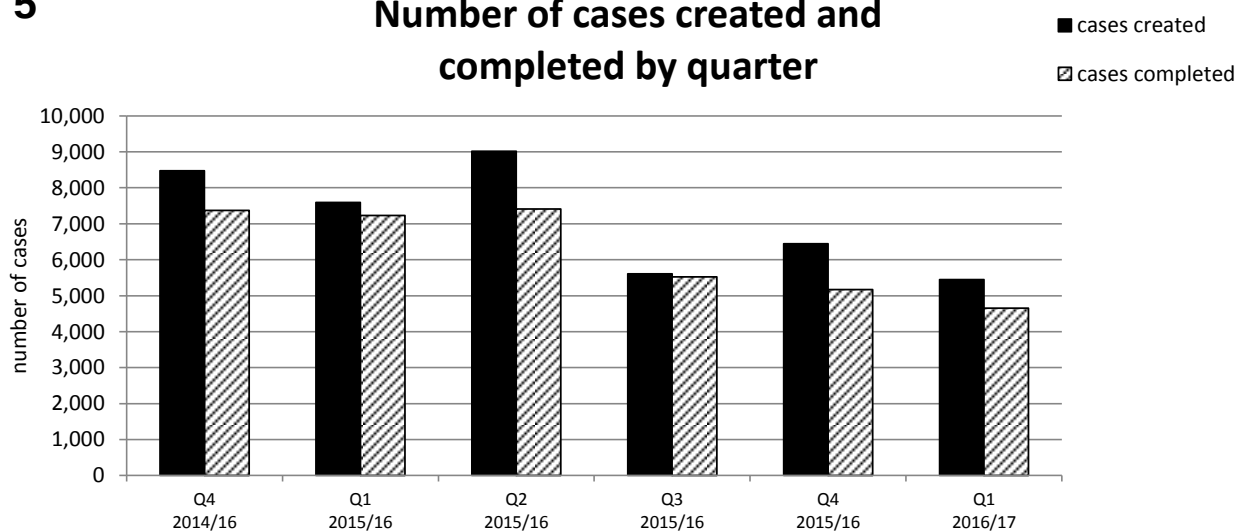
Number of open cases

snapshot as at end of month
(with % of open cases that are workable)



5

Number of cases created and completed by quarter



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IDRP	Current

As at 25/08/2016

AVON PENSION FUND STAGES 1 and 2

Reason	Stage1					By	Last Date for Stage 2 Appeal
	Stage 1 Form received	Date For Review Completion	Delay letter Sent	Review Completed	Decision		

Not allowing delaying payment of pension	17/02/2016	17/04/2016	15/04/2016	28/04/2016	Not Upheld	Technical Manager [Pensions]	28/10/2016 no appeal received to date

Employer Stage 1 - Avon PF Stage 2

Reason	Employer for Stage 1	Stage 2 Form received	Date For Review Completion	Delayed for further information	Review Completed	Review Completed	By	Decision
Ill Health Retirement Tier level	North Somerset 2nd IDRP Stage 1 waived	18/03/2016	17/05/2016	22/05/2016	TBC	In Progress	Council's Principal Solicitor and Monitoring Office	

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TPR Improvement Plan Data as at 30 June 2016

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Completeness of date as % of membership
ACTIVES Total = 37724					
Addresses	383	46	24	405	98.93%
Forename	2	0	0	2	99.99%
Surname	0	0	0	0	100%
Date of birth	2	2	0	4	99.99%
NI number	52	2	0	54	99.86%
Title	0	6	6	0	100%
Sex mismatch	17	18	5	30	99.92%
Format of hours	0	20	5	15	99.96%
Date joined Fund missing	0	0	0	0	100.00%
Payroll ref missing	63	8	33	38	99.90%
Casual hours missing	517	0	66	451	98.80%
Leaver forms missing	503	526	283	746	98.02%
Starters missing	45	399	45	399	98.94%
Total	1584	1027	467	2144	99.56%
DEFERREDS Total = 41083					
Addresses	3979	194	167	4006	90.25%
Forename	8	0	0	8	99.98%
Surname	0	0	0	0	100.00%
Date of birth	2	0	0	2	99.99%
NI number	2	2	1	3	99.99%
Title	0	0	0	0	100.00%
Sex mismatch	0	0	0	0	100.00%
Format of hours	0	0	0	0	100.00%
Date joined Fund missing	0	0	0	0	100%
Historic refunds	771	0	13	758	98.15%
Total	4762	196	181	4777	98.83%
PENSIONERS Total = 27451					
Addresses	173	1	7	167	99.39%
Forename	2	0	0	2	99.98%

Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	1	0	0	1	99.99%
Title	0	0	0	0	100.00%
Sex mismatch	0	0	0	0	100.00%
Total	176	1	7	170	99.91%
DEPENDANTS Total = 4358					
Addresess	41	0	1	40	99.08%
Forename	0	0	0	0	100.00%
Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	27	9	10	26	99.40%
Title	0	0	0	0	100.00%
Sex mismatch	0	0	0	0	100.00%
Total	68	9	11	66	99.78%

AVON PENSION FUND RISK REGISTER – TOP 10 RISKS
APPENDIX 8

				Likelihood					Impact					Risk	RAG	Scale of	Funded by
	Risk			1	2	3	4	5	1	2	3	4	5	score		financial	
	#	Risk	Management actions	L		M	H		L		M	H				impact	
1	R42	Increasing political pressure to reform scheme structure and governance frameworks and to direct investment decisions. Specifically government asked LGPS funds to pool their investment assets. If fund does not have robust plan for change, government may legislate to enforce change: This could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, with consistent message. Exploring options for pooling assets with other likeminded funds.				4					4		16	R	Greater than £1m	Fund will have to meet costs of setting up any pooling structure
2	R25	Lack of continuity and knowledge within Avon Pension Fund Committee. (This risk arises mainly because some members face re-election simultaneously). Until the new members are fully trained, there may be a delay in decision-making.	Wide representation on Committee including two Independent Members not subject to electoral cycle. Training made available to new members Hold workshops for committee to explore aspects of the fund in more detail to facilitate decision making. Periodically assess training needs and have training plan in place that is reported to committee quarterly.				4				3			12	A	Greater than £1m	Annual budget
3	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy against the funding position and strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee. Ensure specialist advice is taken prior to any investment decisions are made to ensure decisions are in line with Statement of Investment Principles and contribute to investment objective.			3						4		12	A	Greater than £1m	Increases in employer contribution

4	R51	Risk of Fund retaining incorrect pension liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	Manage resource requirements over timeframe. Develop project plan to manage data reconciliation process and outcomes including volume metrics. Monitor and report progress and actions taken. Communicate with HMRC and members regarding actions undertaken (ongoing).			3					3			9	A	£100,001 to £1m	Annual budget
5	R54	The Fund is a participating fund in the Brunel Pension Partnership (BPP) for pooling its assets. There is a risk that the government rejects BPP proposal; that there are delays to finalising the proposal; that a participating fund committee rejects the proposal; that key resources become unavailable. Any of the above could seriously impact the Fund's ability to meet the government's agenda.	Established governance arrangements for BPP in shadow form. Detailed workplan managed and co-ordinated by Project manager. Committee and other stakeholder engagement on-going. Added resource to Investment team to support Investments manager through project.		2							4		8	A	£100,001 to £1m	Fund will have to meet costs of setting up any pooling structure
Page 452	R05	Non-compliance with Data Protection Act and The Pension Regulators codes of practices and standards. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended or adverse publicity.	The Pensions Manager is responsible officer for DPA. Confidentiality agreements are in place with the Fund's agents. Ongoing monitoring of the Fund's compliance with the Council's DP policies. All personal data is transmitted from the Fund through secure portals. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud viz. National Fraud Initiative. On-going training of employers in their TPR obligations		2						3			6	G	£100,001 to £1m	Annual budget

7	R10	Contributions from employing bodies to the Fund are incorrect in value or late. Implication: adverse short term cash flow and employer specific deficit could be over/under stated (this would ultimately be identified in next actuarial valuation) breach of obligations could lead to TPR fines.	Monitor receipt of monthly LGPS50 forms from employing bodies and do reasonableness check on payment amount. Follow up potentially incorrect payments (monthly, on-going) and verify authorisation.		2					3			6	G	Not Funded	£100,001 to £1m
8	R19	Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and employee members, and TPR code	Ensure all information is provided to employers in an accessible and timely manner. Training tailored for employers' staff is provided for all new employers and refresher sessions for existing employers. Enforce penalties allowed under Administration Strategy for repetitive non-compliance with obligations / disproportionate work. Employer training obligations are set out in the Administration Strategy. TPR improvement plan highlights areas of employer failure.		2					3			6	G	£10,000 to £100,000	Annual budget
9	R23	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 rates.	Covenant assessment monitoring process in place for assessment of financial standing of all employers in the Fund. Includes review of all employers to identify whether guarantee arrangements are adequate. Explore options for obtaining guarantee, bond or contingent assets if appropriate. Fund policy is to only admit Admission bodies where the pension liabilities are guaranteed by a scheme employer. Exit and termination policies in place to ensure financial risk to the Fund is minimised when scheme employers cease to be active employers.			3			2				6	G	Greater than £1m	Increases in employer contribution

10	R27	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 & managing the performance of the managers is delegated to the Panel. The RAG performance monitoring framework is 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. The impact of underperformance by any individual manager is limited given diversification within investment management structure.			3				2				6	G	Greater than £1m	Increases in employer contribution

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 September 2016	AGENDA ITEM NUMBER
TITLE:	LGPS: Regulatory update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 –Response Letter to the DCLG Consultation on Draft LGPS Amendments including Fair Deal Proposals (including 2 appendices)		

1 THE ISSUES

- 1.1 The purpose of this report is to update the Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and proposed regulatory matters that affect scheme administration. This includes any responses to consultations that have been made.
- 1.2 It also updates the position on HM Treasury position on the three consultations on Exit Payments within the public sector.
- 1.3 There will be a verbal update on the project to pool assets at the meeting.

2 RECOMMENDATIONS

That the Committee notes:

- 2.1 The current position regarding the potential changes that would affect the administration of the Fund.**
- 2.2 The current position regarding HM Treasury consultations and pending commencement dates.**
- 2.3 The verbal update on pooling of assets.**

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates
- 3.2 Some of the issues being proposed is intended to reduce costs on certain payments employers make on early retirements
- 3.3 Any other specific areas will be reported as required.

4 LGPS 2014: Further Regulations Amendments

- 4.1 As reported in June a consultation regarding draft legislation was issued by DCLG on 27 May 2016 on a number of regulatory issues and also there proposals to implement regulations in the LGPS to incorporate the Government's guidance on Fair Deal issued in October 2013.
- 4.2 Officers after reviewing the recommendations and also taking on board information received by the Fund Actuary and Local Government Association have submitted a response to these proposals. A Copy of this response letter is included as Appendix 1

5 Treasury Consultations on Exit Payments

- 5.1 As reported in June further information was awaited from HM Treasury regarding these new regulations and commencement dates. The first set of regulations was expected to be operative by 1 April 2016. However delays in issuing a commencement order and with Parliamentary time limited before the summer recess no further progress has been made.
- 5.2 The next provisional proposed date is 1 October 2016 but when Parliament reconvenes it has been reported that there could again be further delays as other business will be considered a higher priority.

6 RISK MANAGEMENT

- 6.1 No specific issues to consider.

7 EQUALITIES

- 7.1 None as this 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	Alan South Technical Manager (Tel: 01225 395283) <i>[Geoff Cleak Acting Pension manager 01225 395277]</i>
Background papers	<i>Regulations and accompanying notes; DCLG Consultation May 2016 LGPS Regulations 2013</i>
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Local Government Pension Scheme

Post: Avon Pension Fund, Bath & North East Somerset Council,
Lewis House, Manvers Street, Bath, BA1 1JG

Web: www.avonpensionfund.org.uk

Email: avonpensionfund@bathnes.gov.uk

Tel: 01225 477000

Fax: 01225 395258

Bath & North East
Somerset Council



Vincent Kiddell
Workforce, Pay and Pensions Team
Department for Communities and Local Government
SE Quarter Fry Building, Marcham Street
London SW1P 4DF

Ask for: Alan South
Telephone: 01225 395283
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS
Date: 19 August 2016

Dear Sir

Consultation; Local Government Pension Scheme Regulations

With reference to the current consultation regarding amendments to the Local Government Pension Scheme [LGPS], this is the response from Bath and North East Somerset Council as the administering authority for Avon Pension Fund which represents over 100,000 members (actives, deferred beneficiaries and pensioners [incl. dependants]).

The comments regarding the Fair Deal proposals are covered in appendix 1 and there is also a table of amendments for the proposed regulation changes in appendix 2.

This consultation is a combination of regulatory changes that are required to correct inconsistencies in the current regulations or to give clarification as well as the intentions regarding LGPS and Fair Deal. As a result there have been delays in producing this document. It is essential that some of these matters are put into effect quickly so that there are no continuing complications. The aggregation regulations are particularly long overdue.

If any area is likely to cause a significant delay then it is imperative that legislation is not delayed and separate releases would be made.

This authority supports in principle most of the recommendations made by Mercers, the Avon Fund actuary, and also The Local Government Association. Both responses do indicate the complexities involved in achieving clear legislation that assists in the administration of the LGPS.

Yours sincerely

Alan South

Alan South
Technical and Compliance Manager
Avon Pension Fund

The Fair Deal Proposals

In the course of preparing the response to the Government's consultation paper on draft regulations which will replace the 2007 Pensions Direction and various Fair Deal provisions, can you please include the following:-

This consultation includes details of how the Fair Deal provisions set out by the Government for unfunded public sector pension schemes can be applied to the funded LGPS.

Whilst most of the provisions are covered satisfactorily, there are some areas where provisions do not transfer over comfortably to the LGPS especially in the funding considerations and also areas that are not included, in particular, on retendering where the initial outsourcing was to a contractor with a broadly comparable scheme and unlike Fair Deal there is a lack of protection on a subsequent tender for the contract.

Greater consideration should therefore be given to ensure that such anomalies are removed.

There are obviously other changes, apart from those affecting Fair Deal and pension protection on transfer to the private sector, on which we wish to comment. However, so far as this particular issue is concerned, it seemed to me that there are five main areas of concern which are as follows:-

1. An admission agreement may take effect on a date before it is executed

Para 14 proposes to amend Part 3 of Schedule 2 by adding this provision:-

Unless there is genuine doubt about whether an admission agreement can be backdated (and we don't believe there is), we would be strongly opposed to this amendment.

In the majority of cases, the only reason that a request for backdating arises is because the outsourcing employer is guilty of maladministration when letting the contract. Invariably the commercial agreement has been signed before the necessary steps to put in place an admission agreement have been taken.

The Avon Pension Fund has normally taken a firm line in such cases, either requiring the implementation of the commercial agreement to be deferred or making the outsourcing employer continue to employ the staff – and seconding them to the contractor – until the admission agreement has been executed.

To clarify, the process for letting a contract should be as follows:-

- (1) Outsourcing employer obtains risk assessment.
- (2) Outsourcing employer decides whether the pensions risk is going to be transferred to the contractor or not and, if so, whether a bond will be required and what the size of it should be.
- (3) Outsourcing employer releases tender documents, which will make clear where the pension risk lies and, if the pensions risk is transferred to the contractor, whether a bond is required and its size.

(4) Outsourcing employer receives completed tender documents and selects contractor.

(5) Commercial agreement and admission agreement should be drafted simultaneously and, having been drafted to the satisfaction of the interested parties, executed on the same date.

We have made representations before that paragraph 6 of Part 3 of Schedule 2 is defective because it requires the admission body to obtain the risk assessment. On that basis the risk assessment would be obtained after the tender process is complete (quite clearly not consistent with proper process).

The Avon Pension Fund attempts to convey the message that an outsourcing employer should liaise with the Fund prior to tenders being invited. If the first time we have contact from the outsourcing employer is after the contract has been let (as implied by paragraph 6), it means that commitments have been made by outsourcing employer to the contractor with regard to contract start date without proper allowance for an admission agreement to be put in place.

The point we are making here is that, unfortunately, paragraph 6 encourages bad practice and needs to be changed. However, I accept that amending paragraph 6 is not part of this consultation.

In the meantime, the last thing we should be doing is encouraging bad practice by making the backdating of admission agreements “respectable”.

2. Definition of higher and further education institutions as “private sector bodies”

These institutions still receive substantial amounts of public money and are scheduled bodies in the Local Government Pension Scheme. In this context it is unreasonable for the Government not to provide some sort of guidance to these institutions as to whether transferees to private sector contractors should have their pension rights protected or not. Even if this guidance is not included in Fair Deal advice intended for the public sector, it should certainly be something which the Government should clarify in its dealings with those institutions.

3. Paragraph 15 of the Consultation Paper

This paragraph is very confusing, something which Government itself almost acknowledges by specifically requesting feedback on it. It is not clear why “explicit statutory powers” would be required to compel a bidder to provide access to the LGPS. Nor is the stated reason for a formerly transferred member not being classified as a “protected transferee member” at all convincing.

When broadly comparable schemes were initially permitted as an alternative to admitted body status, the presumption was that members of a broadly comparable scheme would be treated in fundamentally the same way as members of the LGPS. It is easy to imagine accusations of “betrayal” being levied by those members affected. This dilemma has to be solved so that all employees formerly transferred to a private contractor are treated the same. In the worst case scenario, accrued rights could remain with the broadly comparable scheme.

However, it is inconceivable that the collective wisdom of actuaries and lawyers who specialise in local government pensions cannot deliver an equitable solution.

4. Protection for employees of admitted bodies transferred to the private sector

There is a certain amount of logic behind the Government's proposal and on balance we would favour it. However, it does sit rather oddly against the Government's apparent abandonment of the higher and further education sector.

5. The omission of the guarantee from outsourcing employers

This appears to be a drafting error since paragraphs 13 and 14 of the consultation paper suggest that the Government is not intending to amend the current guarantee arrangements.

From the perspective of both Funds and contractors, clarity of policy practice and operation will be critical for success. At a practical level (and ultimately to achieve greater efficiency of public services for taxpayers) once the regulations have been finalised we recommend that all Funds should align their policies accordingly. Indeed, we would like to see best practice guidance issued such that policies are required to be developed / refreshed and that applications at local level are consistent.

Draft Reg.	LGPS Regulations 2013	Section	Intention with comments
3	2 Insert new para (1A)	Local Government Service and Fair Deal	Agree with principles
4	3		
5	New 3B		
6	10(5)(a)	Temporary Reduction in Contributions [50:50]	Clarification
7	11(4)	Contributions During absence from work	
8, 9	17 and new 17A	Additional Voluntary Contributions (AVC)	Removes paragraph (c) employer permission as it is unnecessary
10	21	Assumed Pensionable Pay [APP]	
	New 21 5B		Removes anomalies in the calculation of APP where pay varies over time by adding employer discretion to use different pensionable pay figure that closely reflects the normal pay of the member over longer periods of time
11	22(8)	Pension Accounts: Aggregation	Sets out the process for calculating APP for returning officers to avoid disproportionately large benefits accruing
12	30(7)(b)	Retirement Benefits	Urgently required as causing administration problems Corrects unintended consequence where someone whose employment is terminated due to redundancy or business efficiency has to take any deferred benefits they have at the same time
13	33 Due to new 17A	Election for Lump Sum instead of pension	Required change made as a result of the amendments for AVCs to ensure any resulting lump sum payments are included when identifying limits for lump sums
14	39(1)(a) and (2)(a)	Survivor Benefits	Bases any survivor's benefits on pension before death as opposed to earnings before ill health retirement
15	64	Special Circumstances Where Revised Actuarial Valuations and Certificates Must Be Obtained	Allows for exit credits to be paid to employers with no active members in the Scheme. Not available under previous regulations

16	68(2)	Employer's Further Payments: reduction waived	Administering authority can require employer to make payments in addition to regular employer contributions. This amendment includes occasions where an employer waives any actuarial reduction Correction to cover all situations
17, 18	96	Rights to payments out of the pension fund, and inward transfers of pension rights	Amends the regulations to confirm that transfers are made in accordance with the Public Sector Transfer Club and the provisions of the Club Memorandum.
19	101	Effect of acceptance of a transfer value	Amends the regulations to confirm that transfers in are either calculated in accordance with Club Memorandum or actuarial guidance from DCLG
20	Schedule 1	Interpretation	Includes some new definitions as a result of these amendment regulations and amends two existing definitions
21	Paragraph 5 Part 2 Schedule 2 Part 3 Schedule 2	Scheme employers	Changes "local authority" to "body" when referring to "An entity connected with a....."
			As an addition here reference is made here that no action has been taken on the Technical Group meeting decision on 11 September 2015 item 7 [Consideration for amendment to Regulation Schedule 2 Part 2 paragraph 5 "Entity connected with a Local Authority" to ensure that funds are protected It was also agreed to request a change in the Regulations to require the connected Local Authority to act as guarantor.] This needs including and would now require reference to "body"
22	Part 2 Schedule 3,	Pension Funds	Confirms that admission agreements can have retrospective effect and that notification to DCLG of new admission bodies is no longer required as list now required in regulation 3
			Amendment as result of Draft reg 21 on "entities connected with..."

Draft Reg.	LGPS Transitional Regulations 2014	Section	Intention with comments
24	3 add para (5A)	Membership before 1 st April 2014: employers consent 2008 regs	Removes requirement for employer's consent on deferreds under the 2008 regs opting for early payment between 55 and 60. Member would have actuarial reduction applied This amendment is supported to provide equal treatment as long as cost neutral
		Members under previous revoked regulations	<i>Comments required on how to apply the previous to leavers prior to 2008 regulations [this would include pre rule of 85 cases]</i> See comment after table
		Certain deferred members NPA	Amendment to correct unintended result from current regulations
		Transfers	To ensure member is not worse off where the underpin applies
25	9	Interfund Adjustments etc.	To ensure uniformity within regulations
26	10	Contributions	Clarifies contributions to be included in any refund where additional contribution apply from earlier schemes and have been aggregated into active account
27	14(2)		No comment
28	15	Additional Contributions	
29	Schedule 2 (rule of 85) in paragraph 1(1)(c) inserted condition	Rule of 85	Where employers consent is no longer required for early retirement of deferreds before April 2014 this amendment gives the same conditions regarding Rule of 85 as the current scheme
			This amendment is supported to provide equal treatment as long as cost neutral
30		Transitional Provisions	Existing Admission Agreements are to be covered by the PSPA2013
		Transitional Provisions	Administering authorities must publish list of admission agreements within 12 months of amendments coming into force Reference in main regs? As drafted reference would have to be made to the amendment regulations rather than the main LGPS regulations

Members under previous revoked regulations

Comments required on how to apply the previous to leavers prior to 2008 regulations [this would include pre rule of 85 cases]

The complexity of the administration of LGPS has increased substantially over the past 10 – 15 years especially within the last 5 years with the increasing demands from HMRC allowances, shorter timescales for benefit statements, an explosion of scheme employers coupled with the fact that everything is being scrutinised by the local pension boards and the Pension Regulator.

This therefore seems an ideal time to streamline the historical legislative parts of the LGPS and this would be just part of this update.

Is it right in this era of “Freedom and Choice” that someone under some previous set of regulations may not have any? Not all members want to receive their deferred benefits at age 60 but have to because there is no provision under the regulations in place when they contributed to the scheme.

Modification ended in 1980 and all actives in the scheme at 1 April 1998 had their deductions removed but it still applies to deferred members and pensioners who left prior to this date. Is it not time to get rid of this administrative burden? [i.e. someone whose service began on 31 March 1979 would have a reduction of £1.70 per year from their pension when they reach age 65.]

There are numerous death grant calculations for pensioners and deferred members these could be harmonised.

Simplification would allow the governance standards to be more easily achieved

It is therefore requested that full consideration is given to not only cover just the early receipt of pension but also to bring all parts of the LGPS up to date with what the Government is trying to achieve with Freedom and Choice and to rid itself of idiosyncrasies of years gone by.

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 September 2016
TITLE:	WORKPLANS
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Investments Workplan to March 2017 Appendix 2 – Pensions Benefits Workplan to March 2017 Appendix 3 – Committee Workplan to March 2017 Appendix 4 – Investments Panel Workplan to March 2017 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 2015-17 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 2016 -19 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.
- 1.6 Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

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. There are a number of workshops planned for 2016 included in the Committee workplan.

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.

4.4 Please note that member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators 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 MARCH 2017

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 Training programme for new members in place	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 for implementation or further investigation. • LDI Implementation • RI Policy Review • Strategic review (post valuation)	In progress Workshops arranged for 4Q16 Start 1Q17
Pooling of investments	Participate in Brunel Pension Partnership Full business case, implementation and transition from 3Q16 onwards	On-going
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	Late 2016
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually
Investment Forum	To discuss funding and investment strategies and issues	4Q16 following valuation
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	In progress
Pensions Board	Training plan	Ongoing
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Delayed
2016 Actuarial Valuation	As at 31 March 2016 Funding Strategy Statement consultation Valuation Results to employers	Completed from October 2016
Statement of Investment	Revise following any change in Fund strategy/policies.	On-going

Principles / Investment Strategy Statement	Publish new Investment Strategy Statement by ? (was September 2016; new regulations not published)	Early 2017
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 2 nd quarter

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 March 2017

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 2016/2017.	Ongoing
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live Align with new BCC software(including Fire scheme) Onboarding North Somerset Onboarding B&NES	Due 2016/2017 Nov/Dec 2016 Sept/Oct 2016 Sept/Oct 2016
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 (<i>My pension online</i>)	Ongoing 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	Completed Completed
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.	Completed
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing Update Report to Committee Dec 2016
2015/16 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2016	Completed
Review Workflow & Data Processing	Implement new Task Workflow Arrangements . (Phase 1 leaver process/Phase 2 trans process). (Phase 3) – Divorce & Death) (Phase 4) – member estimates Introducing new software – Process Automation	Completed Due Q3 2016 Due Q4 2016 Due 2017/18

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Committee Workplan to March 2017

DECEMBER 2016
Review of Investment Performance for Quarter Ending 30 September 2016
Pension Fund Administration –Performance Indicators for Quarter Ending 30 September 2016 and Risk Register Action Plan
Budget & Cashflow Monitoring 2016/17
2016 Actuarial Valuation outcome & scheme employer update
Review options for Ill health insurance for smaller employing bodies
Report on Investment Panel Activity
Approval of Responsible Investing Policy
Workplans
Planned Workshops: Responsible Investing Workshop 1 – 19 September ; workshop 2 – 27 October; Special meeting 24 November

MARCH 2017
Review of Investment Performance for Quarter Ending 31 December 2016
Pension Fund Administration – Budget Monitoring 2016/17, Performance Indicators for Quarter Ending 31 December 2016 and Risk Register Action Plan
Budget and Service Plan 2017/20
Audit Plan 2016/17
Budget & Cashflow Monitoring 2016/17
Report on Investment Panel Activity
Review of AVC arrangements
Workplans
Planned Workshops:

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INVESTMENT PANEL WORKPLAN to May 2017

Panel meeting / workshop	Proposed agenda
Panel Meeting 5 September 2016	• Review managers performance to June 2016 • Meet the Managers Workshop (Standard Life)
Panel Meeting 14 November 2016	• Review managers performance to September 2016 • Managing liabilities – Implementation • Pooling – potential implications for investment strategy
Panel Meeting 22 February 2017	• Review managers performance to December 2016
Panel Meeting 24 May 2017	• Review managers performance to March 2017

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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 Risk Register	Committee Workshop	Morning of 25 September 2015 Committee meeting
3	Actuarial Valuations	Valuation methodology Recap on 2013 valuation 2015 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	12 October 2015
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy and 2016 valuation Covenant assessment process Admission and exit policies and funding basis used	Committee Workshop	8 March 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 Strategic investment Review	Investment Panel Workshop Committee workshop(s)	Morning of 11 September 2015 Panel meeting (and on adhoc basis) TBA 1-2Q17
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 workshop Committee	 8 March 2016 June 2016

			Meeting	
7	Responsible Investing	Objective and rationale Review Current policy	Committee Workshops	Workshops through 2016

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, responsible investing
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2015 interim valuation workshop; 2016 valuation, covenant and funding policies workshop